

## Heating Equipment: Should You Repair or Replace?

The decision to repair or replace heating equipment depends on its age, the cost of repair, and how much money a more efficient system will save you.

By Oliver Marks-HouseLogic.com

It happens eventually in every home. On a particularly frigid morning, you wake up and crank the thermostat just like usual, but there's no response: No comforting sound of the system firing up and no warmth rising from the air vents or radiators. Hopefully it's a simple problem that's a quick and inexpensive fix, like a tripped circuit breaker or a clogged filter. But occasionally the repair is so big and costly that it raises an age-old question that's been asked about everything from station wagons to vacuum cleaners: Is it more cost effective to fix what you have or replace it? Here's how to decide.

### Think safety first

If the problem presents a safety hazard, replacement is a no-brainer. For example, if your furnace has a cracked heat exchanger—the metal wall between the burning fuel and the air it's heating—poisonous carbon monoxide gas could work its way into the household air supply, something you don't want to risk. Other problems, like faulty electronics and stuck valves, can be repaired, which means you'll need to do a cost-benefit analysis.

### Consider the typical lifespan

A 2007 [study](#) by the National Association of Home Builders and Bank of America found that furnaces for forced-air systems last an average of 15 to 20 years; boilers for hot-water radiators and baseboards last 13 to 21 years. So start by dating your system. Some technicians write the year the equipment was installed directly on the unit. Otherwise, when the machine is off and cool, look for a metal identifica-

tion plate, usually on the inside of chamber door. Record the model and serial numbers from the plate, then call the manufacturer's customer service number to get the date of manufacture.



Keep in mind that a 25- or even 30-year-old system isn't necessarily ready for the scrap heap. The published lifespans are averages, which means half of all systems are spent by that time, and the other half are still working well. Use these numbers as ballpark guidelines only, suggests Gopal Ahluwalia, the NAHB study's lead researcher.

### Assess the costs of repairing versus replacing

To decide your system's fate, you need more data: the cost of your repair or replacement options, which your service provider can give you. Depending on the size of your house and the brand of new equipment you choose, a new hot-air furnace typically costs \$1,500 to \$4,000, while a boiler for a hot-water system might run \$4,000 to \$8,000.

As a general guideline, consider replacement if the equipment is beyond three-quarters of its life expectancy and repairs will cost more than a third of replacement, suggests Larry Howald of Broad Ripple Heating and Air Conditioning in Indianapolis. In other words, it's probably not worth spending \$700 to repair a

15-year-old furnace you could replace for \$2,000.

### Consider your heating plant's efficiency

In these days of high fuel costs and concerns over our carbon footprints, you should also consider your heating plant's efficiency. Its Annual Fuel Utilization Efficiency number (AFUE) measures the percentage of the fuel that's converted to heat rather than being lost up the chimney or through other inefficiencies.

"If your system is 20 years old, its AFUE is probably about 70%," says Greg Gill of Action Air Conditioning and Heating in San Marcos, California. Today's minimum AFUE is 80%, which means you'll burn 10% less fuel—and therefore spend 10% less money on your heating bills. You can go as high as 95% AFUE with new equipment, dropping your bills a whopping 25%. That kind of efficiency raises your equipment costs to \$3,500 to \$6,000 for a furnace and \$8,000 to \$10,000 for a boiler, but will also earn you a 30% tax credit (up to \$1,500) from the federal government. And there are many local tax incentives and manufacturers' rebates for super-efficient systems, too.

"It's definitely worth doing the math to see if the high-efficiency model will pay for itself," Gill says. According to Energy Star, upgrading to more efficient HVAC (heating, ventilation, and air conditioning) equipment can cut heating and cooling costs by about 20%, or \$200 a year on average, which means you could recoup the extra investment in as little as five years.

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## Words of the Month

# TITLE INSURANCE

A comprehensive indemnity contract under which a title insurance company warrants to make good a loss arising through defects in title to real estate or any liens or encumbrances. Unlike other types of insurance, which protect a policyholder against loss from some future occurrence (such as a fire or auto accident), title insurance in effect protects a policyholder against loss from some occurrence that has already happened, such as a forged deed somewhere in the chain of title. Fannie Mae and Freddie Mac require title insurance on every loan they buy.

