



Calhoun: The NPS Institutional Archive
DSpace Repository

Theses and Dissertations

1. Thesis and Dissertation Collection, all items

1959

Housing

Schmeltzer, Louis B.

George Washington University ; School of Government, Washington, District of Columbia.

<https://hdl.handle.net/10945/31070>

Downloaded from NPS Archive: Calhoun



<http://www.nps.edu/library>

Calhoun is the Naval Postgraduate School's public access digital repository for research materials and institutional publications created by the NPS community. Calhoun is named for Professor of Mathematics Guy K. Calhoun, NPS's first appointed -- and published -- scholarly author.

Dudley Knox Library / Naval Postgraduate School
411 Dyer Road / 1 University Circle
Monterey, California USA 93943

HOUSING

by

Louis B. Schmeltzer
LCdr. U. S. Navy

Prepared for
Dr. A. Rex Johnson

The George Washington University
Navy Graduate Comptrollership Program
May 1959

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Chapter	
I. RENTING	3
Questions to Ask Yourself	
Total Housing Costs	
Steps in Decision	
Desires	
Availability	
Costs	
Apartments	
Lease	
II. BUYING	8
Desirable Features of Home	
Survey Neighborhood	
New or Used	
Realtor or Private Seller	
Locating and Inspecting Property	
Equipment Included with Property	
Landscaping	
Financing	
Zoning	
Last Step	
III. FINANCING	16
Conventional	
FHA	
In Service	
Assumption	
G.I.	
Discount Money	
Summary	
IV. SELLING	22
Arrive at a Price	
Mortgage Correspondent and/or Lawyer	
Advertising	
Appearance of House	
Showing House	
Costs	
V. SUMMARY	30

Appendix I	VA Check List	32
Appendix II	Two Agent Method	35
Appendix III	Selecting Location	37
Appendix IV	Realtor Services	39
Appendix V	Real Estate Lingo You Should Know	40
BIBLIOGRAPHY	42

INTRODUCTION

The interest in real estate that is evidenced by the Junior Officer in the Armed Forces is all too often one of indifference or complete fright. This attitude is caused in part if not in entirety by an almost complete lack of knowledge as to the problems involved in homemaking (renting or owning) and for some reason a fear of being embarrassed in asking a "foolish question" of a "knowledgeable" realtor or even a well informed friend.

The personal financial management training offered at the Service Academies and the nation's colleges and universities is in most cases well meant, well directed, and well presented in all phases except real estate. "Don't" or "Take it easy" is the advice most often given to Junior officers regarding the purchasing of a home. This information while excellent in some extreme cases is certainly incomplete and poor overall advice.

All Junior Officers should plan to own a home at the end of twenty years of service, that is, they should either actually own a home or should have the purchasing power to obtain the home that will be theirs upon retirement. Do not misconstrue this to mean that you should plan to retire at the end of twenty years service but rather you should plan your

financial affairs such that this is possible if you or the service decides that you should retire. Since everyone's wants are different no check-off list or question list could possibly be given that would be complete. The lists included herein are merely guides and with a little experience can be corrected to serve the personal desires of each individual.

Any policy that pertains to one area in the real estate market does not necessarily apply to another area, therefore everyone must ASK QUESTIONS when house hunting for the first time in any area.

Some specific answers may be found in this paper; however the purpose is to give background information so that more complete knowledge can be obtained by a few directed questions on the local laws, regulations, and customs. With such knowledge you will be in a position to ask intelligent questions about a possible future home.

CHAPTER I

RENT

The decision as to when it is better to rent or to buy a house must of course be made by the individual at each and every change of residence. These changes come often enough in the service, so avoid unnecessary ones. Spend an extra day or week in temporary housing to assure a proper choice for your stay in a new area and minimize costly mistakes in buying or renting your house.

Questions to Ask Yourself

You should obtain answers for quite a few questions before making the decision as to whether to rent or to buy. How long do you expect to remain in this present assignment? Will you be offered or required to accept quarters on the station or post? Would you consider retirement in this area? How much of a cash outlay can safely be invested in real estate? How much can you afford to pay monthly for housing? These are but a sample of the questions that must be thought through and satisfactorily answered.

The normal figure for housing is not more than 25% of your total annual income. This figure is obviously an approximation, but it is a good basis for a start. All utilities (including the basic telephone charges) should be

figured into this 25%--if it does not you should immediately realize that the rest of any financial planning or management will have been wasted.

In an assignment for less than two years, buying a house is usually very unwise financially because this length of time is required to repay or earn back the cost of closing the purchase, the cost of selling, and the added cost of home ownership (discussed in detail in Chapter IV).

First Step--Desires

Your first step in deciding a course of action is your own personal needs and preferences. For example, if you do not like "working in the yard" for recreation at least one day every week, you should rent an apartment or be prepared to hire someone to care for your yard.

A list of what you require in your dwelling should be made well before commencing to house hunt. Include everything you would like and mark the items that you considered a must. This should aid in answering your question, when finding the "dream house", as to whether or not it is really what you want. You will usually have to accept less than your "dream house" but this list will give you a check on your real desires. Appendix I is a check-list which may aid in formulating your own preferences in this matter; Chapter II, entitled "Buying", pertains also to renting in many areas. Read it carefully for desired information before house hunting.

