

Tips on Homeownership

Considering Homeownership

To many of us the American Dream is to own a home. With so many different variables, such as financing, insurance, and affordability, how does one go about purchasing a home? After all, it is not as easy as going to the local department store and comparing or pricing stereo receivers. For most people the purchase of a home will be the single largest investment of their life. Therefore, it is immensely important to educate yourself on the home buying process.

There are advantages and disadvantages to owning a home. As a prospective homeowner, one should look at the pros and cons of each before making a decision. For instance, a homeowner receives certain tax advantages and is able to accumulate equity. However with homeownership comes a monthly mortgage payment and home maintenance or upkeep.

How much can you afford?

One of the first questions a potential homeowner or renter should consider is affordability. There are several tips in determining how much can be afforded.

A general rule of thumb to determine the affordability is 2 to 2 1/2 times the total gross annual salary of the potential buyer.

The monthly housing cost plus any long-term debts should not exceed 36% of the monthly gross income.

The monthly housing cost (mortgage payment, property taxes, insurance, condo or cooperative fees if applicable) should be no more than 28% of the monthly gross income.

Qualifying For A Mortgage

In reviewing applications for mortgages, lenders more commonly look for what sometimes are called the 4 C's - capacity, capital, character, and conditions. These help creditors analyze their risk for approving the loan application.

Capacity

Do you have the financial capacity to take on the credit you are seeking? Creditors look at your income and your current financial obligations to determine if you have the capacity to handle the additional debt.

Capital

Creditors are looking for what types of assets and resources you have. Do you have equity in your home? What is the value of your car? In determining capital, creditors are not just looking for a means of payment; they seek assurance that a debt could be paid from your assets if the need arose.

Character

This is the most important aspect to the majority of creditors. What has been your responsibility in paying your other debts according to the term of the contract? They rely on credit bureau reports to determine your character. They also verify information, provided by you on your application, to determine if you gave accurate information.

Conditions

Creditors analyze current economic trends to determine if your ability to pay is at risk. If statistics show that your occupation is subject to high unemployment, strikes, layoffs, and seasonal work, it may affect the granting decision or change the terms in your contract.