

Guide to Home Buying

Know your *reasons* for buying a home!

First of all, it is a good idea to remember that a home is just that --a place where you can live. Yes, there can be some wonderful advantages to home ownership, including pride and accomplishment, potential tax advantages and the build-up of equity. But it is generally a mistake to attach too much importance to the advantages and not enough to what should be the primary reason: A home is a place where you live. By knowing precisely what your reasons are for buying a home, you will be much more likely to keep everything in clear focus.

Spend some time analyzing your budget and finances

The development of a household budget is a desirable activity both before you make a Real Estate purchase as well as consistently during your ownership. By preparing a budget while you are looking at homes, you can better focus on mortgage payment goals and how the new house will affect your total expenses. Maintaining a budget during the time you own the home can help to prevent potential financial disasters as well as point you in a money saving direction so you have more funds available for those things that you need or want.

You will need a little time to develop your budget --it's not a five-minute exercise-- but should not take longer than a few hours if you gather the necessary information first. Get everyone who will be involved in *spending* involved in *developing* the budget!

Some of the items and information you will need to develop your budget are:

- All current monthly loan payments.
- All other monthly expenses (such as child care, dues, etc.).
- Records of variable expenses (for example, utilities, food and car repair) from the last 12 months. This will give you an estimate of your monthly expenditures.
- Records of annual or semi-annual expenses (such as insurance and taxes).
- An estimate of what your new mortgage payment will be.
- Records of other non-fixed expenses (for example, medical expenditures) for the last year. This will give you an estimate of average expenses of this type.
- Records or an estimate of personal expenses (entertainment, travel, etc.)

Run a Credit Report to make certain that there are no discrepancies or problems in your credit history.

Having a current copy of your credit report can be very helpful. Not only will it reveal any inaccuracies in your credit history, it will also give you a clear picture of not only your total debt but your monthly obligations

Be realistic in your budget assessment. Make provisions for possible increases in some items (for example, school tuitions, insurance and taxes). Then, look for ways to get (and maintain) control over your budget.

Get familiarized with home inspections

Do an analysis of how a house purchase will affect your budget. Be sure to factor in not only mortgage payments (including insurance and taxes) but also funds for items such as repairs and maintenance.

****See attached budget sheets**

Know exactly how much home you can comfortably afford and become familiar with the mortgage process.

Financing:

Probably one of the reasons that buying a home is such an emotional experience is because of the fact that not only do you have the actual house buying to deal with, but for most homebuyers you also have the mortgage process to encounter. This can be a smooth and almost uneventful process, or an unnerving one. A great deal depends on the preparation of the buyer as well as the selection of an efficient mortgage company.

Begin to gather items such as: last 3 years Income Tax returns, current copies of pay stubs, records of any past derogatory credit history that has since been paid off, and records of any supplemental income you may have. If you are self-employed, you will need all business records and tax returns for the last 3 years. Having these items close at hand will save an enormous amount of time when the Mortgage Company begins to ask for them (and ask for them they will!)

If it is possible to do so without adversely affecting your down-payment situation, pay off minor debts. The less debt you have the easier your Mortgage "sailing" will be.

Do not incur any new debt. Many mortgage applications have been stopped in their tracks because the applicants had decided a week before the application that a shiny new car with a big finance or lease payment would look just perfect in the driveway of their new home. Since mortgages are based on debt to income ratios (the amount you pay out monthly versus the amount you bring in) a newly acquired debt could be enough to throw the ratios off and make the mortgage unobtainable.

Mortgage Prequalification and Preapproval

Why get prequalified and then preapproved for a mortgage before you begin your search for a home? Because there are 3 people who will benefit from your preapproval: You, your Agent, and the seller from whom you eventually buy a home!

You: The most important beneficiary, of course, is you. One of the most common questions: "Please let us know how much house we can afford." There are simply too many variables--credit history, income, debt, special mortgage programs and variations in qualifying guidelines between different mortgage types--to answer that question. The only sure way of getting the question answered is through prequalification. The mortgage prequalification step is a relatively simple one, but it is an important one. It begins the process of formally applying for a mortgage, and it gives everyone involved--especially you--a clear sense of the direction they should be headed.

Your Agent: By knowing what your financial parameters are, your Agent can spend more time looking for houses that "fit" and less time pursuing dead ends. No matter how much you might *want* a 4000 square foot home for \$275,000, if your qualifications say \$125,000, your qualifications say \$125,000. When it comes to mortgages, "yes, but" doesn't carry much weight!

The Seller: Want to strengthen your bargaining position? Get prequalified. Want your offer to stand out in a case of multiple offers for the same house? Get prequalified. Look at it from the seller's perspective. If you had 2 offers on the table for your house, one from a fully prequalified buyer and the other from an "I'll get around to that soon" buyer--to which offer would you devote

the most attention? Even if the prequalified buyer's offer was \$1000 less, would you take the chance on the buyer that perhaps may not be qualified? When it comes to a seller evaluating offers, "a bird in the hand..." definitely applies.