Second Step--Availability

Upon receiving orders to a strange area, information on housing can be obtained from friends, newspapers of the area,

or your new parent or supporting activity.

If you have good friends whose desires are about the same as yours and you can trust their judgment, write them for information on the areas to live in or to avoid, prices, values, and advantages of each area. Write the Housing Officer of the base at which you are to be stationed, or the nearest one to your activity, requesting information on possible temporary housing and any leads as to the types of permanent residences available in the area. Buy a local newspaper for your new duty station locale and read the real estate advertisements. If a local paper is not available to you, write to the Chamber of Commerce, Better Business Bureau, Housing Officer or your future Personnel Officer and request that a week's subscription be immediately entered in your name for delivery and billing at your present address. In some areas realtors will contact you by mail and offer services. Avail yourself of these services but sign no papers that might in anyway commit you to them unless the service or house offered will answer all your future needs.

Know your limits on housing costs (rental plus utilities) and do not exceed this limit, either buying or renting. Be extremely careful not to be oversold by a realtor or by your own desire for more than you can afford. Give careful consideration to your duty status at your new station. Is it permanent or might a sudden change of orders come forth? Would an apartment be more suitable for the family if the husband is at sea or gone a great deal of the time?

Costs

The saying is popular that making rental payments is similar to throwing money down a rat hole. This is true, also, in home ownership because money invested in a home can earn money (interest, dividends, etc.) when invested elsewhere and does not require operating costs to maintain the earning power. As an example, the rental charges on a \$10,000 home will normally be \$85.00 a month or approximately \$1000 a year. If this home is owned outright by the resident the approximate costs would be \$150.00 in property taxes, \$100.00 in maintenance costs, \$500.00 interest on the money invested (\$10,000 invested at 5% interest), and \$50.00 for hazard and liability insurance. In addition the Junior Officer usually will sell upon leaving the area so the cost of buying (closing costs \$300 to \$400), and selling (discount rates, \$200 and up--lawyer fees \$50 or realtor fees \$500) will bring the cost of owning up to the same cost as renting. Since renting is not much more costly than buying the decision should be based on your personal circumstances. Can you rent the residence that fulfills your needs? If you can, probably the cost will be the same or less at the end of a two year period and you can pack up and leave without any worry as to whether or not you can sell your house, how much you will gain or lose, etc.

Apartments versus Houses

Apartment living as a rule is cheaper than individual home residence. Apartments customarily offer all utilities included with rental payments, a feeling of security to

families while the husband travels or is at sea, no costs of yard maintenance, and usually extremely convenient shopping facilities, public transportation, police and fire protection, and adequate schools. The disadvantages are the restricted living conditions, lack of "own yard" for gardening and children play area, high noise level possibility from close neighbors, unpleasant odors and smoke, and generally a very close association with your neighbors whether you desire it or not.

Leases

If you decide to rent and have found the house that is suited to your family (use Appendix I as a possible check list for renting also) a lease is a very important document to consider for your protection. Be sure that a military clause--to allow you to break the lease if you get orders out of area--is included. This clause is not understood but must be in writing in each lease. Read your lease carefully and be sure it is of the proper duration, has a renewable clause, is for the agreed price, includes any stipulations as to payment for utilities (you pay or owner pays) and that all restrictions are clear and concise. Prior to signing, it is in order to consult the base Legal Officer or a local lawyer to assure your understanding it fully and that you are properly protected.

The first thing I noticed when I stepped
 out of the car was the smell of the
 sea. It was a strange, salty, and
 refreshing smell. I had never before.
 The air was cool and the sun was
 shining brightly. I felt like I was
 in a new world. I had heard so much
 about this place, but I had never
 seen it. Now I was here, and I was
 in love.

Chapter 1

It was a beautiful day. The sun was
 shining brightly and the sea was
 calm. I was walking along the beach,
 feeling the sand under my feet. I was
 alone, and I was happy. I had never
 before. I was in a new world, and I
 was in love. I had heard so much
 about this place, but I had never
 seen it. Now I was here, and I was
 in love.

SECTION II

BUYING

The pride and joys of home ownership bring with them responsibilities to both your family and the community. The purchase of a residence should not be made solely from the heart, but should include some hard looks at the property and surrounding community. To find the most desirable house for your particular situation will require many long and tedious days of house hunting.

Desires in Home

To shorten the search for a house, as complete a list as possible should be made before starting same. Take your time in assembling this list. Include necessities (living room, kitchen, baths, three bedrooms, storage space, etc.) and optional items (porch, dining room, recreation room, den, etc.) A three bedroom house is the minimum size that should be considered because of the added resale value (2 bedroom houses are becoming extremely difficult to sell). If a stove, refrigerator, washer and dryer, drapes, curtains, porch furniture, garden tools, etc. are required, be sure to include them in the list. If these items are not included in the house you purchase, an additional outlay of funds must be

expected to purchase them.

Survey of Neighborhoods

If at all possible, a survey of various neighborhoods should be made, both orally and physically. Sellers, realtors, and friends can give you some information on the neighborhoods. Inquire as to the proximity of schools, public transportation, shopping facilities, and actual working station. A slow drive throughout any section being considered should reveal significant neighborhood trends.

