



GI HOME BUYING CONCERNS

Buying vs. Renting a Home

Military.com | by Joe Gladden

Buying a home during PCS season is not a decision that you should take lightly. There are advantages and disadvantages that should be thoroughly considered before potential home buyers sign on the dotted line.

Should military families buy or rent? There is obviously no answer that fits all situations to this often-asked question. With the recent "flattening of the market" and higher interest rates, more military families ask this question. Here are other factors that can impact the answer to the rent vs. buy question:

- Length of PCS orders and/or likelihood of re-tour or retirement in area of the base
- Strength of local economy
- BRAC issues affecting specific military bases
- Interest rate trends
- The prospective home buyer's cash position
- The prospective home buyer's total family income
- The prospective home buyer's tax bracket
- The prospective home buyer's tolerance for risk

It is no secret that national real estate prices have flattened considerably, and in some cases declined. An interesting phenomenon occurs in a declining market — whether it is the stock market or real estate market — the herd mentality sets in and everyone rushes to sell. Those not in the declining market are very reluctant to invest in that market, and begin to search for rentals.

Over the past four years everyone rushed to catch the huge appreciation as the market catapulted skyward. The pervasive thinking was, "Hurry and get into the market before rates and / or prices increase to the point where you can't get in!"

In just a moment we will construct a straw model of a buy vs. rent scenario, but first we should acknowledge a few facts:

- Generally speaking, when interest rates rise, so does the cost of a home mortgage. Thus renting appears to be more attractive than purchasing. Subsequently, the inventory of rentals decline, as the inventory of homes for sale increase. This increases the competition for rentals locally, driving up the cost to rent. Conversely, the home for sale inventory increases, forcing competition and downward pressure on home sale prices as they become more negotiable. ultimately, lower home sale prices equate to lower mortgages, which equate to lower monthly payments given a specific interest rate.
- No one, and I mean no one, can predict with certainty where any market will be two to three years in the future. However, a very safe assumption — based on the "laws of supply and demand"— is that despite periodic market fluctuations, real estate prices will continue to increase over time. The simple fact is that there is a finite amount of real estate and a growing population.
- No investment is without risk.
- Real estate investments have an inherent tax advantage in comparison to stock market investments. Military families may have an additional capital gains advantage (see Armed Forces Tax Guide Publication 3) due to the unpredictability of transfers.
- **Hot Tip:** Warren Buffet did not get rich by buying at the top of the stock market. He got rich by ignoring the "herd mentality" and buying undervalued stocks that were well positioned for growth.

BUY VERSUS RENT

Caveat: We are not tax advisors. Everyone's tax situation is different and if you have any questions, you most certainly should consult your tax advisor / account to determine how buying vs. renting would affect your taxes!

Scenario: 0-4, 10 years, with three dependents,
PCS three-year orders
Base Pay: \$5,482
Spouse Income: \$2,500
Total Taxable Income: \$7,982/mo., \$95,784/year
Assume tax bracket of: 25 percent

BAH: \$2,470
Total Income: \$10,452 ; \$125,424/year
Annual Tax liability Before Purchase (25 percent
of \$95,784) \$23,946
Home Purchase Specifics / Interest Only Loan
(for simplicity)

Sales Price:	\$420,000	
Down Payment:	\$20,000	
Loan Balance:	\$400,000	
Interest Rate:	6 percent	
Term:	30 years	
Monthly Interest:	\$2,000	\$24,000 / year
Taxes:	\$300	\$3,600 / year

Total Annual Tax Deductions from home ownership: \$27,600 per year

Insurance: \$50

HOA: \$40

Total Payment: \$2,390

Home Rent Specifics

Monthly Rent: \$2,000; \$24,000 annual

Cash flow before tax considerations: \$390/mo.; \$4,680 in favor of renting

After Tax Analysis

Annual Interest Paid = \$27,600 in a 25 percent tax bracket yields an annual tax liability reduction of \$6900 resulting in an annual net advantage of \$2,220 (\$6,900-\$4,680) to purchasing. The three-year purchase advantage is \$6,660.

