New Resident Guide Housing
Chapter12

12.1 Affordable Housing and Subsidized Housing

Affordable housing is "housing that costs no more than 30-40% of a family's annual income" (www.housinglink.org). Subsidized housing is a term used to describe housing which is financed in whole or in part with government funding (www.affordablehousingonline.com/whatis.htm). For a complete listing of the public housing authorities in Illinois, contactwww.hud.gov. At the moment, Rushville does not have a Housing Authority.

12.2 Three Common Affordable Rental Housing Programs

- Public Housing – publicly owned and managed rental units for low-income households (not found in Rushville or Schuyler County).
- Project-based Section 8 Housing – publicly owned and managed rental units for low-income households (not found in Rushville or Schuyler County).
- Section 8 Housing Choice Vouchers – government-funded program that helps low-income households pay the rent on market-rate rental units (not found in Rushville or Schuyler County).

12.3 Home Ownership

Are You Ready to Own?

Home ownership means you no longer pay monthly rent for the roof over your head. You can do what you want with your house (within reason). When you leave, you can sell it to recoup the purchase price and - with any luck - earn a profit too.

But don't kid yourself. Home ownership comes with a slew of disadvantages, responsibilities, and downright headaches.

So before going any further, consider whether your lifestyle and finances make home buying a smart move.

TIP: High costs mean you should be prepared to stay put. Except in a roaring real estate market, it usually doesn't make sense to buy a home you'll own for less than three or four years. Reason: the high transaction cost of buying and selling property means you could lose money on the deal. If you do make money, you'll pay capital gains taxes if you're in the house less than two years.

When home prices are falling, it just makes the case against buying even stronger. So ask yourself if you can really stay put for that long. Will you need to move because you are transferred by your current employer or a new one? Are you thinking of going back to school?

TIP: It may make more sense to rent. On the financial side, one key question is whether it costs more, on average, to rent or own your area. The rule of thumb is that if you pay 35 percent less in rent than you would for owning - including the monthly mortgage, property taxes, and any homeowner's fees - then it's smarter to continue renting.

Only if all those answers still point towards owning should you proceed to the next step - getting the money right.

Getting the Money Right

For most people, buying a house involves a double financial whammy.
First you have to assemble a pile of cash for the down payment and closing costs. Then you must convince a bank to lend you an even more staggering sum - generally 80 percent or more of the purchase price.

So your first step, even before you start the actual hunt for a property, should be to get your financial house in order.

Start with your credit

Credit reports are kept by the three major credit agencies, Experian, Equifax, and TransUnion. Among other things, they show whether you are habitually late with payments and whether you have run into serious credit problems in the past.

A credit score is a number calculated from a formula created by Fair Isaac based on the information in your credit report. You have three different credit scores, one for each of your credit reports.

A low credit score may hurt your chances for getting the best interest rate, or getting financing at all. So get a copy of your reports and know your credit scores. Try Fair Isaac's MyFICO.com, which charges $15.95 each for reports and scores from Equifax and TransUnion. Experian scores and reports can be accessed from experian.com and cost $15.

Errors are not uncommon. If you find any, you must contact the agencies directly to correct them, which can take two or three months to resolve. If the report is accurate but shows past problems, be prepared to explain them to a loan officer.

Know what you can afford

Next, you need to determine how much house you can afford. You can start with one of the Web's many calculators. For a more accurate figure, ask to be pre-approved by a lender, who will look at your income, debt and credit to determine the kind of loan that's in your league.

The rule of thumb here is to aim for a home that costs about two-and-a-half times your gross annual salary. If you have significant credit card debt or other financial obligations like alimony or even an expensive hobby, then you may need to set your sights lower.

Another rule of thumb: All your monthly home payments should not exceed 36 percent of your gross monthly income.

The size of your down payment will also determine how much you can afford.

