No.10

Smart homeowners and first-time homebuyers read this paper!

Top Ten Legal Mistakes that Can Sink Your Landlord Business

BY JANET PORTMAN

Being a successful landlord requires lots of practical know-how, business moxie, and familiarity with the market. Until about 30 years ago, the law didn't have much to do with it. Now, however, federal law and most states closely regulate nearly every aspect of your business. Not knowing the rules can land you in lots of legal hot water.

1. Using Generic or Outdated Lease Forms

Most landlords know it's important to have a written lease or rental agreement. But using the wrong form can get you into trouble. So-called "standard" forms that are sold everywhere, probably aren't compliant with the laws in your state. If you use a stationery store lease that short-cuts tenants' rights, you could find yourself at the losing end of a lawsuit because of an unenforceable lease clause. On the other hand, some standard forms actually impose greater obligations and restrictions on you than your state's law does! (My favorite requires landlords to return security deposits within ten days, which no state requires.)

2. Asking the Wrong Questions During Applicant Screening

Thorough tenant screening is the most important part of your business— if you choose poorly, you're in for nothing but headaches with tenants who don't pay the rent, trash your place, or worse. But there are limits to what you can ask. Many landlords don't realize that even well-meaning questions (such as asking a disabled person about his disability or asking if a couple is married) can be illegal forms of discrimination. If the applicant doesn't get the rental, even though your rejection had nothing to do with the offending question, that disappointed tenant has ammunition for a fair housing complaint (which fair housing watchdog groups are eager to pursue).

3. Setting Policies that Discriminate against Families

Although it's been illegal to discriminate against families for over 20 years, many owners' practices are far from family-friendly—and are downright illegal. Excluding families because you feel children cause more wear and tear and you prefer a "ma-

continued on page 3

5 Ways Millennial Buyers Can Snag Their Dream Home

According to the 2017 Home Buyer and Seller Generational Trends Report, millennials bought 34% of the homes sold, the largest of any generation last year. Millennials looking to buy their first, or second, home need to ready themselves for a shockingly competitive market. Lack of supply causes attractive homes to garner multiple offers in just a few hours!

So, what can a millennial buyer do to appeal to sellers and be the one who ends up with the home? Here are 5 ways they can snag their dream home in this seller's market:

Be Decisive

A hot real estate market is no time for cold feet. Millennials should proactively create a list of must-haves and be ready with an offer when they find a home that meets their requirements.

Taking too long to mull over whether they like the house, the neighborhood, or the price can get a dream house sold right out from under them.

Get Pre-Approved

Sellers like to avoid nasty surprises. Being pre-approved shows the seller the homebuyer is serious and financially able to purchase their home.

Getting pre-approved is perhaps the best move a millennial homebuyer makes. Speaking to a mortgage originator, letting her pull credit and look at finances determines how much of a mortgage is possible. They can then use the approval as part of their offer letter.

Get Real

Low-balling an offer won't end happily in this market. Millennials should research pricing in the neighborhoods they like, and lean on their real estate agent for helpful guidance. Making a fair, reasonable offer close to, or even above, the asking price is the best course of action to land the home they want.

Agree to the Seller's Timetable

Sellers often prefer unloading their house fast. Or, they may want to wait to move until their kids are out of school or the new home they are building is ready.

Millennial buyers need to dig to get this information and use it to their advantage. Being flexible might just set them up as the best choice for the seller.

Show Personality

If sellers feel like they know the buyer, they are more likely to choose them over a faceless offer. Include a personal letter with the offer. Go into detail about why the house is appealing, and how the millennial buyer wants to raise children, plant a garden, enjoy the kitchen, etc. If all buyers are equal, a heartfelt letter might tip the scales.

While challenging, it's not impossible for millennials to end up with the house of their dreams. With a bit of planning, decisiveness, and flexibility, they can make homeownership a reality!

For more information about local real estate opportunities, give our team a call today. We're happy to share some amazing listings that perfectly suit your needs. Call us at 888-670-6791.■

INSIDE:

Buying a Foreclosure: 5 Things to Know

Buying a property out of foreclosure can be a very smart move, financially. But it can also be complicated, expensive, and stressful. Here are 5 things to keep in mind before you take a first step in that direction:

Cash or Preapproval Required
Buying a house that has been returned to the lender through foreclosure means dealing with bureaucracy rather than with a motivated seller. Large lenders are notorious for taking their time to approve a contract, even if the offer is for the exact amount specified. Then there's the paperwork, which can seem endless. Most lenders require that prospective buyers have cash on hand, or a pre-authorized loan in place in order to even submit an offer.

