

## **Buying a Home**

When considering the purchase of a home, there are several factors to consider. As with many other decisions in your lifetime, there are advantages and disadvantages to buying a home. Take time to review all the factors involved:

### **The Advantages**

- Payments stay relatively the same depending upon the form of financing
- Tax credits
- Control over interior and exterior within stated city, subdivision, or association ordinances
- More storage space
- Savings in home equity as market value increases
- Improved credit rating
- Usually no restrictions regarding pets or number of occupants
- More privacy

### **The Disadvantages**

- Less freedom to move
- Property taxes may increase to a rate that makes the home no longer affordable
- Money spent on home improvement projects
- Responsible for upkeep of the property (lawn maintenance, painting, snow removal, etc.)
- Neighborhood (or condo) association may require fees for general upkeep of common areas

## **How much can you afford?**

In determining how much to spend on housing, carefully calculate the home budget and current financial obligations. There are up-front costs (down payments, closing costs, moving expenses, inspection fees, etc.) and ongoing costs (utilities, maintenance) to consider when calculating how much you can afford.

A general rule of thumb commonly used in real estate determines an affordable home is 2-1/2 times the total gross annual salary of the potential buyer(s). The buying power also depends on how much is available for a down payment. Lenders will generally follow these guidelines:

- The monthly housing costs **plus any long-term debts** should not exceed more than 36% of the monthly gross income
- The monthly housing costs (mortgage payment, property taxes, insurance, condo or cooperative fee, if applicable) should not total more than 28% of the monthly gross income

## **The Home Buying Process**

### **Phase 1 - Determine home ownership needs**

- What type of housing should I (we) buy?
- How much can I (we) afford to spend?

### **Phase 2 - Locate and evaluate a home**

- Where do I (we) want to live?
- How much negotiation movement exist?

### **Phase 3 - Price the property**

- What is an appropriate market price?
- How much negotiation movement exists?

### **Phase 4 - Obtaining financing**

- How much down payment is available?
- What are current mortgage rates?
- Can I (we) qualify for a mortgage?
- What type of mortgage should be selected?

## **Phase 5 - Close the purchase transaction**

- What is the closing date?
- What funds and document will be needed for the closing?
- Is everything understood before the final signing?

## **Qualifying for a Mortgage**

- Determine an estimated value of the home you would like to purchase.
- Obtain funds for a down payment from savings or through gifts or loans from family members.
- Reduce other debts or improve your credit record, if necessary.
- Compare fees, services, and mortgage rates for different lenders.
- Prepare the mortgage application.

**Your mortgage acceptance will be based on your credit record.**

The amount of the mortgage for which you qualify will be influenced by:

- Your income
- The amount available for a down payment
- Current mortgage rates

## **Types of Mortgages**

### **Fixed-rate, fixed-payment mortgages:**

- Conventional, 30 year mortgage
- Conventional, 15 or 20 year mortgage
- FHA / VA fixed-rate mortgage
- "Balloon" loan (3-10 year terms)

### **Adjustable-rate, variable payments**

- Adjustable rate mortgage (ARM)
- Graduated-payment mortgage
- Growing-equity mortgage

### **Other financing methods:**

- Buy-downs
- A shared appreciation mortgage (SAM)
- A second mortgage (home equity loan)
- Reverse mortgages

- Refinancing

## **Closing Cost**

At the real estate transaction settlement, commonly referred to as the "closing," the following costs are commonly incurred by a person buying a home:

- Title search fee (\$50-\$150)
- Title insurance (\$100-\$600)
- Attorney's fee (\$50-\$700)
- Appraisal fee (\$100-\$300)
- Recording fees; transfer taxes (\$15-\$30)
- Credit report (\$25-\$75)
- Termite inspection (\$50-\$150)
- Lender's origination fee (1-3% of loan amount)
- Reserves for home insurance and property taxes (amount varies)
- Interest paid in advance (if applicable)