Line up cash

If you haven't already, you'll need to come up with cash for your down payment and closing costs. Lenders like to see 20 percent of the home's price as a down payment. If you can put down more than that, the lender may be willing to approve a larger loan. If you have less, you'll need to find loans that can accommodate you.

Various private and public agencies - including Fannie Mae, Freddie Mac, the Federal Housing Administration, and the Department of Veterans Affairs - provide low down payment mortgages through banks and mortgage companies. If you qualify, it's possible to pay as little as 3 percent up front. For more, check out their Web sites at Fanniemae.com or Freddiemac.com.

A warning: With a down payment under 20 percent, you will probably wind up having to pay for private mortgage insurance, a safety net protecting the bank in case you fail to make payments. PMI adds about 0.5 percent of the total loan amount to your mortgage payments for the year. So if you finance $200,000, your PMI will cost $1,000 annually.

Once you've considered the down payment, make sure you've got enough to cover fees and closing costs. These may include the appraisal fee, loan fees, attorney's fees, inspection fees, and the cost of a title search. They can easily add up to more than $10,000 - and often run to 5 percent of the mortgage amount.

If your available cash doesn't cover your needs, you have several options. First-time homebuyers can withdraw up to $10,000 without penalty from an Individual Retirement Account, if you have one, though you must pay taxes on the amount. You can also receive a cash gift of up to $13,000 a year (the limit for 2009) from each of your parents without triggering a gift tax.

Gift taxes are paid by the donor, not the recipient. (In fact, if your and your spouse's parents are both well-heeled, they can give you a total of $104,000 in one year - $13,000 from each of the four parents to each of you.)

Check on whether your employer can help; some big companies will chip in on the down payment or help you get a low-interest loan from selected lenders. You can also tap a 401(k) or similar retirement plan for a loan from yourself.

Picking a Team

With all the tools and advice available today ranging from books and magazines to online advice like this lesson - it would be possible for you to buy your home almost completely without the aid of real estate professionals.

That's not necessarily recommended. The housing market, like politics, is basically local, and each state, city, and even neighborhood has a thicket of local laws or customs that you need to understand. For that, it helps to have a team of professionals to guide you.

You might want to start by finding an agent who can represent your interests in the search. This is not as simple as it sounds. Sure, 85 percent of sellers list their homes through an agent - but those agents are working for the seller, not you. They're paid based on a percentage, usually 5 to 7 percent of the purchase price, so their interest will be in getting you to pay more.

What you need is what's known as an "exclusive buyer agent." Sometimes buyer agents are paid directly by you, on an hourly or contracted fee. Other times they split the commission that the seller's agent gets upon sale. A buyer's representative has the same access to homes for sale that a seller's agent does, but his or her allegiance is supposed to be only to you.

To complicate matters, there are hybrid agencies called either single-agency or dual-agency brokers. In both cases, an individual agent in the firm may represent either sellers or buyers, sometimes both, in the same transaction. Potential conflicts of interest abound in this situation, so if you are seeking a buyer agent but no exclusive buyer agent is available, make sure to ask the agent about conflicts of interest.

There are now about a dozen Web sites that help connect buyers with buyers agents, among them HomeGain.com, House.com, RealEstate.com and Reply.com.

Next start looking for a mortgage lender. Take your time, since you could be paying this loan for 30, even 40, years. Start on the Internet at places like LendingTree.com and E-loan.com. You may also want to check out the rates at CNNMoney.com, Bankrate.com, or HSH Associates. These sites carry nationwide listings of mortgage interest rates and other related information.

Don't limit your search to the Web, though. Once you have an idea of the best rates from national lenders, get on the phone to your community banks and any other institutions with which you may have a relationship. Ask if they can beat the national rates. Often, the local lender can offer a better deal simply because he or she knows the local market and wants to keep your business.