The title company will issue a policy if satisfied with the investigation of the public records and all other material facts. Generally, a title insurance policy protects the insured against losses arising from such title defects ("hidden risks") as the following:

- \* Forged documents such as deeds, releases of dower, mortgages
- \* Undisclosed heirs; lack of capacity (minors)
- \* Mistaken legal interpretation of wills
- \* Misfiled documents, unauthorized acknowledgments
- \* Confusion arising from similarity of names
- \* Incorrectly given marital status; mental incompetence

In addition, and most important, the title company will agree to defend the policyholder's title in court against any lawsuits that may arise from defects covered in the policy. A title insurance policy generally consists of three sections:

1. The agreement to insure the title and indemnify against loss
2. A description of the estate and property being insured
3. A list of conditions of and exclusions to coverage

These uninsured exclusions generally include such title defects as the following:  
n Rights of parties in possession, not shown in the public records, including unrecorded easements

- \* Any facts that an accurate survey would reveal (e.g., encroachments)
- \* Taxes and assessments not yet due or payable
- \* Zoning and governmental restrictions
- \* Unpatented mining claims
- \* Certain water rights

Title indemnity is made as of a specific date. Except with certain policies, a one-time premium is paid, and coverage continues until the property is conveyed to a new owner (including a conveyance to an insured's wholly owned corporation). It does not run with the land. Coverage is thus limited to the tenure of the named insured, and certain of the insured's successors by operation of law.

If an insured property appreciates in value (as when an expensive improvement is made), it is good practice to increase the amount of title insurance to cover possible increased losses. Newer policies have an "inflation guard" endorsement to cover appreciation.

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## Are You a Victim of Predatory Lending?

By George Mantor, [Rismedia.com](http://Rismedia.com)

RISMEDIA, December 1, 2009—Back in the day, predatory lending was pretty much confined to grifters combing poorer neighborhoods looking for elderly or ignorant homeowners with substantial equity. Oh, they're still out there.

But, the securitization of mortgages brought a level of sophistication to predatory lending that has allowed it to go on virtually undetected. If you got a loan in the last few years, it was probably packaged with a pool of other mortgages and sold off to an investor seeking a long term revenue stream. But, it doesn't stop there.

What if a borrower pays his loan off early, killing the revenue stream? Not an unlikely occurrence, particularly given the refinancing activity that took place while prices were rising.

In one way or another, that risk and others, such as default rates, were factored into the business model and can actually contribute to profitability.

**Risk exists.** In the retail industry, one of the risks is "shrinkage" or theft. In preparing a budget for a retail business, there is an anticipation of a certain percentage of loss due to theft. The projected profit margins must be sufficient to absorb the losses. Other risks are insured against.

It is important to keep in mind that mortgage securitization makes up only a small percentage of the much larger business of securitizing debt. If you occasionally drive by a stalled strip mall or an abandoned subdivision, the money probably came from investors buying securitized debt.

Auto loans, student loans, business loans, credit cards, and just about any kind of debt you can think of have been sold as investments. All of which illustrates two important points: there was a very high demand for these investments, and meeting the demand is very, very lucrative. The entire compensation scheme, from street level mortgage reps all the way up through the highest levels of Wall Street, rewards volume, not quality. It's a very simple premise; reward the behavior you want and you'll get more of it.

That is simple enough and easy to understand, but as counterintuitive as this may seem, in the world of high finance, there is more money to be made in bad lending than there is in good.

**Business model based on failure, not success.** When I was growing up, a Horatio Alger story was a metaphor for someone who overcomes obstacles to achieve great success. Horatio Alger, Jr. (1834-99) was a prolific writer of dime novel stories for boys. With uncommon courage and moral fortitude, Alger's youths struggle against adversity to achieve great wealth and acclaim. They demonstrate the values of hard work and perseverance.

But, that's fiction and the world has changed. Success is hard, failure is easy. Success comes at a price. For those unwilling to pay the price, there is always failure. If you are good at creating failure, you can bet on it.

For example, if I flood the market with phony shares of Bear Stearns, I can destroy its share value. If I buy a Credit Default Swap to pay me in the event of its failure, as in the case of one mystery investor who in March of 2008 did bet on Bear Stearns collapse, I would get \$270 million. See how rewarding failure can be?

What does all that have to do with predatory lending? In part, it helps explain the eagerness to lend money to anyone. That is what they get paid for; matching people with money. Money was looking for you.

Wall Street touted mortgage backed securities as investment grade, and money poured in from all over the world. More money, in fact, than there were good investments. Beneath the surface, the economy has been essentially stagnant and this might normally be fatal for Wall Street. But, with some ENRON-esque accounting tricks allowing liabilities to be reclassified as assets, leverage, tranching, and rating agencies willing to label debt "triple "A" investment grade", there was something to trade. And, without debt to sell, a lot of high paying jobs would go away.

And, bad loans are more profitable than good ones. Armed with FICO scores and sophisticated research into a borrower's behavior, they were able to track down exactly the borrowers they wanted. By definition, that is predatory, but they call it marketing.

### Types of Predatory Lending

**Sub-prime steering.** Perhaps the easiest and most common type of predatory lending is moving a highly qualified borrower into a more expensive loan. Most people are intimidated and confused by the mortgage process and have no real way of verifying what they are being told. Who really knows what those

credit scores mean when it comes to loan terms?