Appreciation Factor

Assumption: \$420,000 home, annual appreciation of a MODEST 3 percent (compounded annually)
Home value at the end of three years approximately \$458,945, an increase of \$38,945.

Assumption: realtor fees and closing costs at \$29,500, net after fees from appreciation = \$9,445.

Three year tax advantage: \$6,660

Net appreciation: \$9,445

Net three-year advantage to purchase compared to renting: \$16,105

Of course it doesn't always turn out this way. The advantage can be significantly greater, or you can even lose a substantial amount of money! Been there, done that on both counts!

I will close this article with a true anecdote about a close personal friend who served 30 years in the military. Bet you know someone just like him. Over the years, he purchased four homes, rented three of them out (to other military members of course), and sold one near the end of his career. Two of the three are completely paid off, and one is half paid off. Combined, the three properties are worth well over \$1,000,000 and generate approximately \$36,000 in annual income. He did not get the huge 20 percent appreciation bumps of the recent "boom" market, but rather, plodded along at more modest appreciation rates. Like any other investment, buying and holding real estate, if done in a thoughtful, disciplined manner can be an excellent investment and supplement to a military retirement.

Interest rates are beginning to climb and the VA increased the ceiling on your loan benefit to over \$400K. Take advantage of the market and [get quotes today](#).

As always, we welcome your thoughts, suggestions, phone calls, and e-mails.

Visit VR SAM™ at: www.vrsam.com, homesformilitary@vrsam.com

PCS House Hunting Tips

Military.com | by Joe Gladden

Trying to shop for a house across the country, or even in another country, is a major undertaking no matter what. It can get even more complicated if the servicemember is deployed, or because of work scheduling, and even childcare concerns. Here are a few tips to make your hunt for a home more successful.

You have received orders to your new duty station and it is time to plan for your move across the country, or even across the planet. Under perfect circumstances, which of course don't exist, this is a major undertaking. And moving gets considerably more complicated when the military member is deployed and mom or dad cannot participate in the house hunting trip because of childcare concerns, work schedules or deployments. This article expands on a critical aspect of our "Military Home Buyer's Checklist."

By now you should have carefully selected your realtor through referrals and phone interviews. With the desired outcome of finding the right home for your family and obtaining a ratified contract on that home, here are key elements of making the trip a success:

- While the military does not cover your house hunting expenses, they do give you "permissive leave" (up to 10 days) to conduct the trip. When appropriate you and your spouse may choose to use "Military Space Available" travel to get to your new duty station. *See note below in regard to "Military Space Available."
- It is not unusual for military members to house hunt during conferences or other events at their new duty station. Viewing and selecting homes, writing and negotiating a ratified contract can take several very busy days. Dedicating a complete week to this process is not overkill! Be sure to schedule ample, uninterrupted time for this process.
- Do your homework in advance. Ask your realtor for local detailed street maps, especially in large metropolitan areas. Take advantage of their automated e-mail listings to plot these listings on the maps, and to "calibrate" your expectations of the local market. Do your research on schools, commute (ask your associates at your new duty station), and other family concerns. Before your arrival, work with your realtor to prioritize the areas of interest.

Consider your realtor as your teammate! Good realtors are busy with multiple clients so help them help you:

- Schedule ample time "in town" for your trip.
- Give your realtor as much advance notice as possible (weeks or months if possible) and ask them to block out your entire time in town to work with you. Keep them updated on any changes to your schedule.
- Prioritize your requirements and make sure your realtor knows what they are!
- Don't be bashful about letting them know if they are focusing in the wrong area! They need your input and know that performing well may lead to repeat business, referrals, and a long term friendship with their clients

Touring 10 homes in a day can be tiring and stressful for adults, even more so for children. If you add multiple time zone changes to the equation, it can be even more exhausting. When possible, plan your trip without children or ask your realtor for assistance in arranging childcare in the local area.