You might also consider using a mortgage broker, a middleman who keeps tabs on rates from a multitude of lenders. The mortgage broker isn't paid directly by you but gets paid by the bank. However, the fee - usually 1.5 to 3 percent of the loan amount - may get transferred to you in the closing costs. Most search engines have extensive listings of mortgage brokers. There's also a trade group, the National Association of Mortgage Brokers, which can put you in touch with a broker in your area.

The Hunt

Your first step here is to figure out what city or neighborhood you want to live in. (Remember the old saw about "location, location, location.")

For overall demographics and data on metropolitan areas, you can visit a city site like CNNMoney.com's annual Best Places to Live list. For more detailed neighborhood information, check out sites like Yahoo! Real Estate, Trulia.com, Zillow.com or NeighborhoodScout for comprehensive school and demographic information on a number of communities. Look for signs of economic vitality: a mixture of young families and older couples, low unemployment and good incomes.

Pay special attention to districts with good schools (high teacher-student ratios and graduation rates are among the hallmarks), even if you don't have school-age children. When it comes time to sell, you'll find that a strong school system is a major advantage in helping your home retain or gain value.

Try also to get an idea about the real estate market in the area. For example, if homes are selling close to or even above the asking price, that shows the area is desirable. Try Homegain.com, which is free, or Dataquick.com, which is available only to paid subscribers, to check out recent home sales.

Your real estate agent may also be able to show you listings. Incidentally, if you have the flexibility, consider doing your house hunt in the off-season -- meaning, generally, the colder months of the year. You'll have less competition and sellers may be more willing to negotiate. Next, take your search to real estate sites like Realtor.com or Yahoo Real Estate, which let you search for property that fit your requirements.

Be wary of choosing search criteria that are too restrictive. For example, select a price range 10 percent above and 10 percent below your true range. Add a 10-mile cushion to the location you specify. If you see a house you are interested in, save it, print it, add it to your bookmark or favorites list, and take note of the MLS code; your agent will want that code to arrange to show you the home in person.

If you're a first-time buyer, pay special attention to condominiums and cooperatives, or co-ops. Condos generally sell for 15 percent to 20 percent less than the cost of comparable detached homes in the same neighborhood, so you get much more space for your money.

What's the difference between the two? In a condo, each owner has absolute ownership of his own unit, which may be an apartment or townhouse. Owners pay a monthly fee to maintain shared areas like the lobby, the pool, or the laundry room. The chief financial risk to a condo owner is that the common charges can rise, or, in the event of a major problem such as a roof repair or boiler replacement, the condo board can assess fees to cover expensive repairs.

It's a good idea, when considering a condo, to find out how much the common charge has changed over the past five years, and whether there have been major assessments during that time. Also ask what percentage of the residents actually own their units as opposed to just renting them (many condos include both). A complex with lots of renters has fewer owners who care about the upkeep, and it may be harder to get a loan on such a property.

A co-op is a rarer animal limited to major metropolitan areas, especially New York City. Essentially, the complex is run by a corporation where each owner is a shareholder. In other words, a co-op owner is a partner in a building, rather than an outright owner of his or her specific unit within that building.

The monthly maintenance fees are generally higher than those of a condo because they include property taxes (condo owners pay their own separately, but prices tend to be lower. Their chief downside is that the co-op board usually has to approve new owners and may discourage you from renting your unit if you move out without selling. As with a condo, check on the group's financial health, whether shareholders have been hit with special assessments recently, and whether the unit includes many renters.

When you actually start touring homes, bring a notebook and a digital camera to help you remember details. Your real estate agent should supply you with a description of each house and the lot it sits on, the property tax assessment, the asking price, and sometimes a diagram of the rooms. Your camera and notebook are there to record other details, ranging from the cost of heating to the view out the rear window.

One note: Don't automatically reject a house just because it doesn't measure up to your desires, either in features or price. You can always add a deck, for instance, or update a kitchen. Since the asking price is just a starting point for negotiation, you will be making offers and counteroffers as both parties seek an acceptable price.

