



Home Buyer Guide & Helpful Information



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It is our hope that you will find the information in this handbook useful. Feel free to print or share as you wish.

While I am licensed to practice within Texas, I can help you almost anywhere in any country and much of the world through our network of agents. The content of this handbook is provided to assist you in buying a home and familiarize you with the process. Information contained in this handbook is subject to change - ALWAYS work with a local professional who can guide you each step of the way and provide you with current information. If I can help you locate someone in your area or the area you are moving to, please contact me.

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Introduction

The idea of purchasing a home, whether it be your first or last, is bound to bring many questions to mind. This is a natural reaction, as it is one of the biggest decisions you will ever make. Rest assured I am here to assist and guide you in understanding the home buying and loan process with my goal being to make your experience a pleasant one, to have always your best interest come first, and for you to send anyone you know to me as a referral!!! Remember that I am always just a phone call away, should you have any questions!!! This short handbook covers the basics about buying a home. It is designed to answer commonly asked questions and provide clear definitions of terms you may be unfamiliar with, even if you have been through the home buying process before.

Services

Buying a Home

Buying a home is probably the biggest investment you will make, with long-term financial ramifications. It calls for many informed decisions and for good advice from a real estate professional. When buying a home, you can learn from the knowledge and skills of a Real Estate Agent. As a Realtor, I subscribe to the Code of Ethics of the National Association of Realtors, the Texas Association of Realtors, and the local San Antonio Board of Realtors.

What can I do as a Realtor to help you find and buy the right home?

- I can help you determine how much home you can actually afford. Often, I can suggest additional ways to accrue the down payment and explain alternative financing methods. I can also introduce you to a mortgage counselor and arrange to have you "pre-approved" which can improve your negotiating position and enable you to achieve your home-buying objectives faster and with less stress.
- Providing client level services, I can work for you as a buyer's agent and help negotiate the best price and terms for you. Or, I can serve as a seller's sub-agent (or disclosed dual agent), acting as a liaison between you and the seller to present offers and counteroffers until an agreement is reached.
- I will help you work out a realistic idea of the home best suited to your needs - size, style, features, location, and accessibility to schools, transportation, shopping, and other personal preferences.
- I have access to a listing of all available homes in the multi-list system, can evaluate them in terms of your needs and affordability, and will not waste your time showing you unsuitable homes.
- I can often suggest simple, imaginative changes that could make a home more suitable for you and improve its utility and value.
- I can supply information on real estate values, taxes, utility costs, municipal services and facilities, and may be aware of proposed zoning changes that could affect your decision to buy.
- Although the law does not normally require an attorney to review documents or oversee real estate closings in Texas, I can provide you with a list of law practitioners to choose from if you would like to use the services of an attorney. In your area, be sure to check with your real estate professional.

- I can help familiarize you with the closing process and I will obtain closing figures in advance of closing for your review and be there with you at the closing of your home.
- I can provide you with a list of qualified home inspectors, pest inspectors, surveyors, suppliers, vendors, subcontractors, and help to coordinate inspection appointments.
- Most importantly...I will be there for you long after the closing process has been completed for any questions you have in the future...long after everyone else is long gone. Ask me about my Customer Appreciation Program. I want to be your Realtor for Life!!!!



Top 10 Tips to Successful Home Buying

Tip #1: Research Is Key to Discovery

Home sellers won't call you with an offer to buy a maintenance-free home with a wonderful mortgage. You have to find the gems yourself! Only by researching on the internet, reading available materials, talking to friends and experts, and spending time looking at different homes (look by day and again at night), schools and neighborhoods will you end up with your American dream. Avoid the nightmares by learning how best to buy and maintain a home. I can help you with this because of the resources, education, training, and knowledge I have available...just ask!!! This is what I do every day and it is experience you can count on!!!

Tip #2: Make a Plan and Get Pre-Qualified

Every important decision needs to be clearly thought out. Developing a home buying plan can help you focus on the important factors and organize the entire process. You may even want to use a binder with sections on house hunting, home financing, service providers, etc. Loan pre-qualifying helps you determine the home price you can afford and presents you as a genuine prospect to the seller. A lender typically uses the 28% formula (your monthly mortgage can't exceed 28% of your monthly income) in approving your loan, but can be higher based on the loan type and your credit score. Planning your actions and getting pre-qualified will keep you out of the panic mode, allow you to take advantage of opportunities, and most importantly, risk losing money. A thorough plan will save both time and money! Decide how much money you have to work with, where it is coming from, what type of loan is best suited for you (fixed, adjustable, FHA, VA, Conventional, USDA, etc.), and get all the required documentation together ahead of time to save time and frustration. Getting a mortgage pre-qualification letter also allows you to shop for your home with confidence too!!! This can be done quickly and easily. Ask me for a list of

lenders that my previous clients have had great experience with...I can help you avoid some of the nightmares that exist out there!!! My corporate experience working with banks and lenders really helps out in this arena.

Tip #3: Value, Value, Value (Pre-owned or a Brand New Homebuilder)

The days of 10-30% annual appreciation have passed. Homebuyers in the 1970's benefited tremendously from what seemed like ever appreciating home prices. Nowadays, you're looking at slow growth while guarding against the possibilities of falling prices, skyrocketing ARM rates and corporate layoffs that can dramatically affect your home values.

The classic rule of buying the worst house in the best neighborhood still applies. If you buy with an eye towards improvement, you can customize the home to fit your needs. The saying, "make money buying a home, not selling one," should keep you focused on the long-term importance of the purchasing price. Location, location, location is now accompanied by value, value, value!!! Ask me about a comparative market analysis on the purchase of that pre-owned or new home, so you can see how that home compares value-wise to others in that area you are interested in.