Before purchasing a home, a more detailed check of the immediate neighborhood and neighbors is advantageous--who are they, where do they work, what are the approximate ages of all members of families, religion, race, and any other information that can be gained. Ask questions freely. If the answers do not satisfy you immediately, this is a danger sign and should be a cause for deeper and more pointed investigation. Don't be bashful--\$10,000 to \$20,000 is not something to trifle with. Survey the neighborhood, the type of homes, their proximity to each other, their construction (frame, brick, stone, etc.) and present condition; also consider curbs, sidewalks, storm drains, city water, electricity, gas, and adequate sewerage. Important also is the traffic flow on nearby streets, fire protection, type of police protection, airports and their related traffic patterns, and the restrictions imposed in the deeds of all property in this area.

New or Used

Do not buy a new house if a used house in decent

condition is available, if you are buying in lieu of renting and intend to sell the house when you are transferred. A new home requires a great deal of work both inside and out and normally the first year is spent just getting the house "liveable." Putting in the necessary shelves, extra fixtures, screen doors, storm windows, shrubbery, grass, flowers, bulbs, trees, etc., is fun, but is also very expensive for a possible two year tour. If you buy a used house some or all of this expense will have been borne by the previous owners. You can move in, make the minor changes you desire, and then relax and enjoy the house for your two year tour. The problems in a new house are many--don't be misled by the new angle such as in buying a car. Any builder will consider you a transient in his dealings with you, thus possibly adding to your problems of getting him to live up to his promises when he sold you the house. Certainly you have a recourse to the courts but this is very unsatisfactory because of the costs and time involved. Before buying in any area, check with your friends on the reliability of the man with whom you are dealing. His reputation among them will be a good clue as to the results you can reasonably expect.

Realtor or Private Seller

Whether to deal through a realtor or direct with the seller will be a question that will no doubt be answered for you by the seller. If he has contracted with a realtor to sell his house, you will of necessity have to deal with the realtor as the seller's agent. In Appendix II is a brief

description of the "Two Agent Method" that may be of some use if dealing with an agent. If this method is not used, a lawyer is a must. If the seller is attempting to sell the house without the aid of a realtor, then you can deal with him directly. As a rule dealing directly with the owner is cheaper, but you should employ the services of a lawyer to check on any and all contracts that you are asked to sign. The usual charge for this legal service is from \$20 to \$50 and is money well spent in order to protect yourself against any unforeseen or undesirable stipulations in the contracts.

Locating and Inspecting Property

After you have surveyed the areas in which you might possibly desire to live, your next effort should be to drive through this area and look for houses with "For Sale" signs. Take your time and look at each one, if at all physically possible. For houses that are at all suitable take notes on the size and number of rooms; items included with the house in each room; condition of the floors, walls, ceilings; electrical outlets; windows, and signs of leaks, general cleanliness particularly of stove, refrigerator and plumbing fixtures. (If these are not in tip top shape, you might expect further trouble in hidden areas of the house). The basement or crawl space should not be ignored; supporting timbers can show signs of dampness, rotting, termite damage, or cracking; the walls and floors should be completely dry and show no signs of having been damp; check for proper termite protection inside

and out and before actually purchasing, a termite inspection by an expert exterminator is definitely desirable; check furnace for proper and quiet operation, and be sure the hot water heater has enough capacity for your family (minimum gas or oil--30 gallons, electric--50 gallons). Ascertain the type of insulation in the walls by a direct question of the seller, and in the ceiling of top floor by personal inspection (this will vary with the area and the desirable amount will have to be learned locally). Is the exterior of the house in acceptable condition (roof, siding, sidewalks, screens, etc.)? How much additional landscaping is needed? Before leaving the house check over your notes with the seller for correctness and completeness. Do not be embarrassed or afraid of hurting his feelings. Even though it is his home, you are planning to invest \$10,000 to \$20,000 in it and certainly want all the information you can get about it. It is your money and you are the one who is to be satisfied.

Inspect any and all houses that are for sale. Do not let the price scare you away. Only by inspecting many different houses can you properly determine the market and have a firm opinion when you do uncover a "bargain". Look, look, and look some more. After exhausting supply of houses with "For Sale" signs, check the listings in the newspapers, at the housing office, on bulletin boards in "O Club" Exchanges, etc. If you do not find a house in this manner contact a realtor and have him show you the homes he has available. Since you have already determined the areas in which you desire to live, do not allow the realtor to waste your time and his on

houses that do not fill your needs and desires. Do not commit yourself to him in any way until you decide to purchase a certain house. A good realtor will not attempt to commit you or oversell you, but you should be on guard against this possibility.

Equipment Included in Property

Items that might be included in the house are the stove, refrigerator, washer, dryer, lamps, drapes, venetian blinds, rugs, and furniture. Be certain any of these items that are included in the house are included by name in your contract with a guarantee they are completely paid for. Inspect each item and be sure you can use them. Do not accept them just because they are included in the package deal. You can have them removed from the contract and have the overall price reduced a comparable amount.

Landscaping

Often times a house is bought and sold not on its merits but as a result of proper landscaping. Do not be oversold by 98 cent rosebushes but do not underestimate the value of large shade trees around a house. Every item both inside and outside a house must be taken into account when determining the value of the property.