Closing the Deal

Once you find the house you want, you need to move quickly to make your bid. If you're working with a buyer's broker, then get advice from him or her on an initial offer. If you're working with a seller's agent, devise the strategy yourself.

Try to line up data on at least three houses that have sold recently in the neighborhood. Calculate the difference between the original list price and the final price of the homes sold. If the average difference is, say, 5 percent below the asking price, then you know you can make an offer 8 percent to 10 percent below, leaving yourself a little room to negotiate. If you really want the house, don't lowball. The seller may give up in disgust.

Another factor to consider in determining your bid is whether the trend in recent home sales is up or down over the past year. For instance, if houses a year ago were selling at list, and recent ones are going at 3 percent below, then you might want to sharpen your pencil for your opening bid to just 5 to 8 percent below list.

There's no foolproof system for negotiating a fair price. Occasionally it's best to deal directly with the seller yourself. More often it's better to work exclusively through intermediaries. In general, don't let the other side begin to believe you are negotiating in bad faith or being deceptive -- any deal you eventually reach has to involve trust on both sides.

Be creative about finding ways to satisfy the seller's needs. For instance, ask if the seller would throw in kitchen and laundry appliances if you meet his price -- or take them away in exchange for a lower price. Remember, too, that your leverage depends on the pace of the market. In a slow market, you've got muscle; in a hot market, you may have none at all.

Once you reach a mutually acceptable price, the seller's agent will draw up an offer to purchase that includes an estimated closing date (usually 45 to 60 days from acceptance of the offer). Have your lawyer or buyers agent review this document to make sure the deal is contingent upon:

1. your obtaining a mortgage;
2. a home inspection that shows no significant defects (make sure you're clear on the definition of "significant");
3. a guarantee that you may conduct a walk-through inspection 24 hours before closing. This last clause allows you to check the home after the sellers have moved out so that you have time to negotiate payment for repairs, just in case the movers cause any damage, or that big living room sofa was hiding a hole in the floor.

You also need to make a good-faith deposit -- usually 1 percent to 10 percent of the purchase price -- that should be deposited into an escrow account. The seller will receive this money after the deal has closed. If the deal falls through, you will get the money back only if you or the home failed any of the contingency clauses.

Now call your mortgage broker or lender and move quickly to agree on terms, if you have not already done so. This is when you decide whether to go with the fixed rate or adjustable rate mortgage and whether to pay points (see "Picking a team"). Expect to pay $50 to $75 for a credit check at this point, and another $150, on average to $300 for an appraisal of the home. Most other fees will be due at the closing.

If you don't already have one, look into taking out a homeowner's insurance policy, too. Ask for recommendations from friends, your lawyer or your real estate agent. Most lenders require that you have homeowner's insurance in place before they'll approve your loan.

In addition to the appraisal that the mortgage lender will make of your home, you should hire your own home inspector. Again, ask for referrals, or check with the American Society of Home Inspectors, a trade group. An inspection costs about $300, on average, and up to $1,000 for a big job and takes two hours or more.

Ask to be present during the inspection, because you will learn a lot about your house, including its overall condition, construction materials, wiring, and heating. If the inspector turns up major problems, like a roof that needs to be replaced, then ask your lawyer or agent to discuss it with the seller. You will either want the seller to fix the problem before you move in, or deduct the cost of the repair from the final price. If the seller won't agree to either remedy you may decide to walk away from the deal, which you can do without penalty if you have that contingency written into the contract.

About two days before the actual closing, you will receive a final HUD Settlement Statement from your lender that lists all the charges you can expect to pay at closing.

Review it carefully. It will include things like the cost of title insurance that protects you and the lender from any claims someone may make regarding ownership of your property. The cost of title insurance varies greatly from state to state but usually comes in at less than 1 percent (in Iowa, as little as 0.1 percent plus a fixed fee) of the home's price.

The lender might also require you to establish an escrow account, which it can tap if you fall behind on your mortgage or property tax payments. Lenders can require deposits of up to two months' worth of payments.

