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Step 1: Articulate why you are selling your house

It seems like a peculiar question, but it's an important one to ask. Some homeowners sell for the wrong reasons and without investigating their options. Some people move only to find that the neighborhood or city they thought was so wonderful from a distance is more expensive, more stressful, less interesting, or not as nice as the place they left. Others in financial trouble sell a house instead of finding ways to use their home to obtain needed funds. Still others think about selling without understanding how to make the process financially worthwhile for themselves.

Selling a house is an excellent idea as long as you know why you are selling it. Reasons for selling a house include

- New job in a new location
- House is too small for the family
- House is now too big for the family
- Declining neighborhood (amenities, quality of life, residential support services)
- Declining school district or town
- House is in an undesirable earthquake, flood, or other disaster zone
- Noisy neighborhood or neighbors
- Too close to a commercial/industrial area
- Divorce requiring disposition of all jointly owned property
- Job layoff
- Disability of primary wage earner
- Legitimate, bad feelings about the house or the neighborhood
- Family budget constraints or financial problems
- House lacks amenities such as a garage, basement, or extra rooms

Keep in mind that there are substantial costs involved in selling your house, and there are even more if you are buying another one. Commissions at 6-7% of sale price, closing costs, and fees can eat into your profit when you sell, and you pay substantial fees to close on a new house as well. If you trade down to a smaller house, you might have to pay some taxes on the sale. If you are considering selling, ask yourself these questions:

- If you need money, does it make more financial sense to obtain [a home equity loan](#), [home equity line of credit](#), or [a reverse mortgage](#) on the house than to sell it?

*These loans provide you cash without requiring you to give up your most valuable asset, your house. A **home equity loan** allows you to borrow a fixed amount based upon the equity (current market value less the loan outstanding) you have accumulated in your home. You make fixed payments each month on the loan until it is paid off. A **home equity line of credit** is the equivalent of a credit card account based upon the equity in your home. If you use it, you pay interest and principal on the outstanding balance just like a credit card. If you don't use it, you owe nothing. You can repay it in part or in full at your convenience. A **reverse mortgage** is generally a way to receive income after you retire based on the value of your home. You contract to receive a fixed amount of money*



each month for a period of years from a lender, similar to an annuity. At the end of the annuity term, it is assumed that your house will be sold and the lender receives the proceeds as payment for the annuity.

- Are you sure that the neighborhood, town, or city to which you would like to move is a sufficient improvement over where you live now?

Don't move for this reason unless you have thoroughly checked out the amenities, atmosphere, and cost of living in your potential new neighborhood to ensure it is better than where you currently live. Some people move to a new place only to discover that the place they left was nicer after all.

- Would you spend less money by remodeling, building an addition, or improving your current house than you would by moving someplace else?

Fees to sell a house and buy a new one can range 5-15% of your old home's value and over half of the equity you accumulated. In addition, there is the stress of finding a new house, moving, and resettling. You should compare this cost to the cost of remodeling your home to include the amenities you want.

*At the same time, beware of "overimproving" your house. This situation (also called **functional obsolescence**) occurs when you spend money on remodeling a house without adding value to it. Neighborhoods support only certain market value ranges. Even if you put a lot of money into your house, it may not trigger a substantial increase in its value. When you eventually do sell your house, you might not sell it for what you put into it. If you have to overimprove to obtain the house you want, you are probably making the right decision by selling.*

Check out homes in your neighborhood to see what kinds of amenities they have. Attend a few open houses and observe the interiors to see if your improvements would be considered reasonable for the area.

- Can you afford to move and trade up to a bigger house?

Fees to sell a house and buy a new one can range 5-15% of your old home's value and over half of the equity you accumulated. Selling an old house and buying a bigger house usually means a bigger mortgage, higher property taxes, and higher utility bills. These additional expenses may reduce your spending on other things, such as retirement saving, vacationing, or leisure activities. The reduction might be significant and worthy of consideration.

At the same time, a bigger mortgage and higher property taxes decrease your annual taxable income because interest and property taxes are deductible on your tax return. This may make up for some of the additional increased cash outflow to maintain a larger house.

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