Newer homes provided by Homebuilders may make you think you are getting a "bargain" with all the incentives that they throw out at you, but the reality may show something quite different. That is especially why a Realtor is important to have when negotiating any purchase with a Homebuilder. A Homebuilder's incentives that are given to a Buyer are always tied to that Buyer's ability to negotiate...and most Buyer's do not have the skills nor the tools available to get the real value, much less the real story and every Homebuilder knows this!!! Did you know that it cost you nothing to use my services when buying a brand new home. The builder pays me much like any other seller!



Tip #4: Create a Top 10 List of Amenities and Prioritize Them

When shopping for a home, list the features (fireplace, fenced-in yard, new appliances, etc.) that are most important to you in deciding on which home to buy. Establishing "your criteria" early on will save time shopping for inappropriate homes and may keep you from buying a home on a whim. As detailed in Tip #3, your top reason for buying a home should be the value you are getting as well as the location and lifestyle change you are searching for. Some of your top 10 amenities should logically be sacrificed if an incredible value is available and the location is right.

Tip #5: Fixed vs. Adjustable Rate Mortgages

Adjustable rate mortgages have an initial fixed rate, which is followed by a period of adjustment intervals during which the rate adjusts based on the performance of several key indexes. Typically the initial fixed rate on an ARM is slightly lower than the comparable rate of a fixed rate mortgage.

Fixed rate mortgages allow buyers to take out a long term loan without having to worry about changing interest rates or monthly payments. Most fixed rate loans are offered in either 15 or 30 year terms.

Most buyers will be well served by a fixed rate loan, but each situation is unique. While ARM loans have become less popular in recent years, they can still be a viable option for some buyers - especially those who plan on selling again in the short term.

Whichever loan you choose; make sure that you scrutinize all the closing costs. By law, your loan officer must provide you with a Good Faith Estimate and Truth-in-Lending Disclosure Statement. If you are required to have a mortgage escrow account and private mortgage insurance, make sure you understand the terms and cancellation procedures. Also, make sure there are no prepayment penalties so that you can utilize an accelerated mortgage plan. A good mortgage reduction plan can save you tens of thousands in interest costs, and shorten your loan term, with only small extra principal payments. If you experience negative changes in your job, health, or marital status, you can revert to the standard payments in your mortgage contract.

Tip #6: Sign a Contract That Protects You

Make sure that the contract you put on a house allows you to arrange financing, inspect the home and negotiate any problems that you uncover. Obtaining a Residential Service Contract that has certain warranties helps, but if there is a Seller's Disclosure statement be sure to look it over carefully (In some states a Sellers Disclosure is a requirement). This disclosure tells you everything that the Seller knows and, perhaps, doesn't know about the property you are interested in. Ensuring that the contract you sign will minimize potential legal battles will let you swim in your new pool with your family, friends, and neighbors instead of with the sharks. Ask if you are not sure. As a qualified and licensed Buyer's Agent Representative, my loyalties are to you, the Buyer, not the Seller, and best of all...my services are FREE to you!!!

Tip #7: Put Yourself in the Seller's Shoes

You are about to make one of the most important decisions that will affect both your life and the life of the seller. If you take time to understand the reasons the seller bought the home, their reasons for selling (which is sometimes hard to find out), and the home improvements they have or have not made, you'll be in a better position to evaluate the home and negotiate a better deal. This is usually an emotional time for the Seller as well as you.

Tip #8: Develop a Mortgage Shopping Chart

One of the biggest decisions to make before putting a contract on a home is how to finance the purchase. How much money do I have to have and when do I have to have it? How much are the closing costs and will the Seller help out with these? Should I go FHA, VA, Conventional, or USDA? Fixed rate or adjustable rate? What do I have to get together for my loan application? There are 10,000 lenders competing for your mortgage business. The days of simply walking into the community bank and negotiating with the loan department manager are over. Today, you can apply for a loan over the Internet or even use a mortgage broker to shop for your loan with hundreds of lenders. When choosing a lender, you want to avoid apples to oranges contrasts by comparing fixed rates to fixed rates, not fixed to ARM's. What appears to be a great interest rate can be skewed by higher loan fees and closing costs...compare APR's. Again, ask the lender to provide a Good Faith Estimate and Truth-in-Lending Disclosure Statement as this will answer a lot of questions up front. Need some help or advice on what to do once you have it...again, I am just a phone call away!!!

Tip #9: Get a Quality Home Inspection

Although it is hard to believe, more people pay for inspections before buying used cars than when making the biggest investment of their lives - their homes. Paying for a qualified home inspection before you buy a home isn't just spending "a little extra" for peace of mind; it's absolutely essential for anyone who doesn't want to spend thousands of dollars for repairs later. Ask me for a list of qualified inspectors. Most purchase contracts allow for an option period so that an inspection can be performed, which usually involves a small fee, to allow you time to determine just what you are potentially purchasing. If there is well or septic system involved, even more reason to have an inspection. It is also crucial when purchasing a Bank-owned foreclosure, HUD-owned property, or a home that has been previously leased-out as many of these properties are not required by law to provide Seller's Disclosure Statements to forewarn you as to the condition of a home. FOR YOUR PROTECTION...ALWAYS GET A HOME INSPECTION!!!

Tip#10: Peace of Mind: Home Protection Plans

To protect both you as a buyer, as well as the seller, it is a good idea to purchase or negotiate a home protection plan or what is commonly called a "residential service contract". What exactly is it? A home warranty, or home protection plan, is a service contract, normally for one year, which protects homeowners against the cost of unexpected repairs or replacement of their major systems and appliances that break down due to normal wear and tear. It can also cover swimming pools, wells, and septic systems as well.

A negotiable contract between the buyers and sellers which does not overlap or replace homeowner's insurance policy, this type of warranty can save the new homeowner lots of headaches, as well as put seller's fears to rest. The warranty covers mechanical breakdowns, while insurance typically repairs the related damage. For example: if a hot water heater burst and destroyed a wall in your home, the warranty would repair the water heater and your insurance would pay to fix the wall. This is usually negotiated "up front" in your offer to purchase a home and I always recommend it!!! There are also many companies to obtain this type of warranty with. Ask me for a recommendation!!!