Financing

When purchasing a home, the cost of utilities (heat, light and telephone), fire insurance rates, taxes, the local tax appraisal value of the property and its date, and the

F.H.A. conditional commitment must be considered. The F.H.A. conditional commitment will be discussed in Chapter IV and if it has been obtained this is a good guide as to the actual value of the house. The local tax appraisal, which is public information, is another guide as to the actual value of the house. A trip or phone call to the city or county tax appraiser is normally necessary to determine the appraisal and the actual basis for the appraisal. If the local custom is to appraise property for tax purposes at 30% of value, then an appraisal of \$5100 would set the actual value at \$17,000 ($17,000 \times 30\%$). Applicable tax rates and any anticipated increases or revaluation can also be determined from the appraiser.

Zoning

Zoning regulations vary with localities but the city or county zoning board can give you all the regulations that pertain to any property or area. This information is important when purchasing property because the area in which you are interested should be zoned as residential only. The more restrictive these zoning regulations, normally the more protection is afforded your investment. Be sure you understand all the rules and regulations. If you have pets, determine the local ordinances as to any additional expenses and responsibilities you might incur in complying with them in your new residence.

Last Step

After you have located the property meeting your desires, stop. You have been dealing in small parcels of this problem. Put all the facts together and be certain that this is really what you want. Probably more house hunting is in order to ascertain that you really have found a bargain. A check list is given in Appendix III to aid in your search for a location which should be reviewed at this time.

CHAPTER III

FINANCING

The financing of the purchase of property is the buyer's responsibility. The seller may aid in placing a mortgage but is not required to unless so agreed in a contract, or clause in the purchase agreement. There are three basic mortgage loans that can be obtained: (1) a conventional loan, (2) an FHA insured loan, and (3) a G.I. insured loan. All three have advantages and disadvantages and should be thoroughly investigated before deciding on the plan which you will use.

Conventional Loans

Conventional loans are direct contracts between the buyer and a lending institution. The property that is being purchased is used as collateral for the loan. The maximum loan that is normally available in this manner is about 60% of the lending institution's appraised value which is quite generally less than the selling price. The advantages to this type of loan are that it can be procured quickly and the closing costs are usually only \$50 to \$100. The interests rates vary from 5% to 6% and the loans are not generally made for more than 20 years. The large down payment makes this type loan unrealistic for the junior officer and therefore is not recommended except under unusual circumstances.

Federal Housing Administration Insured Loan

The F.H.A. is a government agency which guarantees loans that institutions (insurance companies, banks, building and loan, etc.) make to individuals for the purpose of home ownership. The F.H.A., a self-supporting agency of the government, charges $\frac{1}{2}\%$ mortgage insurance fee for insuring loans, was established by the National Housing Act of 1934. Congress has seen fit since that time to amend and change the operating procedures of the F.H.A. but to the home owner its main value is the guaranteeing of a loan to the lending institution and thereby reducing the down payment and the interest charges. The F.H.A. has minimum salary and cash on hand requirements. They are roughly that the buyer must have cash for the down payment, the closing costs, and for payment of any short term loans. The maximum monthly payment permissible is about 25% of the family income (eliminating any salary for the working wife). The Emergency Housing Act of 1958 amended the F.H.A. requirements as to down payments, interest rates, and discount rates. The down payment is now figured as follows:

3% of first \$13,500

15% of the next \$2,500

30% of amount over \$16,000 and less than \$22,900

and 100% of all over \$22,900.

Thus, for a \$10,000 mortgage the minimum down payment is \$300 ($\$10,000 \times 3\%$) but for a \$20,000 mortgage the minimum down payment is \$1980 ($\$13,500 \times 3\%$, $\$2,500 \times 15\%$, and $\$4,000 \times 30\%$). The maximum interest charges allowable is now $5\frac{1}{4}\%$ plus

the $\frac{1}{2}\%$ of F.H.A. mortgage insurance or a total of $5\frac{3}{4}\%$. The placement money payable by the buyer is limited to 1% ; however, there is no limit other than supply and demand on the discount rates charged the seller.

The F.H.A. guarantees the home mortgage loan; a lending institution, however, makes the loan to the individual. The property is the collateral that is given to the lending institution to secure the mortgage and in the event you default on payment, you are still responsible for any portion of the loan that is not satisfied by the sale of this property. The F.H.A. will pay the lending institution and then look to you for payment. The builder, seller, or agent is not involved in this mortgage contract but only the lender, the buyer and the F.H.A. as guarantor of the loan.

An F.H.A. loan will take from one to three months to obtain under ordinary circumstances. This is time required for the appraisal and processing of the property by F.H.A., your credit rating check, and processing by the lending institution. If at all possible, attempt to arrange to rent the property from the owner during this period if you are in serious need of housing while awaiting final approval.

"FHA In Service" Insured Loan

The "FHA In Service" loan is an attempt to give the career serviceman the same benefits of home ownership that are granted the veteran under the "GI" plan. The loan is a regular FHA insured loan except that a maximum of only 5% down payment on homes costing up to \$18,000 is required and the $\frac{1}{2}\%$ mortgage

insurance is paid by the buyer's Service rather than by the buyer. If a serviceman (after two years' service) desires to purchase an \$18,000 home the down payment is only \$900 and the interest rate $5\frac{1}{4}\%$ as compared with \$1,390 and $5\frac{3}{4}\%$ under the straight FHA. All other FHA requirements must be fulfilled by the serviceman.