After all this rigmarole, the actual closing is often somewhat anticlimactic, though perhaps still nerve-racking. It's a ritual affair, with customs that differ by region. Your lawyer or real estate agent can brief you on the particulars.

Information for 9.3 was provided by CNNMoney.com and can be found by the following link: http://money.cnn.com/magazines/moneymag/money101/lesson8/index.htm

12.4 Real Estate Agents

Corbin & Corbin Real Estate
118 W. Lafayette
Rushville, IL 62681
217-322-4881
corbin2@frontiernet.net
http://www.corbinandcorbinrealestate.com/

Acreage & Home Real Estate
314 S. Monroe
Rushville, IL 62681
217-322-6475

Tomlinson Real Estate & Appraisals
126 S. Congress Ste. 1
Rushville, IL 62681
217-322-4338

Illinois Valley Realty
112 N. Congress
Rushville, IL 62681
217-322-4355
http://www.illinoisvalleyrealty.com/default.asp

Kent Drawve Broker Real Estate
112 North Congress Street
Rushville, IL 62681-1434
(217) 322-4355

12.5 United Way 2-1-1

United Way 2-1-1 can help find out about an agency that can help you with a housing question or situation. When you call (dial 2-1-1), you will be able to talk with an information and Referral Specialist. This specialist will ask you your specific needs, and then refer you to an agency that can help you. Call 2-1-1 for more information.

12.6 Fair Housing Information

The Federal Fair Housing Act prohibits discrimination in housing based on a person's protected class status (such as race, gender (male/female), religion, and sexual orientation). This prohibition extends to the rentaland sale of housing, advertising or housing, and to assist individuals and families who feel they have been victims of illegal discrimination.

If you feel that you have been treated unfairly by a landlord, unfairly evicted, the landlord won't make reasonable repairs, or other unfair treatment, you can file a complaint with the Office of Fair Housing and Equal Opportunity (FHEO), 800-669-9777, at no charge. FHEO funds and has working agreements with many state and local governmental agencies where "substantially equivalent" fair housing laws are in place. Under these agreements, FHEO refers complaints to the state or locality where the alleged incident occurred, and those agencies investigate and process the case instead of FHEO.

You may also visit the U.S. Department of Housing and Urban Development website at http://portal.hud.gov/portal/page/portal/HUD/topics/housing_discrimination to file a complaint with the online form or by printing out the form and mail it to:

Office of Fair Housing and Equal Opportunity
Department of Housing and Urban Development
Room 5204
451 Seventh St. SW
Washington, DC 20410-2000

12.7 Rental versus Buying

Rental

- Planning on staying in the United States less than three years, it is often better to rent.
- Provides more flexibility in that it is not difficult to move out of an apartment.
- Do not have the responsibility of repairs and capital maintenance.

Buying

- You will not have a landlord
- There may be tax benefits.
- If you are paying U.S. income tax, the mortgage interest is deductible.
- You are free to make your own choices with what you do with your home.

12.8 Before Entering into a Rental Agreement

Inspect the Unit Before Signing the Lease

This includes inspecting the utilities – the appliances, the electrical systems, the plumbing, heating and lights, and locks and windows. If there are problems, you may request that the landlord sign the list of repairs that need to be taken care of before you, the tenant, sign the lease.

Application Fees

Same landlords require tenants to pay an application fee. This fee is used to cover the cost of checking the tenant's references. You should ask if there is a fee, and if so the amount of the fee.

Security Deposits

Landlords have the right to require tenants to pay a security deposit. This is money paid by the tenant and held by the landlord to pay for any damage that occurs when the tenant is renting, or it can supplement and unpaid rent or any money that the tenant owes the landlord under some agreement. The landlord sets the amount of the security deposit so it is important to ask how much the security deposit will be. At the end of the lease, the landlord must return the deposit to the tenant with interest. However, the landlord has the right to keep the amount necessary to repair any damage done to the unit by the tenant.