Investing in Real Estate



Foreclosures

Are foreclosures a good investment?

They can be. A foreclosure property is a home that has been repossessed by the lender because the owners failed to pay the mortgage. Thousands of homes end up in foreclosure every year, and we are experiencing a record high in these foreclosures recently and everyone is tuned-in to looking for that “great buy”!!! Economic conditions affect the number of foreclosures, too. Many people lose their homes due to job loss, credit problems, and/or unexpected expenses.

It is wise to be cautious when considering a foreclosure. Many experts, in fact, advise inexperienced buyers to hire an expert to take them through the process. It is important to have the house thoroughly inspected and to be sure that any liens, undisclosed mortgages or court judgments are cleared or at least disclosed. And not every foreclosure is handled and purchased in the same manner as there are many types of foreclosures and pre-foreclosures, commonly called “short sales”!!! Just know thoroughly what you are getting into!!!

Are there different types of foreclosures?

Yes. Judicial foreclosure action is a proceeding in which a mortgage, a trustee or another lien holder on property requests a court-supervised sale of the property to cover the unpaid balance of a delinquent debt.

Non-judicial foreclosure is the process of selling real property under a power of sale in a mortgage or deed of trust that is in default. In such a foreclosure, however, the lender is unable to obtain a deficiency judgment, which makes some title insurance companies reluctant to issue a policy.

How do I find a foreclosed property?

In most states, a foreclosure notice must be published in the legal notices section of a local newspaper where the property is located or in the nearest city. Also, foreclosure notices are usually posted on the property itself and somewhere in the city where the sale is to take place.

When a homeowner is late on three payments, the bank will record a notice of default against the property. When the owner fails to pay up, a trustee sale is held, and the property is sold to the highest bidder. The financial institution that has initiated foreclosure proceedings usually will set the bid price at the loan amount.

Despite these seemingly straightforward rules, buying foreclosures is not as easy as it may sound. Sophisticated investors use the technique so novices may find themselves among stiff competition. View local and nationwide foreclosures on mySATexas.com [foreclosures](#).

How does HUD affect my buying a foreclosure?

If you are strapped for cash and looking for a bargain, you may be able to buy a foreclosure property acquired by the U.S. Department of Housing and Urban Development for as little as \$100 down.

With HUD foreclosures, down payments vary depending on whether the property is eligible for FHA insurance. If not, payments range from 5 to 20 percent. But when the property is FHA-insured, the down payment can go much lower.

Each offer must be accompanied by an "earnest money" deposit equal to 5 percent of the bid price, not to exceed \$2,000 but not less than \$500.

The U.S. Department of Veterans Affairs also offers foreclosure properties which can be purchased directly from the VA often well below market value and with a down payment amount as low as 2 percent for owner-occupants. Investors may be required to pay up to 10 percent of the purchase price as a down payment. This is because the VA guarantees home loans and often ends up owning the property if the veteran defaults.

You should be aware that foreclosure properties are sold "as is," meaning limited repairs have been made but no structural or mechanical warranties are implied. HUD may also require a "repair escrow" before you can obtain an FHA loan on these properties.

You can only purchase a U.S. Department of Housing and Urban Development property through a licensed real estate broker, who places a bid on your behalf electronically and by certain deadlines. This is serious business and once an offer is made electronically, there is NO turning back or changing your mind and the government does NOT take kindly to bidders doing so, as this could prevent another purchaser from obtaining the home and is considered fraud.

Where do you find government foreclosed homes?

The U.S. Department of Housing and Urban Development acquires properties from lenders who foreclose on mortgages insured by HUD. These properties are available for sale to both homeowner-occupants and investors.

You can only purchase HUD-owned properties through a licensed real estate broker. I can get in you in touch with a HUD specialist, depending on the area you are most interested in...just ask!!!

Down payments vary depending on whether the property is eligible for FHA insurance. If not, payments range from the conventional market's 5 to 20 percent.

Buying a foreclosure property can be risky, especially for the novice. Usually, you buy a foreclosure property "as is," which means there is no warranty implied for the condition of the property (in other words, you can't go back to the seller for repairs). The condition of foreclosure properties is usually not known because an inspection of the interior of the house is not possible before the sale. Most of the time, electricity, gas, and water are turned off!!!

In addition, there may be problems with the title; though that is something you can check out before the purchase.

Buying directly at a legal foreclosure sale is risky and dangerous. It is strictly caveat emptor ("Let the buyer beware").

The process has many disadvantages. There is no financing; you need cash and lots of it. The title needs to be checked before the purchase or the buyer could buy a seriously deficient title. The property's condition is not well known and an interior inspection of the property may not be possible before the sale.

In addition, only estate (probate) and foreclosure sales are exempt from some states' disclosure laws. In both cases, the law protects the seller (usually an heir or financial institution) who has recently acquired the property through adverse circumstances and may have little or no direct information about it.

Can I get financing on a foreclosure?

Maybe. One reason there are few bidders at foreclosure sales is that it is next to impossible to get financing for such a property. You generally need to show up with cash and lots of it, or a line of credit with your bank upon which you can draw cashier's checks.

What are trustee sales?

Trustee sales are advertised in advance and require an all-cash bid. A sheriff, a constable or lawyer acting as trustee usually conducts the sale. This kind of sale, which usually attracts savvy investors, is not for the novice.

In a trustee sale, the lender who holds the first loan on the property starts the bidding at the amount of the loan being foreclosed. Successful bidders receive a trustee's deed.



Fixer-Uppers

Is it smart to even consider a fixer-upper?

It depends. Distressed properties or fixer-uppers can be found anywhere, even in wealthier neighborhoods. Such properties are poorly maintained and have a lower market value than other houses in the neighborhood.