Assumption of FHA Insured Loans

In cases where an FHA insured loan is presently in force, the buyer may assume the responsibility of the outstanding loan and avoid the costs of closing a new mortgage. This assumption must be approved by first the seller (mortgagor), secondly the lender (mortgagee) and finally by the FHA. Some state laws require the mortgagor to grant this approval. The advantage of an assumption by the buyer is that he avoids nearly all the closing costs (up to \$800) and the seller avoids payment of discount money (up to 11% in extreme cases). The disadvantage to the buyer is that usually a much higher down payment is required, and to the seller the fact that he is still responsible for the loan unless an FHA Form No. 2210 ("Consent to Substitution of Mortgagors After Insurance") can be completed. This form releases the original mortgagor from any responsibility for the loan, but must be approved by the mortgagee and the FHA.

"G.I." Loans

The "G.I." insured loan was established under The Serviceman's Readjustment Act of 1944 (commonly called G.I.

Bill of Rights), and has since been changed and liberalized by Congress many times. One purpose of these laws is to provide the veteran a low down payment, low interest home loan. To be eligible for this type loan a discharge certificate from the service is required and therefore is normally unavailable to the career officer. (See the "FHA In Service Insured Loan" section above).

During 1958, Congress extended the available period on this type loan until 1960 for World War II veterans and until 1965 for Korean veterans. The availability of money for such loans is extremely limited and carries a discount rate for the seller of 5% and up, therefore most sellers will not agree to this type of financing.

Discount Money

The maximum interest ratio for FHA insured loans is fixed at 5½%. During periods when money to lend is tight, or scarce, lenders charge the borrower placement and/or discount money. The rate for this discount money varies with the locale. This money is deducted from the amount actually loaned. As an example, a house is sold for \$12,000 with a down payment of \$1000, and the discount rate prevailing in the area of the home is 4%. The mortgage to be placed is \$11,000 (\$12,000 - \$1,000 down payment). The FHA regulations state that the buyer can only be charged a 1% placement fee; therefore, if the seller (there is no legal limit on the amount charged the seller) desires to sell the house to this buyer, he must pay the other 3% discount fee. The buyer actually signs a note for

\$11,000 but receives only \$10,890 and the seller must pay the lending institution \$330. Thus the buyer actually pays \$12,110 for the house. The seller receives only \$11,670, and the lending institution has made a \$440 profit for lending the money.

In effect this discounting of mortgages actually raises the interest rate above the prescribed $5\frac{1}{4}\%$ because an additional interest (the discount money) charge is made before the mortgage interest or repayments commence.

The value of life insurance has not been discussed in this paper. However when a home is purchased some type of home loan life insurance should be purchased to enable the family to have a home free and clear of all debts other than taxes and upkeep. Remember the FHA or VA mortgage insurance is not life insurance. This is only assurance by the FHA or VA to the lender that he will receive his money in case you default on the repayment of your loan. It does not under any circumstances repay the outstanding portion of the loan in the event of your death.

Summary

Assumption type purchases are better because of lower overall costs, but the down payment is usually high. If an assumption purchase is not possible, an FHA insured mortgage loan should be obtained if at all possible.

CHAPTER IV

SELLING

The process of selling the property you have occupied is not an easy one. There are a few procedures to be followed that may be strange to you. Even though you purchased the house from a private seller or a realtor the buying experience does not provide adequate preparation for the full impact of the process of selling. Consideration must be given first of all to the present market in the area; where is money available; what should I ask for the house; and then the actual showing and selling of the property.

Arrive at Price

The first step is to arrive at your desired selling price. This is not simple because the available market must be considered as well as the total expenditure made on the house. The available market is, of course, the first consideration. What are comparable homes selling for in the immediate neighborhood and the adjacent communities? In order that you may be competitive with this market, the asking price (the advertised price) must be equal to or below the other values that are available. Do not be afraid to over-price the market some but do not be excessive--this would be pricing yourself

out of the market and would result in buyers not considering the property in any of their calculations or will result in their offering to buy the home at a reduction that would be well below your desired price.

After a full consideration of the potential market, the next step is to determine the expenditures that have been made on the property during your ownership. This figure can be easily obtained if detailed records have been kept since the purchase of the property. This includes the cost of any permanent additions within or without the house, such as an additional room, a new stove or refrigerator, new light fixtures, additional shrubbery, a garage, a new driveway or a more permanent one, or a fence around the property. The original purchase price plus closing costs gives you the unappreciated or an depreciated value of the property. Compare this value with the value that was determined for the market and this should give the depreciation or appreciation that has occurred during the period of your ownership. Any appreciation that has occurred is profit realized on the money that was invested in the property. If you find a depreciation, realize that there is some additional return that has not been taken into account--namely the taxes paid in advance (property taxes and water taxes), advance insurance payments and the escrow account. This can total as much as \$400 to \$500.

The final consideration before establishing the selling price is the method of selling (private or realtor) and the methods of financing that you will consider. If a realtor is

to be used for marketing the property, the realtor's commission (5% to 7% of sales price) must be added to the price of the house. The seller's discount rate that is being charged must also be added into the price. This figure for an FHA and a VA type loan is available at any mortgage correspondent and at most realtor offices. This discount rate to the seller varies from nothing to as high as 11% of the loan value granted.