**Promise one thing, deliver another.** "Our underwriting standards have changed." Who can argue with that? Not even the street level mortgage reps as it turns out, who are always the ones who have to go back to the borrower and try to explain why they have to pay another half-point and a quarter percent higher interest rate.

**The 2/28 loan.** Designed to implode. According to bankrate.com, "A 2/28 subprime ARM has a low initial rate that lasts two years. After that, the loan resets; this means that the rate is adjusted upward or downward. At the first jump, the rate can conceivably climb 2 to 6 percentage points, causing monthly payments to skyrocket. (In practice, the first rate jump is usually on the smaller end of that scale, but it can keep rising every six or 12 months after that.)" Why risk default when you can make it a certainty by developing a loan with a really high failure rate? And, you can hedge the bet further by knowing approximately when the loan will default.

**The closing table surprise.** This could be virtually anything that will increase the profitability of the loan or the likelihood of a default. This isn't much of a gamble on their part as most people do not sit at the closing table and read the actual loan documents.

Simply by doing any of these activities, they are able to increase the fees and the interest rate and maximize the profitability of the loan origination process. But, it doesn't end there. The lenders also made side bets (Credit Default Swaps) that a substantial number of these loans would fail based on the credit profiles of the borrower or the type of loan. Research is now revealing that a large number of securitized loans have both Truth in Lending or RESPA violations.

There are many other types of predatory lending, and if you have been a victim or suspect you may have been a victim of predatory lending, you'll need an experienced attorney.

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## 5 Tips to Buying a Home on a Deadline and How the Tax Credit Extension Can Help

RIS MEDIA, November 24, 2009—(MCT)—House shopping usually slows down in the winter, as people put their home searches on hold to trim the tree, buy presents to put under it and avoid the chilly weather. This winter, however, might be different, thanks to the extended—and expanded—first-time home-buyer tax credit.

“We’re going to see far more interest in the fourth quarter than we generally do because of the tax credit,” said Heather Fernandez, vice president of Trulia.com, a real estate search engine. Traffic surged on the site on Nov. 5, the day Congress approved the credit extension, she said.

The new law extends the tax credit for first-time home buyers and opens it up to some existing homeowners as well: The credit is now 10% of the home price, up to \$8,000 for first-time buyers and up to \$6,500 for repeat buyers. All buyers must have a binding contract on a house in place on or before April 30, 2010. The sale must close on or before June 30, 2010.

To be considered a first-time home buyer, an individual must not have owned a home in the past three years. And to be eligible, existing homeowners need to have lived in the same principal residence for five consecutive years during the eight-year period that ends when the new home is purchased. The credit is only for principal residences.

Income limits have risen as well. According to the IRS, the home buyer tax credit now phases out for individuals with modified adjusted gross incomes between \$125,000 and \$145,000, and between \$225,000 and \$245,000 for people filing joint returns.

The inclusion of move-up buyers might inspire homeowners to take action and list their house if they’ve been putting it off, said Carolyn Warren, a Seattle, Wash.-based mortgage broker and

banker and author of the book *Homebuyers Beware*. “If somebody loves their home, it’s not going to entice them to sell. If they’ve had it on the back of their minds and really would like to move up, it might push them into doing it sooner than later,” Warren said.

The credit isn’t expected to have as large of an effect on move-up buyers as it has on first-time buyers, according to the Campbell/Inside Mortgage Finance Monthly Survey of Real Estate Market Conditions. The maximum tax credit is about 4% of the average purchase price for first-time buyers, but about 2% of the average purchase price for move-up buyers.

“We estimate that the first-time home buyer tax credit will result in a 10% increase in home sales from March through November of 2009,” said Thomas Popik, research director for Campbell Surveys, in a news release. “We’d expect the effect of the proposed tax credit for current homeowners to be about half as large—from December until the tax credit expiration in the spring of next year, it might be 5% of 3 million transactions, or about 150,000 incremental home sales. Incremental sales to first-time home buyers could be an additional 300,000, for a total of 450,000 incremental sales due to the tax credit extension.”

### Tips for buyers

Interested in buying a home and claiming the home-buyer tax credit? Below are five tips:

**1. Don’t procrastinate.** Start searching for a home now. Getting an early start will give you a better chance of finding the right house before the credit deadline. Before you start house hunting, get pre-approved for a mortgage, said Eddie Fadel, a Miami-based mortgage banker, and do a realistic assessment of what you can afford. Buyers who have to sell an existing home should price it aggressively from the beginning to drum up interest and get a buyer as soon as possi-

ble.

**2. Don’t count on another extension.** The credit won’t be available forever, Fadel said. If you want to take advantage, be sure to make that spring deadline.

“This is a medication for the housing crisis. Once the patient—which is the housing market—cures, there will be no medication needed,” he said.

