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Step 7: Find Your Home

Most people look for existing homes when making a home purchase. There are other segments of the existing home market, though, which may be of interest. Previously foreclosed homes, Housing and Urban Development (HUD) property, and Veterans Administration (VA) property appeal to some buyers because of their relatively low asking prices.

Special Case Homes

Some people want to buy a brand new home and prefer to look at new construction. Be aware that an agent is often on site whose responsibility it is to get you to sign a contract. Be prepared for that and make sure you sign nothing until you have had an opportunity to review blueprints and models and that you thoroughly understand what you are buying.

Other buyers are interested in HUD, VA, or foreclosed homes because they can obtain houses at below market prices. This can be true but is not necessarily the case. It can be advantageous to buy this kind of house but only if it is in a neighborhood in which you want to live and the house has features you find desirable. Recognize that HUD homes are sold "as is." If the utilities are not in service, you may not be able to ascertain the quality or reliability of plumbing, fuel lines, or appliances. There may be water leaks, gas leaks, etc. that you might not readily see. If you obtain a loan on the property, the lender may retain a portion of the proceeds until you can prove that the house is in decent working order.

If you are working with an agent, s/he will help you find these kinds of homes. Be careful when working with an agent who only deals in these kinds of homes; you may not see other properties on the market which are not HUD, VA, or foreclosures but still represent good value. If there are several properties available in an area, it may be an indicator of a buyer's market, and there are sure to be several competing properties available that have not been foreclosed upon.

Many of these kinds of homes require repairs. As you observe a house, remember that your lender may require repairs before approving a loan. Try to determine whether or not the house will still be a value after the repairs are completed. Some houses are, but just as many are not.

Some of these special case homes may have been vacant for a while. This means that normal interior and exterior maintenance has not been occurring. If a home has been vacant through one or more rough weather seasons, you may have to make repairs you don't expect and that would make the property a sub-optimal investment. Don't buy a house needing repairs unless you understand what repairs are required and you have the capacity to make them. Have the property thoroughly inspected before you commit to a purchase.

Don't get into a bidding war over a special case home. The bid price almost always seems to exceed the actual value of the home.

Make sure that you see all other homes in the area; you might find a house that is not a special case but needs less work. Always keep the ultimate possible value of the property in mind as you review these kinds of homes.



Rural Properties

Some people prefer to buy homes in the country. While typical residential amenities may be few and far between, the peace and quiet is a fine tradeoff. There are a few items to think about when considering the purchase of rural property.

The property you want to buy may be several acres with a single home (improvement) on it. The seller probably factors a price per acre of land into the asking price of the entire property. A lender, however, is less likely to consider unimproved land much value unless it is waterfront property. Typically, lenders value improvements over acreage unless there is a compelling reason to value the extra land.

For example, a seller may ask \$300,000 for a 20 acre lot with two improvements, a house and a barn. The acreage is unused land and is not waterfront property. A lender will likely consider the house, the barn, and the land beneath each when determining a maximum loan amount. If the lender values the house and barn at \$150,000, that's likely to be the value on which a loan will be based. If you want the property, you will have to find another way to pay the extra \$150,000. Even the potential for subdividing the parcel is not likely to sway a lender unless it is clear you will be improving the subdivided lots.

Rural properties generally do not have public sewer systems attached to the property. The property may have a septic tank for sewage, and it might have a well for fresh water. Don't avoid a property because it has a well and septic instead of a public water system. Much of the U.S. still functions effectively without public water. Keep in mind, though, that many lenders are very interested in the quality of the well and septic system, and a loan may be contingent on the proper functioning of each. The distance between a well and a septic tank is very important and could affect loan approval. FHA has specific requirements for wells and septic tanks which must be met to receive an FHA loan. You will want to have the septic tank and the well tested so that you know whether repairs might be required. Make sure you understand what is involved in well and septic repair and replacement before purchasing a rural property.

Finding Homes the Traditional Way

As you look at ads, recognize that the wording used in the ad is designed to entice you:

- fantastic view
- panoramic
- charming
- treetop view
- move-in condition
- dollhouse
- bright and sunny
- oversized rooms

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