Mortgage Correspondent and/or Lawyer

After a desired selling price has been established for the property a mortgage correspondent should be consulted. A mortgage correspondent usually is also a realtor; however, this factor should not affect his dealings with you in obtaining of a mortgage commitment if you are attempting to sell the property without the aid of a realtor. He can inform you as to his appraisal of the current market value of your house, the possible FHA and VA appraisals of the property, the current discount rates that apply to the mortgage value of your home, the costs to the buyer and seller other than the purchase price, and the availability of mortgage money for this type of residence.

The mortgage correspondent will not normally volunteer this information but will expect that you will ask him for the desired data. If there is money available and the company that he represents is loaning money in this area on this type homes, he will upon your request and with your help complete a request for a conditional commitment for the property from the FHA.

This commitment will require about a month to process and even though the FHA states that they do not set the market value of a house, for all practical purposes they do for strangers to the area. (Would you pay \$15,000 for a piece of property that the FHA has evaluated at \$13,000?). Any questions that come up in regard to the mortgage or the property itself can normally be answered by the mortgage correspondent; however, the services of a lawyer familiar with the local conditions is in most cases a necessity.

A competent lawyer can give you advice as to the method of selling the house, the good and bad points of re-financing or assumptions in this particular area, and the legal problems that you might encounter. The advice that the lawyer gives you may not be to your liking or you may not wish to accept it. However, his main value to you is the source of completely unbiased information as well as advice on legal contracts, laws, and local customs in regard to selling and financing of property. If possible obtain from the lawyer in advance an approximate cost for his services. Do not hesitate to ask questions and remember that no one expects you as a military officer to be completely familiar with all the various facts of real estate.

Advertising

In advertising the property you desire to sell use all available means that are economically within your reach. The local newspaper is one of the best sources because this is

usually the starting point for the house-hunter. State all the good features of the property and include the price you are asking. The question of price is one that can be debated; however, if you are selling for the FHA appraised value and you so state this, most people will consider that this must be a fair price since, as stated above, p. 25, the general public considers the FHA appraisal to be the fair market price and will certainly consider this house first.

Place ads in any local command newspaper, on the Officer's Club bulletin boards, on the local exchange bulletin boards, and with the local housing officer. The notices that are posted should give all the main features of the house, such as the number of bedrooms, living room with fireplace, dining room, kitchen with equipment that is included in the price, the number of baths, recreation room, den, screened porch, and garage, either attached or detached. A brief description of the lot is desirable. However, this definitely will not sell the house if the other attributes of the house do not approximate the desires of the purchaser. State the date that the house will be available for occupancy.

The most important advertising that you do is the placement of a respectable appearing sign on the front lawn. If you are selling the house yourself a professionally painted sign is imperative and therefore will add rather than subtract from the beauty of the home. A "FOR SALE" sign can be acquired from a sign painter for about five dollars and can include your telephone number in case you are not at home. Simplicity and

proper size are two important parts of any sign. A sign two foot by three foot with "FOR SALE" at the top, "inquire within" in smaller letters below it, and the telephone number at the bottom is good. If more information were included on the sign the house-hunter driving by could not read it and would only be confused.

Appearance of House

The outside appearance of the home is extremely important since it is the first and last impression that the prospective buyer will receive. Be certain that all of the flower beds are as neat as possible, even in the winter, because this gives the impression that the house has had good care. The condition of the paint should be carefully checked, and if not up to the desirable standards, repainting should be considered. The appearance of the outside of the house is also important to the FHA appraiser.

Showing the Home

The method that is employed in showing a residence is just as important as in any selling endeavor and should be properly planned to point out the most desirable features of the house. Attempt to plan the showing of the house in such a manner that a certain feature is mentioned in each room and that all items such as venetian blinds, stove, refrigerator, washer, and/or dryer are or are not included in the price of the house. Such things as "the morning sun comes in here"

and "this really is a most pleasant room in the winter," etc. are fine if there is no other points worth mentioning. However, all too often when talking in this manner something is mentioned that actually repels the buyer. "Let the Buyer Beware" is the best basis to use when showing the house, or it could come under the heading of "Never Volunteer".

Do not slight any person or persons that come to look at the house because they "Don't look like they will buy." This is just the person who may buy or mention your house to a prospect. The dress or speech of a person neither truly indicate the purse he has nor the desirability of his friends.

Costs

The costs that the seller must bear differ from state to state so that the customs in your locale must be obtained in your discussions with the realtor or the mortgage correspondent. Normally the realtor, mortgage correspondent, or a lawyer will inform you of these charges when you first discuss the selling of your property with them. The seller can expect to pay half of the tax stamps--both federal and state--and any discount money over 1% in the case of refinancing under FHA or VA. In the case of an assumption or a conventional financing the seller will only pay for the tax stamps and the lawyers fee; all the other fees and expenses are paid by the buyer.

It is well to have all costs that the buyer must bear readily available while showing the house because very often the buyer is not aware of them and will ask you about them. Do not offer the information unless asked, but then give as

full and complete an answer as possible so that the sale is not voided at the last minute by a lack of funds on the buyers part to meet these additional requirements.

CHAPTER V

SUMMARY

The joys of home ownership are many and should not be passed over too lightly. First, just the knowledge that the home is yours is certainly great, and the pleasure of improving the property is much more enjoyable when it is yours. You know that no matter what transpires either in your house or outside no one can come along and ask you to move. Your tour of duty may be extended for a year or two and yet if you rent, when the lease expires the owner can ask you to move; but when you own your home only you determine when and if you are going to move.