Many experts recommend that before you make such an investment, first find the least desirable house in the best neighborhood. Then do the math to see if what it would cost to bring up the value of that property to its full potential market value is within your budget. If you are a novice buyer, it may be wiser to look for properties that only need cosmetic fixes rather than run-down houses that need major structural repairs. And, as always... GET A HOME INSPECTION!!!

Is there a tax break for a fixer-upper house if it is considered historical?

Yes. Qualified rehabilitated buildings and certified historic structures currently enjoy a 20 percent investment tax credit for qualified rehabilitation expenses and local taxing entities have substantial property tax breaks for these homes. A historic structure is one listed in the National Register of Historic Places or so designated by an appropriate state or local historic district also certified by the government. These are very hard to find as well!!! And, remember - TAX RULES CHANGE – so be sure to check for the most up-to-date information before making a decision.

The tax code does not allow deductions for the demolition or significant alteration of a historic structure and Homeowner's Associations have definite rules as to what you can and cannot do in the repair of these homes (down to the last doorknob replacement), as well as some Architectural Control Committees and City governments and this could cost you more than you think you may be prepared for.

The U.S. Department of Housing and Urban Development's Section 203 (K) rehabilitation loan program is designed to facilitate major structural rehabilitation of houses with one to four units that are more than one year old. Condominiums are not eligible.

The 203(K) loan is usually done as a combination loan to purchase a fixer-upper property "as is" and rehabilitate it or to refinance a temporary loan to buy the property and do the rehabilitation. It can also be done as a rehabilitation-only loan.

Plans and specifications for the proposed work must be submitted for architectural review and cost estimation, usually to more than one entity, so be prepared as this usually and dramatically slows down the process. Even the smallest details can be scrutinized. Mortgage proceeds are advanced periodically during the rehabilitation period to finance the construction costs.

Are there special loans for fixer-uppers?

Yes. If you need a home loan to buy a "fixer-upper" and remodel it, look at the U.S. Department of Housing and Urban Development's Section 203(K) loan program. The program is designed to facilitate major structural rehabilitation of houses with one to four units that are more than one year old. Condominiums are not eligible.

A 203(K) loan is usually done as a combination loan to purchase a "fixer-upper" property "as is" and rehabilitate it, or to refinance a temporary loan to buy the property and do the rehabilitation. It can also be done as a rehabilitation-only loan.

Investors must put 15 percent down while owner-occupants are required to come up with only 3 to 5 percent. HUD requires that a minimum of \$5,000 be spent on improvements.

Two appraisals are required. Plans and specifications for the proposed work must be submitted for architectural review and cost estimation. Mortgage proceeds are advanced periodically during the rehabilitation period to finance the construction costs.



What are building codes?

Building codes are established by local authorities to set minimum public-safety standards for building design, construction, quality, use and occupancy, location and maintenance. There are specialized codes for plumbing, electrical and fire, which usually involve separate inspections and inspectors.

All buildings must be issued a building permit and a Certificate of Occupancy before it can be used. During construction, housing inspectors must make checks at key points. Codes are usually enforced by denying permits, occupancy certificates and by imposing fines.

Building codes also cover most remodeling projects. If you are buying a house that has been significantly remodeled, ask for proof of the permits involved before you purchase to avoid future liability for fines.

How do I find a good contractor?

While hiring contractors recommended by friends is usually a safe route, never hire a construction professional without first checking him or her out. Also, call your local Better Business Bureau to see if there are any complaints on file. Ask for references and check them out or ask me for a list of suppliers and subcontractors that our office recommends at RE/MAX North – San Antonio based on work and relationships already established!!!

If you are satisfied with the answers you find there, interview the contractor candidates. Ask what kind of worker's compensation insurance they carry and get policy and insurance company phone numbers so you can verify the information. If they are not covered, you could be liable for any work-related injury incurred during the project. Also be sure that the contractor has an umbrella general liability policy.

If they pass the insurance hurdle, next check some of their references. A good contractor will be happy to provide as many as you want.

Finally, don't let yourself be rushed into making a decision no matter how competitive the market may seem. Also, never pay a deposit to a contractor at the first meeting. You may end up losing your money. You can also find thousands of unbiased ratings on services for home improvements on <http://angieslist.com> a very popular internet site for ratings and reviews.

Is remodeling worth the price and time?

It depends. Remodeling magazine produces an annual "Cost vs. Value Report" that answers just that question. The most important point to remember is that remodeling a home not only improves its livability for you but its "curb appeal" with a potential buyer down the road.

Most recently, the highest remodeling paybacks have come from updating kitchens and baths, home-office additions and extra amenities in older homes. While home offices are a relatively new remodeling trend, for example, you could expect to recoup 58 percent of the cost of adding a home office, according to the survey.

How do I look for fixer-uppers?

Just ask...they are everywhere. You can find distressed properties or fixer-uppers in most communities, even wealthier neighborhoods. A distressed property is one that has been poorly maintained and has a lower market value than other houses in the immediate area.

Ascertaining whether the property you're interested in is a wise investment takes some work. You need to figure what the average house in a given area sells for, as well as what the most desirable houses in that area are like and what they cost.

Some experts suggest that buyers who take this route try to find a "cosmetic fixer" that can be completely refurbished with paint, wallpaper, new floor and window coverings, landscaping and new appliances. You should avoid run-down houses that need major structural repairs. A house price that looks too good to be true probably is. A smart buyer will find out why before buying it.

The basic strategy for a fixer is to find the least desirable house in the most desirable neighborhood, and then decide if the expenses needed to bring the value of that property up to its full potential market value are within one's rehab budget.

KEYWORDS ARE: DO YOUR HOMEWORK AND BE PREPARED!!!

Condos, Apartments & Single Family



What are the differences between condos and single-family homes?

Using appreciation as a measure, condominiums in some areas have been as profitable an investment as single-family homes in the past five years. And in some markets, condos appreciated even more, according to some experts.

