



THE FINANCIAL SIDE OF BUYING A HOME

Most of us start out as renters because it doesn't require a big upfront financial investment. But the downside to renting is that your monthly payments are a pure expense. In other words, once you make them, they're gone forever.

Why should I buy a home instead of renting?

On the other hand, when you own a home, there are some nice financial perks, such as:

- ▶ A portion of each payment reduces your outstanding loan balance each month, if you have a fixed-rate mortgage.
- ▶ Your mortgage interest and property taxes can be deducted from your taxable income each year.
- ▶ The market value of your home may rise over time, allowing you to build equity.

When should I consider buying a home

The right time to consider buying a home is different for everyone. But here are a few important questions that you should ask:

- ▶ Do I have good credit?
- ▶ Can I demonstrate 2 to 3 years of steady income from a job or business? If you've changed jobs within that time frame, are you doing the same type of work?
- ▶ Can I afford to pay a mortgage, taxes, and insurance every month?
- ▶ Is my current income likely to continue or increase?
- ▶ Do I have enough saved for a down payment? (See more about this below).

If you answer "yes" to these questions, you're probably in a good position to seriously consider buying a home.

How much down payment money will I need?

How much down payment you'll need depends on several factors, including the price of the home, the type of mortgage you get, and customary closing costs for buyers in your market.

In general, you need enough cash in the bank to cover 3 costs:

1. **Earnest money**—this is the good faith deposit you make on a home when you submit an offer. The customary amount varies depending on the market, but might range from 1% to 3% of the offer price. If your offer is accepted, the funds are applied toward your closing costs. If not, your earnest money is returned to you.
2. **Down payment**—this is the percentage of the home price that you must pay at closing. The more you put down, the lower your mortgage payments will be. Some loans require you pay 10% to 20% of the purchase price. Other loans designed for first-time home buyers, such as an FHA loan which require 3.5% down. There are also CHFA and bond loans available but best to talk with a lender about those as they have restrictions and sometimes, a higher interest rate.
3. **Closing costs**—these are fees you must pay at the settlement, such as lender charges, an appraisal, survey, inspections, attorney fees, taxes, title insurance, and any other processing expenses. You should receive an estimate of your total closing costs from your lender, so you aren't caught by surprise.



What can I afford?

Remember that you'll have other costs every month, in addition to the mortgage payment. These are called the PITI, which stands for principal, interest, taxes, and insurance:

- ▶ **Principal**—is the repayment of the amount you borrowed.
- ▶ **Mortgage Interest**—is the payment to the lender for the use of the money you borrowed.
- ▶ **Home insurance**—protects you and the lender against damage from many (but not all) natural disasters, theft, vandalism, and legal hazards.
- ▶ **Property taxes**—are annual city and county assessments

Taxes and insurance can be rolled into your mortgage payment and then paid by your lender on your behalf. Additionally, you'll have to pay utilities, maintenance, and perhaps homeowner association dues if your home is in a gated community (HOA).

Yes! Talk with a lender before you go out to look at homes.

Don't assume what you are qualified for by using those on-line calculators. Your loan is based on several aspects that these calculators don't take into consideration.

Yes, be pre-approved for a loan! This means you've met with the lender, produced all the necessary financial documentation enabling your file to go through the lender's Underwriting process and being approved for the loan. This can take up to a week or two to obtain but it saves you that time when you've found your home allowing you to have a shorter wait for Closing and moving into your new home!

Having a lender pre-approval will also give strength to your offer on a home with more advantages by being able to negotiate the price down more and give you the advantage of your offer being accepted should there be multiple offers on the same home. It'll also help eliminate last moment "gotcha" that could cause you, the seller and the agents' anxiety and potentially lose the contract. Being pre-approved gives you strength and clout.

As you can see, a pre-qualification is a very weak supporting form and presents that way to a seller. Get your loan pre-approval first!

What should I expect at the home closing?

A home closing is where all your fees and costs of buying the property are finalized on the Settlement Statement, Form HUD-1. It's your last opportunity to make necessary changes to your paperwork. So don't hesitate to ask questions about charges that you don't understand.

The closing agent will have a stack of documents for you and the seller to sign. You can handle it in person or remotely through the mail. The mortgage and deed will be recorded in the county records registry, you'll receive a copy of everything (including the keys), and then you'll be an official homeowner.



Choosing a Realtor®:

Although it's nice to use a relative or friend, keep in mind that this is one of the largest purchases of your lifetime. Do you really want to risk it on a new agent or a family member who might not have the qualifications and knowledge that finding an acceptable home takes? Sometimes too, you will settle for less than what you want in order to spare the others feelings.

Here's what a good agent will do for you:

- ▶ Provide you with listings in the area and price range that you're looking in
- ▶ Know the market value in the area that you're searching and will prepare a market analysis to determine if the listing agent has it priced too high for the area
- ▶ Will show you as many homes as you'd like to see.
- ▶ When showing you homes, the agent will tell you:
 - It's history including time on the market now and previously which will indicate if there's been problems with selling it
 - If there has been improvements made without the benefit of a building permit. This can not only affect your ability to obtain a governmental loan, work could cause potential life threatening situations, and could impact your ability to sell again
 - If there are any potential concerns with the home:
 - ▶ Water problems—previous, current or potential
 - ▶ Code violations
 - ▶ Roof, foundation, window and/or draining concerns
 - ▶ Previous recalls such as polybutylene plumbing, furnaces, breaker boxes, windows, etc.
 - ▶ Potential structural issues
- ▶ Will give you websites and additional information about schools, the crime rate, etc.
- ▶ Writing a comprehensive contract that will protect you especially should the contract fail due to inspections, loan and appraisal issues. A strong contract will also help avoid costly mistakes, missed deadlines and the failure of the contract.
- ▶ If you are getting a government loan (FHA, VA, etc.) your agent should be well versed on appraiser condition requirements in order so that these items will have been previously remedied in the inspection before they become an issue.
 - Basically, when looking homes, an agent should have these conditions noted prior to making your offer
- ▶ Knows how to negotiate your offer in order to help you achieve the lowest purchase price possible
- ▶ Will thoroughly explain the contract process including assisting you in finding a good quality lender and inspector.
- ▶ Will counsel you as to whether the home you're looking at has the potential for equity gain or if there's something that could impact your future sale—even if you're planning on living there forever!

Buying a home doesn't have to be stressful. A good Realtor will help make all this possible for you from start to finish so that when you move into your new home, only good memories will follow.