There's Little Room for Negotiation
Although in certain circumstances there may be an opportunity for some discussion about the price, that is not the norm in a foreclosure. The minimum price is usually written in stone, even during an on-site property auction, and the only direction is up! The days of buying foreclosures for a song are long past, if indeed they ever really existed.

As-Is Condition Means Just That
Some buyers specialize in foreclosures while other investors run in the other direction. There are pros and cons, of course, to every transaction. Sage advice is to always pay the fee for a property inspection on a foreclosed property, even if you have experience. A third-party evaluation is especially valuable if the home has been vacant for an extended period of time, if the utilities have been turned off, or if there are extensive visible defects.

Foreclosures can be like icebergs: What you see may be nothing compared to what lies below the surface. Also, with the findings in writing, always confirm that your loan commitment and insurance quotes will be honored in spite of the existing condition.

The Need for an Experienced Realtor
Navigating the landscape of property foreclosures is a specialty field, and caution is the name of the game. As a prospective buyer of a pre-foreclosure, a short-sale or a foreclosed home, an experienced realtor is your best resource. A real estate professional will help you deal with all timelines and requirements, and has the knowledge and expertise to recommend lenders, inspectors, insurance agents and contractors to help you make a decision.

Always Consider Future Value
Although the initial price might be right, there are additional variables at play in every real estate transaction. What can you expect in terms of appreciation over the short term? What is the long-term outlook for the neighborhood? Will needed repairs and improvements add to the home's value, or simply bring its condition up to standard? Do you plan to live in the home, or is it strictly for resale?

Your trusted real estate professional is the best resource to help you thoroughly evaluate all the information about every foreclosure.

We are happy to help and share our insight and experience to help you with the selling process. Schedule an appointment today. Call 888-670-6791. ■

Legal Mistakes/

continued from page 1

ture, quiet" environment, is illegal. And while you're permitted to limit the number of residents in a unit (in most situations, two occupants per bedroom), you may not apply that standard differently when dealing with families. The cost of this mistake can be another trip to your lawyer's office, to deal with a fair housing complaint.

4. Making Promises that You Don't Deliver On

It's fine to be enthusiastic about the benefits of your property, and it's necessary to do so in competitive markets, but understand that your enthusiastic promises will become binding if applicants rely on them when deciding to rent. For example, you may have to deliver the goods if you assure an applicant of a parking space, satellite service, or a new paint job. A tenant who feels ripped off may legally break the lease or sue you for the difference in value between what he was promised and what you delivered. Whether the tenant will win is hardly the point -- you'll have to respond, which will cost time and money.

5. Charging Excessive Late Fees

Late fees can be a powerful tool to motivate tenants to pay the rent on time. And while a higher fee can be a better motivator, some landlords cross the line, by setting fees that bear little resemblance to the actual damages they suffer when tenants pay late. Courts are increasingly invalidating excessive late fees that can't be justified with hard evidence. You're better off setting a modest fee that reflects your true damages, and dealing with chronic late-payers with pay-or-quit notices.

Not knowing the rules can land you in lots of legal hot water.

6. Violating Tenants' Rights to Privacy

Most states have detailed rules on when, for what reasons, and with how much notice you may enter a tenant's home. Yet many landlords stop by unannounced, asking to check things over, perform an on-the-spot repair, or show the place to prospective tenants. Repeated violations of a tenant's privacy (or even one outrageous violation) can excuse a tenant from any further obligations under the lease and may also result in court-ordered money damages against the landlord.

7. Using Security Deposits for the Wrong Projects

The most frequent types of cases heard in small claims court are arguments over security deposit retentions. Yet the basic rule — that deposits should be used only to cover damage beyond wear and tear, needed cleaning, and unpaid rent — isn't hard to understand. Still, landlords routinely use the deposit to cover appliance upgrades, cosmetic improvements and other refurbishing, not repairs. Not surprisingly, many of these landlords lose these cases in small claims court.