While single-family homes have been the preferred investment by homebuyers, changing demographics are helping make condos more popular, especially among single homebuyers, empty nesters and first-time buyers in high-priced markets.

Also, the condominium community has worked hard in the last few years to overcome image problems brought on by homeowners association and developer disputes as well as all too frequent construction-defect litigation.

Should I be looking into condos?

While condos never had the kind of appreciation experienced by single-family homes in the go-go 1980s, most ultimately have not lost value, say some experts. And with high prices in many urban markets and more single homebuyers in the market than ever before, the market for condos is strong, especially in downtown San Antonio.

As with any home purchase, you should do your homework about the neighborhood or development before you buy. In the case of condominiums, it is important to read the past six months of homeowners association minutes to see how effective the board is and to learn about any possibly detracting issues (such as protracted litigation with the developer).

The condominium community has worked hard in the last few years to overcome image problems brought on by disputes and lawsuits. Associations are becoming more sophisticated about property management and taking steps to prevent legal problems and disputes.

Condominiums have held their value as an investment despite economic downturns and problems with some associations. In fact, condos have appreciated more in the past few years than when they first came on the scene in the late 1970s and early 1980s, experts say. The rise of the Baby Boomer generation should continue the trend.

While there are reports about homeowner's association disputes and construction-defect problems, the industry has worked hard to turn its image around and sales, especially in San Antonio are on the rise!!! Elected volunteers who serve on association boards are better trained at handling complex budget and legal issues, for example, while many boards go to great lengths to avoid the kind of protracted and expensive litigation that has hurt resale value in the past.

Meanwhile, changing demographics are making condominiums more attractive investments for single homebuyers, empty nesters, baby boomers, and first-time buyers in expensive markets.

Homeowners Associations

How do homeowners associations work?

Learn everything you can about the homeowners association before you buy into a development governed by one. The association's financial, political and legal conditions are very important to your investment and quality of life.

When run properly, homeowners associations maintain the common grounds and keep civility in the complex or neighborhood. If you follow the rules, the association should not intrude on your privacy or cost you too much in association dues.

Poorly managed associations can drag down property values and make living there difficult for residents. Start by studying the association's covenants, codes and restrictions, or CC&Rs, and find out if you can live by them. For example, if the rules prohibit loud music after a certain hour and you like to play your CDs late at night, this may not be the place for you. Don't move in thinking you can get away with violating the rules or change them later because you may find yourself in turmoil with determined neighbors firmly in control of the association board.

Find out all you can about the association's finances. Beyond reviewing the budget, talk to the association treasurer and find out if dues are expected to increase and if any special assessments are planned. Ask if special inspections have revealed problems with roofs or plumbing that may cause a dues hike or special assessment later on.

Call and meet with the association president. If you are the type of person who despises intrusions into your private life and the president seems more interested in gossip about the residents than maintaining the property, this may not be the right condo complex or neighborhood for you.

Speak with residents to get their views on the association's finances, its property manager, how it operates and any politics. Associations are volunteer organizations with elected boards, like a mini-government, so politics can enter the picture and spoil a good thing.

Lastly, take some time to understand how homeowners associations are organized and how they conduct business. Like all real estate investments, the more you know the better off you are.

Rentals

Is it difficult to project rents on rentals?

If you are buying a rental income property and applying for a loan to do so, the lender will require an area rent survey by a certified appraiser and appraisers are under tight scrutiny these days not to overstate this. The amount a landlord can expect to receive in monthly rent largely depends on what the property has rented for in the past, the condition of the building, its location and the current housing market.

Lenders also look at other cash-flow considerations. They want to know if you have enough reserves on hand to cover predictable and unforeseen expenses, such as property insurance, taxes, regular maintenance and repairs, as well as potential vacancies.



Vacation Homes

Are vacation homes a good investment?

You can buy a vacation home today for investment purposes as well as enjoyment. And yes, there are tax benefits.

Some people buy a vacation home to use as a permanent retirement home later, which allows them to get ahead on their payments. Another benefit is that the interest and property taxes on a vacation home are tax-deductible.

Some real estate experts predict that vacation homes will appreciate in value due to rising demand from the aging Baby Boom generation. You also can depreciate the property if you live in the house less than 14 days a year. Always consult a professional Tax Consultant about any questions regarding any new tax laws that may have taken effect recently though.

You also need to consider whether you can afford to carry two mortgages, pay for the extra utilities and maintenance costs, and how this investment fits into your total personal finance picture.

Rate Shopping



Shopping for the best interest rate possible has always been the consumer's primary objective when borrowing money. As well it should be! The challenge with this strategy is that there is much misleading information released on the subject by various media. Internet web sites and email marketing, along with other media such as radio, television and billboard advertising, have brought the importance of interest rates to the forefront of consumers' minds. The problem for the consumer with this type of marketing is that it is designed to make the lender's phone ring. Often, the advertiser offers a ridiculously low interest rate, with the intent of using a "bait-and-switch" technique once the client is reeled in. This is often done through short pricing.

Short pricing is a term that is used when a lender offers an extremely attractive interest rate, but that rate is only locked-in for a very brief period of time. The average consumer enters into a purchase contract to buy a home for at least 30 days. Pricing on an interest rate locked in for a 7-day period is of no use to most prospective home buyers. It simply isn't enough time to complete the transaction. While the billboard advertising or Internet banner ad may boast a terrific rate, the lock-in period is often not realistic in terms of providing enough time to negotiate a purchase contract and close the deal. Be very careful when shopping for interest rates. Make sure that when you are quoted a rate, you are asking the broker what the lock duration is. Make sure that lock period allows you enough time to complete your purchase transaction.

Another common marketing ploy that makes interest rates appear attractive is geared around the manner in which fees are presented. All lenders are required by law to state the real cost of the financing through the Annual Percentage Rate (APR) each time an interest rate is quoted in advertising. APR takes many of the fees associated with the loan into consideration, and it is usually listed in fine print as a disclaimer.