Be sure to bring with you the following:

- Your pre-approval letter from a REPUTABLE lender. In some areas, contracts will not be seriously considered by sellers without a pre-approval letter. Smart realtors representing the seller will be very skeptical of Internet and/or unknown lenders! Remember a pre-approval letter DOES NOT commit you to any specific lender, so it is prudent to bring the other documents listed below just in case you find a local lender with better rates and terms.
- All W-2 forms (member and spouse) for the past two years.
- At least the two most recent months of pay stubs (member and spouse).
- ALL PAGES of at least two most recent months of your primary savings and checking accounts statements.
- ALL PAGES of other accounts that may be used for earnest money and / or down payments.
- Your checkbook. This may sound odd, but a growing number of people bank on-line almost exclusively and/or use credit cards for normal purchases and do not carry checks. However, checks are still the most accepted and convenient means of placing earnest money on a home.
- If one spouse cannot make the trip, be sure to execute and bring a general power of attorney for the absent spouse (see your local military legal office). This is usually acceptable for purposes of writing the contract, but the actual settlement will PROBABLY require a more specific POA for the lender's and/or settlement company's purposes. Check this with your realtor.

- Your digital camera if you have one. While your realtor should also have one, this can be extremely helpful in evaluating a large number of homes at the end of a busy day! Perhaps more importantly, in cases where one spouse cannot make the trip, emailing pictures can be very helpful in keeping them in the process.

Guide to Buying a New Home

The weakened economy has put a number of homes on the market, often below their original price. With a greater choice of houses to choose from, you'll need to know what to look for in a prospective home. The Department of Housing and Urban Development (HUD) has compiled a list of questions to ask yourself when searching for a new residence.

Is an older home a better value than a new one?

There isn't a definitive answer to this question. You should look at each home for its individual characteristics. Generally, older homes may be in more established neighborhoods, offer more ambiance, and have lower property tax rates. However, people who buy older homes shouldn't mind maintaining their home and making some repairs. Newer homes tend to use more modern architecture and systems, are usually easier to maintain, and may be more energy-efficient.

What should I look for when walking through a home?

- Do you see yourself living in this home today and for the foreseeable future?
- Are there enough bedrooms and bathrooms?
- Is the house structurally sound?
- Do the mechanical systems and appliances work?
- Is the yard big enough?
- Do you like the floor plan?
- Will your furniture fit in the space? Is there enough storage space? (Bring a tape measure to better answer these questions.)
- Does anything need to be repaired or replaced? Will the seller repair or replace the items?
- Imagine the house in good weather and bad, and in each season. Will you be happy with it year-round?

Take your time and think carefully about each house you see. Ask your real estate agent to point out the pros and cons of each home from a professional standpoint.

What questions should I ask when looking at homes?

Many of your questions should focus on potential problems and maintenance issues. Does anything need to be replaced? What things require ongoing maintenance (e.g., paint, roof, HVAC, appliances, carpet)? Also ask about the house and neighborhood, focusing on quality of life issues. Be sure the seller's or real estate agent's answers are clear and complete. Ask questions until you understand all of the information they've given. Making a list of questions ahead of time will help you organize your thoughts and arrange all of the information you receive.

How can I keep track of all the homes I see?

If possible, take photographs of each house: the outside, the major rooms, the yard, and extra features that you like or ones you see as potential problems. And don't hesitate to return for a second look.

How many homes should I consider before choosing one?

There aren't a set number of houses you should see before you decide. Visit as many as it takes to find the one you want. On average, home buyers see 15 houses before choosing one. Just be sure to communicate often with your real estate agent about everything you're looking for. It will help avoid wasting your time.

VA Home Loan Still a Good Option in a Bad Economy

VA home loans, which require no down payment for eligible veterans, and are guaranteed by the Department of Veterans' Affairs, prove to be a good option in a down economy.

More servicemembers and veterans are using their Department of Veterans Affairs (VA) home loan guaranty benefit, as VA's loan program remains a strong option in today's housing market.

VA is experiencing a significant increase in home loan volume, with more than 162,000 home loan guaranties provided this year, an increase of more than 31 percent over the same period last year.