8. Ignoring Dangerous Conditions in and around the Rental

Landlords in virtually every state are required to offer and maintain housing that meets basic health and safety standards, such as those set by state and local building codes, health ordinances, and landlord-tenant laws. If you fail to take care of important repairs, deal with environmental hazards, or respond when your property has become an easy mark for criminals, tenants may break the lease and, in many states, withhold the rent or make the repair themselves and deduct the expense from the rent.

Landlords who have failed to make their properties reasonably secure in the face of repeated on-site crime are often ordered to compensate the tenant-victim when yet another criminal intrudes. These are expensive ways to learn the law.

9. Keeping Security Deposits When Tenants Break a Lease

When tenants break a lease and leave early, landlords often keep the entire deposit, reasoning that the tenant's bad behavior justifies doing so, and that they'll ultimately need it anyway to cover the rent. In many states, this is illegal — you must take reasonably prompt steps to re-rent, and credit any new rent toward the tenant's obligation for the rest of the lease. Keeping a two months' rent deposit and re-renting within a month is not legal.

10. Failing to Return Security Deposits According to Law

This list wouldn't be complete without another reference to security deposits. Not only are they used improperly, they're often not returned according to state law, either. Many states have deadlines by which landlords must itemize their use of the deposit and return any balance. It's not uncommon for tenants to wait many weeks or months for this accounting. In some states, the deliberate or "bad faith" retention of the deposit will result in harsh penalties against the landlord, such as an order that the landlord pay two or three times the deposit to the tenant.■

Source: nolo.com

For all the information, explanations, and legal forms the savvy landlord needs to rent property right, read Every Landlord's Legal Guide, by Marcia Stewart, Ralph Warner and Janet Portman (Nolo).

Know Your Debt-to-Income Ratio

When you are filling out a mortgage application, the lender will be asking you for specific financial information. One of the reasons they ask for this information is to enable the underwriter to calculate your debt to income ratio. This ratio is what most mortgage lenders use to determine the level of risk they are taking when they agree to provide you a mortgage. Keep in mind, most mortgage lenders will use your debt to income ratio to determine your interest rate, down payment requirements, and in some instances, escrow requirements.

How Lenders Calculate Debt-to-Income Ratio

When your loan is being underwritten, the lender will look at both a "front-end" and a "back-end" debt to income ratio. There are two separate calculations for these ratios which are:

- Front end – this calculation is based entirely on your housing costs. The lender will add up all housing costs including mortgage payments, interest payments on your mortgage, personal mortgage insurance, and insurance payments. The total will then be divided by your current monthly income before taxes and other deductions in order to to find the ratio. Ideally, a lender would not want this number to exceed 36 percent.
- Back end – the debt to income ratio on the back end includes all expenses including housing. Your lender will likely use your open credit accounts showing on your credit report which could include car loans, revolving credit lines, and student debt. For most mortgages, your debt to income ratio should be no higher than 43 percent.

Current Rent and Housing Expenses

If you are currently paying more than 36 percent of your total income for rental expenses, the lender may consider this when calculating your front-end ratio. For example, if your current rent payment is 40 percent of your total gross income and you can demonstrate you have been making payments on time, as agreed for a long period of time, the lender may be more flexible with the terms of your loan. Keep in mind however, that you could pay an interest premium if this is the case.

The back-end ratios are also important. This is because for a lender to have your loan backed by an approved mortgage backer, your ratio would have to be lower than 43 percent. There are exceptions to this rule but in general, a borrower would face challenges obtaining a mortgage if their debt ratios are too high.

Lowering Debt to Income Ratio

There are two ways to improve your debt to income ratio. The first is to earn more money and the second is to lower your debt. Lowering debt can be accomplished by paying off some of your outstanding debt, putting a larger down payment on your home purchase, or taking a mortgage with a lower interest rate. For most consumers, paying off debt is the best way to lower their ratio.

Keep in mind, even if you have open credit lines that are not being used, your mortgage lender may take them into consideration when calculating your debt to income ratios. Before closing an account however, talk to your mortgage lender about what options you should explore. In some instances, a lender may offer you a shorter-term loan or a loan with an adjustable rate to help you qualify.

Borrowers should be aware their credit scores are not tied to their debt to income ratios. However, a lower debt to income ratio combined with a higher credit score can make a big difference when it comes to what loan programs a lender may be willing to offer to you.

When you're ready to discuss a mortgage for your new home, give our team a call. We will be happy to advise you on the mortgage offer that suits your needs, budget and credit. Call us at 888-670-6791.