Advertisers often list a low interest rate in large bold type, but the higher APR indicates in fine print that several points are being charged to get that rate. While APR can be helpful in comparing rates seen in advertising, it is important for consumers to know that lenders use different methods to calculate APR. Hence it is not an entirely failsafe method for comparing interest rates. Additionally, the consumer must take into consideration that the interest rate is not the only important factor in obtaining financing.

Another equally important question to answer is, "How long do you need to borrow this money?" The length of time you need to borrow the money has a profound impact on whether or not you should be paying upfront fees (points), and likewise has bearing on your loan program selection. Statistically, homeowners move every 7 to 10 years. One of the common mistakes made by home buyers is automatically selecting a 30-year fixed rate loan program for financing instead of evaluating other options. The chance of needing the financing for 30 years is actually slim-to-none. If the buyer is somewhat transient in their job or is planning a family in the near future, the home may not really meet their long-term needs.

Buyers are often solicited with programs that are contingent upon 30-year financing. The interest rates that are offered, regardless of how low they might be, are often irrelevant as rates are dependent upon several factors, including down payment and credit score. If a buyer has at least 5% for a down payment, an interest rate that is fixed for three, five or seven years may be a much more realistic option. This allows the buyer to capitalize on a low introductory rate and save a significant amount of money, which can then go toward the down payment on their next home.

It is of utmost importance to work with an experienced loan consultant that understands some of the practical aspects of financial planning. A well-versed consultant will ask you many questions about your short- and long-term goals, and assist you in choosing a loan program that is truly suited to those goals.

The Nuances of Your Contract



The process of purchasing a home is often much more complex than the average individual expects it to be. Items involved in your purchase contract can have a significant impact not only on the success of your purchase transaction, but on your stress level as well. I have listed out some of the important items you should be aware of, that require you to make decisions as a buyer entering into a purchase contract.

Loan or Financing Contingency

Loan contingency is the period of time the seller is giving you to obtain full, formal loan approval. It is important to include a financing contingency in your offer, as it makes the transaction dependent on you receiving the mortgage you've applied for. It specifies your cancellation rights if you are unable to obtain financing. This contingency is typically between 15 and 30 days depending on what has been negotiated in the contract. The earnest money deposit you make at the time the offer is accepted will be put in jeopardy once the contingency for the loan has expired. In fact, pursuant to the terms of the contract, if the loan contingency has expired and you fail to close the purchase transaction, you could lose your earnest money deposit and not have the failure of obtaining loan approval to lean on as an excuse. Written pre-approval will help to eliminate problems in this area. Please note: pre-approval is not the same as pre-qualification.



Pre-Approval

Seeking pre-approval for financing prior to making an offer on a property is a sound strategy that can help you get the best deal possible, especially if you plan to make a minimal down payment. The seller is often leery of the stability and reliability of the buyer if the buyer is only capable of making a down payment of 10% or less. This can cause the buyer to lose a significant amount of negotiating ability, by being perceived as a weak buyer rather than a strong one. This is why it is very important to get full loan credit approval in advance and provide a written confirmation of the loan approval when an offer is made. This shows it is a done deal and you are perceived to be a cash buyer.

Contract Period

The contract period is the period of time in which all due diligence must be completed, including obtaining loan approval, property appraisal, home inspection reports, termite inspection, etc. Give yourself enough time for all due diligence to be completed for this very important purchase you are about to make. Typically, purchase contracts are drawn up for a period of 30, 45 or 60 days. However, it is really not uncommon for a purchase contract to be written with terms in excess of 60 days if the parties involved need that long of a period to complete all aspects of due diligence.

Home Inspection Contingency

As part of the negotiation in your purchase contract you and the seller will mutually agree upon the amount of time needed to complete all the home inspection procedures that are required. Utilizing an outside third party service to complete these inspections is highly recommended. You will be provided with a report by the home inspection company that you should review very thoroughly to make sure there are no material defects in the property that you were not aware of, and which could subsequently have an impact on the value of the property. Once your home inspection contingency has expired, you no longer have the leverage to go back and renegotiate with the seller to resolve any issues revealed by the home inspection. If there are material defects, you and your real estate agent should renegotiate either a reduction in the purchase price to offset the cost of any necessary repairs or having the seller make the repairs prior to the close of the transaction. Buyers with limited cash reserves should most likely negotiate to have the repairs made prior to closing.

Termite Inspection

A termite inspection is required by the lender if it is listed in the purchase contract. The lender may also require an inspection if the appraisal states there is evidence of termite damage. On FHA loans inspection is required only under the following circumstances: when there is evidence of active infestation, if mandated by the state or local jurisdiction, if customary to the area, or at the lender's discretion. If termites are present it is up to both parties to determine who will be responsible for the remedy of the problem. When you negotiate your contract make sure you state up front whether you want the property checked for termites.

Seller Rent or Lease Back

It is often the case that when the buyer and seller are unable to agree upon a specified closing date for the transaction, the real estate agents will negotiate a "rent or lease back" period. This means the transaction closes, the loan funds and ownership of the property is transferred into the buyer's name, but the buyer does not take occupancy of the property until several days later. In this scenario, the buyer sets up a rental agreement, in which the property is leased back to the seller. An important footnote to this somewhat common strategy is to make sure the seller is not occupying the property in a lease agreement for more than 30 days after the close of the purchase transaction. This would constitute a non-owner occupied purchase in the lender's eyes, and would cause the terms of the loan to change radically.

Seller Contributions

Depending on the seller's eagerness to close the transaction, the seller of a property will often become aggressive and offer to pay some or all of the closing costs, origination points and/or pre-paid items (interest, hazard insurance, tax escrows) associated with the purchase on the buyer's behalf. This common strategy can be very beneficial to the buyer, particularly if the buyer is short on funds to close. It can also be the vehicle that effectively drives the interest rate down and provides the buyer with a more affordable monthly payment. Note that there are limitations on how much the seller is permitted to contribute, depending on the loan-to-value ratio. The typical seller contribution is from 3% to 9% of the purchase price, based on the size of the down payment. Seller contributions may sometimes be isolated to non-recurring closing costs and/or origination points only. The lender will not permit the seller to contribute funds back to the seller after the close of the transaction to accommodate repairs to the property. Items such as roof leakage or new carpet cannot be covered by any seller contribution clause.