**3. Mind the interest rates.** Mortgage interest rates are low right now, but will likely rise next year. Higher rates will affect your monthly mortgage payments, thus the affordability of the house you are buying. Average rates on the 30-year fixed-rate mortgage have been hovering around 5%, but when the government stops buying large amounts of mortgage-backed securities, rates could rise.

**4. Communicate with your lender.** Throughout the process, make sure you’re communicating with your lender regularly; if there’s a piece of documentation you’re asked for, get it turned in as soon as possible, said Doug Heddings, a New York-based real estate agent with Charles Rutenberg Realty. Good communication is important in making sure the loan closes on time. And think twice before pursuing a short sale if you want to make the credit deadline. That’s where someone sells a home for less than what he or she owes on a mortgage, with permission of the lender. The process can be lengthy and unpredictable because the homeowner’s lender has to approve any deal, and can be complicated when there is a second mortgage associated with the property.

**5. Don’t take shortcuts.** Don’t forgo any of the steps you would normally take just to make the tax credit deadline. Make sure the house is a good fit for your needs and get a home inspection. Skipping steps could cost you in the long run.

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## **9 Home Improvements to Promote Healthy Living in Your Home**

RISMEDIA, November 30, 2009—

Consumers are more conscientious about healthy living than ever before and this awareness is making its way to the home-building industry, particularly in the custom home market, says Michael Lenahen who owns Ponte Vedra, Fla.-based Aurora Custom Homes.

“As more consumers begin to realize how much their home affects every aspect of their health, they are beginning to see the importance of improving its environmental quality with products to benefit their health and that of their family,” Lenahen said. “The new emphasis toward healthy living focuses around four main categories – air, water, odor/fumes and lighting.”

According to the U.S. Green Building Council, pollutants are often two to five times higher indoors than outdoors and this can significantly affect air in the home causing breathing problems and respiratory diseases. When it comes to the quality of the air, Lenahen said several products are available on the market that homeowners should incorporate into their home such as:

- Advanced allergy filters to control dust particles and pollutants
- Dehumidification devices to manage the humidity in the home

-Variable speed air handlers to maintain the circulation of air throughout the home and ventilation fans to introduce fresh air into the home while removing stale, humid air

Improving the water quality in a home is just as important as the air quality, Lenahen said. Several products are available to improve the quality and efficiency of a home’s water flow and usage, including:

- Carbon filter and reverse osmosis units to purify drinking water by removing particulate matter and harmful minerals
  - Whole-house water softeners to remove calcium and other harmful minerals while providing added benefit to the home’s appliances and plumbing fixtures. Water softeners also improve skin tone and texture by removing calcium, magnesium and iron from the water.
  - Underground cisterns to collect rainwater from the gutter and downspouts to use for irrigating the lawn and landscape.
- Healthy home living is also improved by the use of low Volatile Organic Compound (VOC) materials, which emit lower levels of gasses into the home from everyday materials such as paints, sealants, cabinets and flooring materials. Lenahen said homeowners should use the lowest emitting VOC products for custom homebuilding and remodeling projects,

thereby reducing the negative health impact the products may have on the occupants. Low VOC products will have labeling to help homeowners find the healthiest option.

Better lighting solutions can also foster healthier living. Traditional light fixtures typically include high wattage bulbs, which waste electricity while adding excessive heat into the home. Suggested improvements include:

- Decorative light fixtures with less wattage requirements and soft-light emitting globes
- Compact florescent light (CFL) bulbs or L.E.D. fixtures and bulbs for longer life usage
- Next generation skylights, such as Velux Sun Tunnel or Solatube, that bring natural light into the home, reducing the need for artificial light and energy consumption

“These are just some of the many changes that can be made to current homes or built into new homes that will greatly improve the quality of life and health of its occupants,” Lenahen said. “The more consumers become aware of the positive affects of healthy living within the home, the more products will enter the mainstream of standard building practices.”

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## October Home Sale Statistics



As you can see the number of listings that went pending in October 2009 is FANTASTIC! Over 350 more transactions pended than last year! These statistics come directly from the Omaha Market. Lets help make the next winter months just as successful!

|   | October 2009 | October 2008 |
|---|--------------|--------------|
| <b>Total # of Residential Listings Processed</b>                | 1,559        | 1,373        |
| <b>Average List Price of Residential Listings Processed</b>     | \$232,452    | \$217,405    |
| <b>Total # of Residential Listings Pended during month</b>      | 916          | 563          |
| <b>Average Market Time of Listings pended</b>                   | 63           | 68           |
| <b>Average Sales Price of Listings Closed</b>                   | \$158,514    | \$166,252    |
| <b>Average Sale Price Closed as % of Avg. List Price Closed</b> | 97%          | 96%          |

\*Information supplied by the Omaha Area Board of Realtors statistics.