Remember that you normally must occupy or own the house for at least two years in order to break even as compared to renting. This is not always the case, but before you purchase a piece of property consider this as a prerequisite and do not depend on a rising market to continue through the date that you desire to sell. The economic outlook of the nation as a whole may be fine but if a slight recession has hit your particular area, the saving that you may have made by purchase compared to renting will instead be a loss.

Do not feel that you are stupid because you don't know as much as the realtor--his livelihood depends on a full

and complete knowledge of real estate, the financial management of the mortgages and the like. The lack of knowledge is certainly not to be condemned but the lack of the initiative to seek knowledge on any subject is and will be condemned, perhaps through a loss of some of your finances because you failed to ask questions.

The appendices give a ready reference to some of the items that you may desire to know and also to some of the services that are available to you. Remember:

In house hunting

Ask questions

Don't make any hasty decisions

Ask everyone any question they might be able to answer

LOOK, Look, and look some more

Ask questions

Realize that you have no friends in any business dealings (Business is business, friendship is friendship but they don't mix)

Seek expert advice.

In house selling

Determine the market

Determine the value of your home

Retain a lawyer

Advertise

Contact a mortgage correspondent

Show the house to everyone in a cordial manner.

APPENDIX I

CHARACTERISTICS OF PROPERTY (Proposed or existing construction)

Neighborhood

Consider each of the following to determine whether the location of the property will satisfy your personal needs and preferences:

Remarks

Convenience of public transportation	_____
Stores conveniently located	_____
Elementary school conveniently located	_____
Absence of excessive traffic noise and traffic	_____
Absence of smoke and unpleasant odors	_____
Play area available for children	_____
Fire and police protection provided and for school walks	_____
Residential usage safeguarded by adequate zoning	_____
Distance to work	_____
Carpools	_____

Lot

Consider each of the following to determine whether the lot is sufficiently large and properly improved:

Size of front yard satisfactory	_____
Size of rear and side yards satisfactory	_____
Walks provide access to front and service entrances	_____
Drive provides easy access to garage	_____
Lot appears to drain satisfactorily	_____
Lawn and planting satisfactory	_____
Septic tank (if any) in good operating condition	_____

Exterior Detail

Observe the exterior detail of neighboring houses and determine whether the house being considered is as good or better in respect to each of the following features:

Porches--screened	_____
Terraces	_____
Garage	_____
Gutters	_____
Storm sash	_____
Weather stripping	_____
Screens	_____

Interior Detail

Consider each of the following to determine whether the house will afford living accommodations which are sufficient to the needs and comfort of your family.

Rooms will accommodate desired furniture	_____
Dining space sufficiently large	_____
Proper number of bedrooms and bathrooms min. (3)	_____
At least one closet in each bedroom	_____
At least one coat closet and one linen closet	_____
Convenient access to bathroom	_____
Sufficient and convenient storage space (screens, trunks, boxes, off-season clothes, luggage, baby carriage, bicycle, wheel toys, etc.)	_____
Kitchen well arranged and equipped	_____
Laundry space ample and well located	_____
Windows provide sufficient light and air	_____
Sufficient number of electrical outlets	_____

CONDITION OF EXISTING CONSTRUCTION

Exterior Construction

The following appear to be in acceptable condition:

Wood porch floors and steps	_____
Windows, doors, and screens	_____
Gutters and wood cornice	_____
Wood siding	_____
Mortar joints	_____
Roofing	_____
Chimneys	_____
Paint on exterior woodwork	_____

Interior Construction

Plaster is free of excessive cracks	_____
Plaster is free of stains caused by leaking roof or sidewalls	_____
Door locks in operating condition	_____
Windows move freely	_____
Fireplace works properly	_____
Basement is dry and will resist moisture penetration	_____
Mechanical equipment and electrical wiring and switches adequate and in operating condition	_____
Type of heating equipment suitable	_____
Adequate insulation in walls, floors, ceiling or roof	_____

The following appear to be in acceptable condition:

Wood floor finish
Linoleum floors
Sink top
Kitchen range
Bathroom fixtures
Painting and papering
Exposed joists and beams

ARE YOU SURE . . .

That the baserment will stay dry after heavy rains?

That the foundations are sound?

That there has been no Termite damage?

You'd better get Expert Advice on the condition of existing construction, if you want to be sure the house is a good buy.

--VA Pamphlet 4A-10, To the Home-Buying Veteran,
December 1955.

APPENDIX II

TWO AGENT METHOD

This method can only be used when the seller is employing the services of a realtor exclusively. It is not an accepted method but is effective for the buyer in obtaining information that is not available under normal circumstances.

The first step is to find a house that seems to fit the needs of your family both as to neighborhood and size. Do not go into the house but rather contact a realtor that is not involved in the selling of the house. Inform this realtor that you desire information on this certain house that you have located and also ask him if he will represent you in any dealings for this house at the fee he will receive from the original realtor now holding the property. If he agrees you can then expect that he will obtain such information as the lowest price that has been bid and refused by the seller, the reason for selling the property, the number of times that it has been traded and for what reason, and any undesirable features of the house or property.

The realtor will act as only your agent in any dealings for the property. The seller and his agent, when closing the final deal will do business with a party looking out for your interests at no additional costs (the agents will split the fee for selling the house and therefore the services of the second agent can be procured at no additional costs to the buyer). The buyer has at his disposal two possible sources of money for refinancing the house which in a tight lending market can be of

real assistance.