The Lease

The terms of any rental agreement are stated in the lease, which can be either a signed, written document, or an oral understanding, depending on the number of residential units in the building. If there are 12 or more residential units in the building, a written lease is required to rent one of those units.

There are two kinds of leases:

1. The periodic tenancy lease – this is generally a month-to-month, automatic renewal rental agreement.
2. The definite term lease – a rental agreement specifying a definite rental period, generally six months or a year.

Utilities

(telephone, electricity, heat/gas, garbage pick-up)

The lease should state who is responsible for paying the utility bills. If it is not clear in the lease, ask the landlord before signing the lease.

Maintenance

According to Illinois law the landlord is responsible to make sure the rental unit is:

1. Fit to live in.
2. Kept in reasonable repair.
3. Kept in compliance with states and local health and housing codes.

12.9 While Living in the Rental Unit

The Rent

Payments – Tenants must pay rent on the due date regardless of the type of lease they have. The due date and amount of rent are determined and stated in the lease. If the tenant does not pay the rent, the landlord can legally evict the tenant. If the rent is not paid when it is due, the landlord may require the tenant to pay a late fee. The amount of the late fee should be specified in the lease.

Under a periodic lease, a landlord cannot raise the rent unless proper written notice is given to the tenant. Under a month-to-month lease, the notice is one rental period plus one day. During a definite term lease, rent cannot be raised unless the lease allows to the raise.

Repair Problems

Illinois law requires that the landlord keep the unit in reasonable repair. This requirement cannot be place on the tenant. If the tenant has trouble getting the landlord to make necessary repairs in the unit he or she can.

- File a complaint with the local housing, health, energy, or fire inspector – and ask that the unit be inspected.
- Place the full rent in escrow with the court, and ask the court to order the landlord to make repairs.
- Withhold the rent.
- Sue the landlord in court.
- Sue for rent abatement.

- Use the landlord's failure to make necessary repairs as a defense to the landlord's failure to make necessary repairs as a defense to the landlord's eviction based on nonpayment of the rent.

Unlawful Detainers

If a renter doesn't pay his or her rent a landlord may go to court and requires and Unlawful Detainer (UD). A UD is a court action which forces an individual to be evicted from his or her apartment. This UD remains on the renter's permanent rental history, and will make it very difficult to be approved when trying to rent a new apartment.

Cleanliness

It is responsibility as a tenant to keep the rented unit in a clean and safe manner. If a landlord suspects that you are not keeping your apartment in a clean and safe manner you can be evicted.

Occupancy Rules

It is your responsibility to follow the rules of your landlord (as long as they are reasonable). Not following these rules may result in the landlord evicting you.

12.10 Ending the Rental Agreement

Proper Notice

When the landlord or tenant ends the tenancy, he or she must abide by the terms of the lease and by state law.

Under a periodic lease, the lease states that written notice must be received by the other party at least one full rental period before the tenant's last day. This means the day before the last rent payment is due.

Under a definite term lease, the lease states what kind of notice is needed to end the tenancy when the lease ends. Typically this is a written notice presented 30 to 60 days before the lease ends.

State law requires that owners of federally-subsidized housing (Section 8) give their tenants a one year written notice if:

1. Section 8 contract for the housing will expire.
2. The owner decides to end participation in the Section 8 program.
3. The owner will prepay a mortgage or otherwise terminate a housing subsidy program.

Refund of the Security Deposit

At the end of the tenancy, a landlord must return a tenant's security deposit or give the tenant a written explanation as to why the deposit will not be returned.

12.11 Habitat for Humanity

Habitat for Humanity is an international organization that builds homes for low-income individuals with the use of volunteers that are sold for low costs. The new homeowners are expected to put in 300-500 hours of work building the homes themselves, with the assistance of trained professionals. Homeowners must meet eligibility requirements established by Habitat for Humanity.

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PO Box 423
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