"VA attributes this increase to the favorable terms traditionally offered with VA loans and the elimination of many no-downpayment products in the conventional mortgage market," said Secretary of Veterans Affairs Dr. James B. Peake.

No-downpayment loans are increasingly difficult to obtain with conventional financing. Under recently enacted legislation, VA now uses a locality-based approach in determining ceilings on its no-downpayment home loans. VA no-downpayment loans are available for as much as \$729,000. Larger VA loans may be obtained with relatively small down payments.

Not only is the VA program one of the few remaining no-downpayment programs in the market today, but lenders and veterans using the program are finding that it provides a timely and user-friendly product.

Focus in recent years on improvements in information technology has helped streamline the loan process and has made the program more accessible. Veterans no longer need to obtain a VA Certificate of Eligibility prior to contacting a lender.

Lenders can access the program's web portal to use VA's online Automated Certificate of Eligibility (ACE) system and obtain the certificate for the veteran. Many times, lenders can receive the certificate within seconds.

VA lenders have the authority to process and approve veterans' loan applications. Lenders can order appraisals online, review and determine the appraised value of the property themselves, electronically submit the information VA needs to process a loan guaranty, and then receive the guaranty electronically within 24 hours.

VA is also revolutionizing its loan servicing activity through implementation of a new web-enabled and rules-based "smart" system called VALERI (VA Loan Electronic Reporting Interface). Standardized servicing criteria on par or ahead of industry norms and instant access to acquisition and claim payment status make it easier for servicers to work and communicate with VA. It also allows servicers to help veterans who are experiencing financial difficulty avoid foreclosure.

Last year, about 135,000 veterans, servicemembers and surviving spouses received loans valued at nearly \$24 billion. More than 90 percent of VA loans were made without any down payment.

To obtain more information about the VA Loan Guaranty Program, veterans can call VA at 1-877-827-3702. Information can also be obtained at <http://www.homeloans.va.gov>.

How Much House Can I Afford?

Military.com | by Sharon Kedar and
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The rule of thumb is that a military family can comfortably afford a home that is up to three times their average annual household income. Where did this number come from?

As you may have noticed, the airwaves are filled with bleak, sad stories of foreclosures and bankruptcies. It may seem hard to believe, but the national home price is off nearly 25 percent from its peak — and that's just the average. Certain states in the U.S. (California, Nevada, Florida, and areas in the Midwest) have seen even more dramatic declines, according to the widely quoted Case-Shiller index of home prices. The headline is this: Millions of Americans are literally being held hostage by their homes. And, inquiring minds want to know...

How Much House Can I Afford?

The rule of thumb is that a military family can comfortably afford a home that is up to three times their average annual household income. Where did this number come from? Well, think of your annual income as a pie. It has four slices: taxes, savings, needs, and wants. For most people, taxes chew up about 25 percent of their gross income. In an ideal world you should save 15 percent of your gross income. So that leaves you with 60 percent of your gross (or pre-tax) income for everything else. Your housing costs, your transportation costs, your health care, your child care, your food, your entertainment, etc.

If you buy a house with a 20 percent down payment and a 30-year fixed rate mortgage — average interest rates dictate that you'll spend about 30 percent on your mortgage, insurance, property tax, maintenance and upkeep — that leaves you with 30 percent for everything else in your life. If you buy a house that's three times your annual income, those housing costs will take a big bite out of your budget, which sets the financial into motion. You'll either have to cut back on your wants or cut back on your savings.

As you think about home ownership, here are three rules of thumb that can help:

- Only buy a house when you can afford to make a 20 percent down payment.
- Only use a 15-year, or 30-year fixed rate mortgage.
- Only buy a house if you think you'll live there for at least five years (because otherwise the costs associated with buying and selling your home have high odds of exceeding any gains you may make from price appreciation).

The aforementioned thoughts are meant to serve as a broad, general framework, not a one-size-fits-all answer. The key point to take away from this discussion is that for a free-market economy to function efficiently, we must have informed participants.