Origination Points



Origination points are often misunderstood. Points are nothing other than interest paid at the time of closing to obtain a lower interest rate on a loan. One point is equivalent to 1% of the loan amount. If you are going to borrow \$300,000 on your loan, one point would equal \$3,000. This generally generates 1/8 to 3/8 of a percent lower interest rate, depending upon the loan program.

When does it make sense to pay points? Paying points is a prudent financial move, if you are planning to be in the loan for a long period of time. Again, one of the most important questions to address when you borrow money is, "How long do you need to borrow this money?" This will answer the two all-prevailing questions you will have, which are 1) Should I pay points? And 2) What loan program is best for me? Notice that the question is not geared to, "How long do I plan to live in the home?" but more appropriately, "How long am I likely to be in this loan?"

How long you will be in the loan is not only affected by the tenure that you own the home, but also the probability of seeking a refinance at some point in the future. As a general rule of thumb, you will need to be able to recuperate the total cost of the points in a period of time that is less than the amount of time you will need to borrow the money.

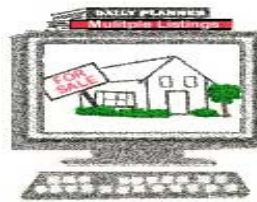
Here's an example. Let's say you are going to borrow \$300,000 for your mortgage, and choose to pay one point, which equates to an initial up front cost of \$3,000. If paying one point up front saves you \$100 a month, this means it will take you 30 months or 2.5 years, to recuperate the cost of the point that you paid. If you refinance the home anytime before that 30-month mark, or decide to sell the home, you will have effectively wasted money. However, if you keep that loan for longer than a 30-month period of time, it is a prudent financial move.

When deciding whether or not you should pay points, take into consideration where interest rates are at when you seek financing, and compare that to historical market trends. When interest rates are at historical lows, it makes much more sense to pay points, especially if you think you will live in the property for an extended period of time. Historically low rates, combined with the fact that you know you do not intend to move would indicate you will have longevity in the loan. It is unlikely rates will go down, giving you incentive to refinance.

Rates are cyclical. When interest rates are off of their historical lows, and higher than they generally are, we know that there is a strong likelihood rates will eventually come down. This is certainly no time to pay points. The chances of refinancing at some point in the future are extremely high, and therefore, you would not need to be in this loan for a long period of time.



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Credit Scoring

Your credit score is a major factor that will be considered by the lender when they review your loan application. They want to know what your credit history is, and whether you have the ability to pay back the loan you are requesting. In short, good credit translates into lower rates for the home buyer and less risk to the lender.

Credit scores can range between a low score of 300 and a high of 850. The higher the client's score is, the less likely they are to default on their loan. We will run a credit report to determine what your credit score is, and if necessary, we can point out some simple ways to help you improve your credit score without enlisting the help of a credit repair service. You can obtain your own [credit scores](#) and set up monitoring if you wish.

Once you fill out a loan application and enter into the loan process, you should not run up your charge cards or make any major purchases! You also should not apply for any other type of new credit, as this could negatively impact your credit scores.

Today, many programs limit your borrowing ability if you have a low credit score. If you do have a low credit score you may still be able to obtain financing, just be prepared for both a higher interest rate and higher down payment requirements. While you may not get the interest rate you had hoped for, it is an opportunity to start building up your credit again. Once you begin making mortgage payments on time and in full, your credit standing will improve and we can seek to refinance you at a lower rate as soon as the opportunity arises.

Sometimes we may determine the need to refer you to a credit repair specialist. In some cases, borrowers have seen significant improvement in their credit scores in as little as 3 to 6 months, allowing them to qualify for the mortgage they desire. If you haven't received a copy of your credit report or haven't seen it in quite a while...you can obtain one for free once a year...just ask me how! Mistakes are made, even by the 3 credit bureaus, so it is always a good idea to stay "on top" of it and regularly – the information is important to you in many ways!

Pre-Payment Penalties

Lenders attach pre-payment penalties to loans to ensure that the loan will be profitable for them. As a general rule of thumb, I do not suggest that you accept a pre-payment penalty as a part of your loan structure.

One of the most important aspects of financial planning is to have options with your money. Restrictive clauses such as a pre-payment penalty can prohibit you from maneuvering when it is necessary or when other opportunities arise. If you want to accept a pre-payment penalty clause in your loan, it is much more advisable to go with a "soft pre-pay." This only penalizes you in the event of a refinance, but not if you decide to sell the home.

Interest rates have dropped significantly many times over the last 15 years. Many homeowners have not been able to take advantage of lowered rates by refinancing, because their hands have been tied by a daunting pre-payment penalty. Pre-payment penalties will generally provide you with a slightly lower interest rate in exchange for the pre-payment penalty clause. Mortgage professionals will sometimes push the benefits of a pre-payment penalty so they can beef up their commission. Be very leery of this type of sales pitch!



Junk Fees

A junk fee is a derogatory term defining extra fees which are charged as a dollar figure rather than a percentage of the loan amount. It is important to know that you can often negotiate these fees down or have them removed if they have not been properly disclosed to you. The lender is required to provide you with a Good Faith Estimate disclosing their fees within three days of your application. Fees associated with the following are NOT considered junk fees: appraisal, credit report, escrow or attorney fees, title search, title insurance, document recording, notary, tax service, flood certification, title endorsements, courier, and survey. These are legitimate fees charged by third parties and are necessary to complete the transaction.