The buyer's realtor can point out the bad features of the house, the neighborhood, transportation, and schools whereas the seller's realtor will point out only the good features of the area and the property. An additional appraisal of the value of the property is available as well as an additional forecast of the possible resale of the home in two or three years.

This method was discussed in an interview with Mr. George Zavadil, C.F.U. of Financial Planning Associates, Inc., Baltimore, Md. and he stated that it has been used to good advantage numerous times to save the buyer money that would have otherwise been paid in purchasing a home.

APPENDIX III

SELECTING THE LOCATION

In determining whether a certain location will satisfy a family's particular requirements and represent a secure investment, the prudent home buyer must, on the basis of his own experience, or that of an honest and skilled advisor, assure himself:

1. That the section in which he is locating is appropriate to his scale of living and prospects, and that it is reasonably safeguarded against deterioration.
2. That the nearness, location, equipment, and teaching standards of the schools are satisfactory, both for the present and future needs of the family.
3. That educational, shopping, transportation, amusement, religious and recreational facilities are adequate.
4. That police and fire protection are adequate.
5. That water supply, sewerage, and sanitary facilities have been provided or, if they are to be provided in the future, that the approximate cost be determined; and that assessments for street improvements, sewers, sidewalks, etc., have been paid before the transfer of the property, that they are included in the price of the property to be paid off with the monthly or other payments, or that other satisfactory arrangements for their payment have been made.
6. That the title of the property is clear.
7. That tax rates are reasonable and are not apt to increase excessively.

8. That the purchase can be financed on a reasonable basis.

9. That the price of the property is reasonable both in relation to location and time of purchase.

APPENDIX IV
REALTOR SERVICES

Some of the services that can normally be expected from a member of the National Real Estate Board member is:

Show only homes within price range

Will show only homes that fit family needs
Bedrooms and bathrooms required

Nearest schools and their rating in the community

Location of all churches in the community

Availability of public transportation

Will attempt to sell but will not oversell

Will recommend only desirable homes in proper locale

Have full knowledge of local money market

Explain in detail local customs as to both buying
and selling homes

Can arrange financing and title search of home

Answer all questions or know the source for
obtaining answers

Do not fail to avail yourself of any and all of these services that the realtor offers. If the realtor does not offer at least these services without hesitation he is not considered a good agent and a different realtor should be sought.

APPENDIX V

REAL ESTATE LINGO YOU SHOULD KNOW

The vocabulary of real estate bristles with terms you seldom meet in daily life. Here are a few of the most common ones.

Earnest money. This is a small sum a prospective buyer turns over to show that he means business in offering to buy a property. Usually it is tendered when he signs his "offer to purchase." If the seller accepts the offer and the sale is completed, the earnest money is counted as part--or all--of the down payment. If the parties fail to agree and the deal collapses through no fault of yours, you get your earnest money back. In some localities, it is called "hand money."

First papers. Usually refers to the "offer to purchase" completed by a prospective buyer. When a signed offer also is signed by the seller, it becomes binding on both parties. Lawyers generally advise against these forms on the ground that the complete terms often are not fully stated. They feel that a formal contract, drawn by lawyers, is safer.

Escrow. Sometimes one party to a transaction will place money, a deed or an important document in the custody of a third party with instructions that it is not to be turned over to the second party until he completes his part of the transaction. The money or paper is then "in escrow," usually in the hands of a lawyer, title company or bank. It is then out of the control of the first party, but available to the second party only when

he fulfils his obligations.

Easement. A limited, nonrevocable right granted someone to use property that does not belong to him. Easements run with the land and you cannot end them at will. Common easements embody the right to use a roadway, lay pipe or string utility lines.

Mortgagee. He's the person who lends you money, accepting a mortgage on your property as security for the loan.

Mortgagor. That's you, the borrower.

Deed of trust. A form of conveyance used in Colorado, Delaware, Mississippi, Tennessee and Virginia instead of a mortgage. The only essential difference is that a third party holds the security in trust for the lender instead of his holding it himself.

BIBLIOGRAPHY

Jordan, David F. Managing Personal Finances. New York: Prentice-Hall, Inc., 1942.

Federal Housing Administration. FHA Home Owner's Guide. Washington: Government Printing Office, 1958.

Principles of Personal Finance for Service Personnel. Prepared by Associates in the Social Services, Department of Social Sciences, United States Military Academy, West Point, New York. The Military Service Publishing Co., Harrisburg, Pennsylvania, 1957.

Veterans Administration. Pointers for the Veteran Homeowner. Washington: Government Printing Office, 1956.

Veterans Administration. To the Home-Buying Veteran. Washington: Government Printing Office, 1955.

Changing Times. April 1959. Vol. 13, No. 4. "Dealing With a Real Estate Agent."

Changing Times. January 1959. Vol. 13, No. 1. "26 Tips For Home Buyers."

Personal Interviews:

Mr. Sherwood Alverson, H. T. Rust & Co., Washington, C. C., 24 March 1959.

Mr. Oscar D. Green, Weaver Bros. Inc., Annapolis, Maryland, 18 February, 13 March, 10 April, 1959.

Mr. George Zavadil, Financial Planning Associates, Inc. Baltimore, Maryland, 24 February, 1959.