In the past, lenders did not disclose enough about their terms, and buyers did not ask enough questions. There are many parties to blame and it will take all hands on deck to right this ship. All of us can do our part by taking personal responsibility for learning how much home is right for our personal circumstances. You want your home to be your haven, not hold you hostage.

How to Avoid Home Buyer's Remorse

Remorse Is a Common Feeling During Home Buying

You loved your future home when you signed the contract to purchase it, but now you're not sure if you made the right decision. What if you acted too quickly and a better house comes on the market next week? What if you paid too much for the house? What if something happens to your finances and you can't make your house payments?

There are hundreds of questions that will run through your mind during the period leading up to closing, the day you actually become owner of the home. Most of the questions will be simple ones that are easily answered, but sometimes doubts creep in, making you uncertain if you want to proceed with the purchase. Unless there's a true reason for concern, your state of mind might simply be a case of Home Buyer's Remorse.

A home is the most expensive thing most of us ever buy and we all want to be sure we've bought the "right" one. Take these steps to determine if your doubts are buyer's remorse or an indication that there's a genuine problem with the home.

Find Your Wants and Needs List

You probably developed a [wants and needs list](#) before purchasing the house. Find it and review your notes.

1. Does the home include the most important things on the list?
2. What qualities made the house you chose stand out from the others you looked at?
3. Did you find many houses that met your needs or was this one a rarity?
4. If you can back out of the contract, is it realistic to think you will find a house that's "better?"
5. What was special about the house just a few days ago and how has it changed--*really changed*?

Analyzing the facts that lead you to the home will help you sort out your feelings about the contract. Was it truly a poor choice or would you be nervous moving forward on *any* house?

Scenarios that Bring on Buyer's Remorse: Remorse sometimes kicks in after we start talking to others about the new house.

Discussions with family and friends. They usually mean well, but it's not uncommon for family and friends to question your choice and what you paid for it, especially if it's your first home purchase and they are seasoned pros.

But do they know the market? It may have been years since they bought a property themselves, and if that's the case they probably aren't in touch with current prices. They might even live in another part of the country, in an area where housing costs a fraction of what you can expect to pay at your location. And let's face it, parents rarely think a house is "good enough" for their children.

Continuing to look at houses. Big mistake. Stop looking at other houses unless you feel the contract has a good chance of falling apart (you're not sure the appraisal will be satisfactory, you think the home inspection might uncover serious repair issues, etc.).

Real estate agents who offer no guidance. Some agents do not guide their buyers through the closing process. Questions and doubts pop up and the agents aren't around to provide answers and assure their buyers that what they are feeling is normal. Unanswered questions can put buyers in a panic mode, especially when it's their first home. Panic leads to doubt--and ultimately buyer's remorse.

Contact your agent and others involved in your closing whenever you have a question. It's their job to help you.

Your own doubts. Nothing in life is certain, and we tend to think about the uncertainties even more whenever we make important commitments, dwelling on the negative what-ifs instead of looking at the positives.

When Your Concerns are Valid.

There are times that purchases should be halted. The conditions of your contract should allow you to back out with no penalties if:

- You cannot get financing.
- The house does not appraise at a price at or above the contract sales price.
- The home inspections uncover more repair issues than you are willing to take on.
- The property boundary lines are not as represented by the seller.
- A title search uncovers undisclosed easements that give someone else the right to use the property.
- The title search uncovers undisclosed liens that won't be satisfied at closing.
- There are problems with the deed. For instance, the wife of a former owner never released her rights to the property.

These (and other serious problems) are all issues that must be resolved before you purchase the property.

New Time-Shares and Condos: Check state laws if you are sorry you purchased a new time-share or condo. Many states give buyers the right to cancel a contract if they have a change of heart after signing a purchase contract with the original developer--the laws (usually) don't cover resale units.

Cancellation Clauses: Cancellation clauses for other purchases might be commonly used in your area--ask your agent before you sign an offer to purchase a home.

Prepare Yourself Ahead of Time: The best thing you can do is to recognize that home buyer's remorse is a common phenomenon. Understanding why buyer's remorse occurs helps you prepare for it ahead of time and work through it quickly if it occurs.