Glossary of Terms

Adjustable Rate Mortgage (ARM)

ARM is a mortgage in which the interest rate is adjusted periodically based on a pre-selected index and margin, also referred to as the renegotiable rate mortgage.

Amortization

Means of loan payment by equal periodic payments calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance.

Annual Percentage Rate (APR)

APR is the interest rate that reflects the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account points and other credit or closing costs. The APR allows home buyers to compare different types of mortgages based on the annual cost for each loan, however not all lenders calculate APR the same way.

Buydown

This is when the lender and/or home builder subsidizes the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they increase when the subsidy expires.

Construction Loan

This is a short-term interim loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as the work progresses.

Discount Points

Prepaid interest assessed at closing by the lender. Each point is equal to 1% of the loan amount, i.e., two points on a \$100,000 mortgage would equal \$2,000. Discount points are charged to reduce the interest rate.

Down Payment Assistance Program (DPA)

Down Payment Assistance Programs are funds given to buyers to assist with the purchase of a home. Buyers do not have to repay these funds. There are two types of DPAs: those involving seller contributions and those provided by the government which are usually local programs. Most of these programs disappeared in 2008.

Earnest Money

Money is typically given by a buyer to a seller as part of the purchase price to bind a transaction or assure payment.

**FHA Loan**

A loan insured by the Federal Housing Administration open to all qualified home purchasers. While there are limits to the size of FHA loans, they are generous enough to handle moderately-priced homes almost anywhere in the country.

FHA Mortgage Insurance

All types of Mortgage Insurance protect the lender in the event of default. There are two types of FHA Mortgage Insurance. Up-front Mortgage Insurance (MIP) which is paid at closing and Monthly Mortgage Insurance, paid monthly with the mortgage payment. Upfront premiums range from 1.25% to 2.25% of the loan amount and monthly premiums range from 0.50% to 0.55%, depending on the borrower's credit score and the loan-to-value.

First Time Home Buyer Program

Mortgage loans with special qualifying terms for those who have never owned real estate or have not owned in the previous 3 years. Although the programs and terms vary by state, they often offer down payment and closing cost assistance.

Impound/Escrow Account

That portion of a borrower's monthly payments held by the lender or servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. These are also known as reserves.

Index

A published interest rate against which lenders measure the difference between the current interest rate on an adjustable rate mortgage and that earned by other investments (such as one-year, three-year, and five-year US Treasury Security yields, the monthly average interest rate on loans closed by savings and loan institutions, and the monthly average Costs-of-Funds incurred by savings and loans) which is then used to adjust the interest rate on an adjustable mortgage up or down.

Loan Level Price Adjustments (LLPAs)

Loan-Level Price Adjustments are automatic, cumulative fees based on credit scores and the amount of your down payment. Fannie Mae (FNMA) and Freddie Mac (FHLMC) levy these fees on borrowers with credit scores below 720. They have nothing to do with the mortgage company or its various products and cannot be negotiated away.

Margin

The amount a lender adds to the index on an adjustable rate mortgage to establish the adjusted interest rate.

Mortgage Insurance (MI)

Money paid to insure the mortgage when the down payment is less than 20%. See Private Mortgage Insurance or FHA Mortgage Insurance.



Negative Amortization

Negative amortization occurs when the monthly payments are not large enough to pay all of the unpaid balance of the loan, therefore increasing the loan balance and going in a "negative" direction. In this particular scenario, a borrower can literally end up owing more money than they originally borrowed. The reason that this occurs is because on a negatively amortized loan, the borrower is given several different payment options.

- **OPTION 1:** To pay what is known as the fully indexed payment. This is the margin plus index on the adjustable. This payment, which is typically the highest of the options, will prevent you from going negative.
- **OPTION 2:** An interest only payment. You would not be going negative by making this payment either, but you would not be decreasing the principal balance on your loan. This is because you are paying only the interest portion and no additional principal to your loan.
- **OPTION 3:** (And the one that most often gets people into trouble...) The negatively amortized payment. This is a payment that not only does not cover the principal, but doesn't cover all of the interest owed on the monthly payment, therefore accruing negative equity as a result.

Origination Fee

Fee charged by a loan originator to provide the borrower with a lower interest rate. Usually charged as a percentage, each point is equal to 1% of the loan amount.

PITI

Also known as total monthly housing expense, this is an acronym for the principal, interest, taxes and insurance.

Piggy Back Loan

"Piggy Back Loan" is a slang term, which really is another way of describing 1st and 2nd mortgages that close concurrently. In today's mortgage lending environment, obtaining a piggy back loan can be very difficult if a borrower has less than 20% for a down payment. In such instances, obtaining one mortgage with Private Mortgage Insurance may be the only option. See Private Mortgage Insurance.

Private Mortgage Insurance

In the event that you do not have a 20% down payment, the lender may allow a smaller down payment, sometimes as low as 3%. However, with a smaller down payment, borrowers are usually required to carry private mortgage insurance on the loan. Private mortgage insurance comes in two forms: upfront, paid at closing, and monthly. A lender may require some combination of both upfront and monthly mortgage insurance. The amount required is determined based on program type, property type, credit score and loan-to-value.

Title Insurance

Title insurance protects a real estate owner or lender against any loss or damage they might experience because of liens, encumbrances, or defects in the title to the property, or the incorrectness of the related search. It protects against claims from various defects such as

another person claiming an ownership interest, improperly recorded documents, fraud, forgery, liens, encroachments, easements and other items that are specified in the actual policy.

Underwriting

Approves (or declines) funding to potential home buyers, based upon factors such as credit, employment, assets, etc., and matches approved risks with appropriate rates, terms and loan amounts.

VA Loan

These are mortgage loans that may be available to eligible US veterans. VA guaranteed loans are made by private lenders, such as banks or mortgage companies, for the purchase of a home for a buyer's own personal occupancy. These loans offer competitive rates and require little or no down payment.

LOAN QUESTIONS



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Questions to Ask My Loan Officer

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