It is important to remember that the amount of mortgage you will qualify for is the *maximum*. It is the amount that the lender feels you can *afford*, but it is not necessarily the amount that you *want to pay*. It sometimes is advantageous to be conservative here. For example, if you qualify for a \$100,000 mortgage and you have \$15,000 available in cash for downpayment and closing costs, you are qualified to buy homes with a maximum selling price of \$115,000. So as to not push yourself to the limit, you may want to look at homes that sell in the \$100,000 to \$110,000 range. Too many buyers simply rush off to the \$115,000 level and some find themselves strapped when it comes time to purchase necessary items (such as draperies, additional furniture and lawn and garden tools, for example) or when they forget to factor in increases in monthly expenses (for example utilities and maintenance and repair costs).

Choosing a Mortgage

Choosing among the many houses that may be available is hard enough--then you need to make a choice from the myriad of mortgages that are offered in today's market. So many decisions! Take heart, though, since although there are literally hundreds of different mortgages available, they all fall into only a few basic varieties. Some may fit perfectly into your situation; others may be unwise or unattainable. By narrowing your choices, the process of picking the right mortgage becomes much easier.

Fixed Rate or Adjustable

One of your first decisions should be between a fixed rate (the interest rate remains constant through the life of the mortgage) or an adjustable (the interest rate is adjusted--either up or down--at specified times during the mortgage term). Adjustable Rate Mortgages (ARMs) will have an initial interest rate lower than fixed rates but will adjust upward (unless rates really fall!) usually after the first year. They may be a good choice if you are sure that you will not own the home for an extended period (more than 5-7 years) of time.

Advantages and Disadvantages of Fixed and ARM Mortgages

Advantages--Fixed	Advantages--ARM
<ul style="list-style-type: none"> Since you know what your payment will be for the life of the loan, you can budget more easily. 	<ul style="list-style-type: none"> Lower initial interest rate and therefore lower monthly payment.
<ul style="list-style-type: none"> No possibility of an interest rate change making your mortgage payment suddenly unaffordable. 	<ul style="list-style-type: none"> If interest rate declines, your payment will also decline.
<ul style="list-style-type: none"> No anxiety over interest rate fluctuations. 	<ul style="list-style-type: none"> Easier to qualify for due to lower initial interest rate and payment amount.
Disadvantages--Fixed	Disadvantages--ARM

<ul style="list-style-type: none"> • More income needed to qualify because of higher initial mortgage rate. 	<ul style="list-style-type: none"> • If interest rate increases, your payment will also increase.
<ul style="list-style-type: none"> • If interest rates decrease appreciably, it will be necessary to refinance to get a lower payment. 	<ul style="list-style-type: none"> • A large increase in interest rates--and payment--could make your house unaffordable.

Terms: 15, 20 or 30 years

You will probably want to shoot for the shortest term that is comfortable (and for which you will qualify). The interest savings are enormous as the term decreases. Always make a comparison between a 15-year term payment and a 30-year term payment. The difference is often surprisingly smaller than anticipated. The savings over the term of the loan, however, can be substantial. For example, comparing a 15-year term to a 30-year term, \$100,000 mortgage at an 8 1/2% fixed rate yields the following results.

	15 Year	30 Year
Principal and Interest Payment (per month)	\$985	\$769
Total paid over term in P&I	\$177,300	\$276,840
Total interest over term	\$77,300	\$176,840

HINT: If you can't qualify for a shorter term try to add at least the amount of 1 additional payment per year--this will knock nearly 10 years off a 30 year loan.

Common Loan Types: Conventional, FHA, VA and "No-Document"

Conventional: A "traditional" mortgage, not directly insured by the Federal Government. Most conventional loans under \$275,000 are administered through Fannie Mae or Freddie Mac (private corporations but regulated by the government). Those loans over that amount are designated "jumbo loans" and are funded by the private investment market.

FHA: Insured by (but not funded by) the Federal Housing Administration (FHA) a division of the U.S. Department of Housing and Urban Development (HUD), and designed for, in general, low- and middle-income borrowers and many first-time buyers. There are, however, limits (which vary from county to county) to the maximum loan amount. On January 1, 2000 HUD began insuring home mortgage loans of up to \$121,296 in communities where housing costs are relatively low, and loans ranging up to \$219,849 in communities where housing costs are relatively high. FHA loans have somewhat more relaxed qualifying standards and ratios than conventional loans and have the availability of 15 and 30 year fixed as well as 1-year adjustable mortgages.

VA: For those qualified by military service, the Veterans Administration (VA) insures (but does not fund) 15 and 30 year fixed as well as 1-year adjustable mortgages with lower down payment requirements (as low as 0 down) and somewhat more lenient qualifying ratios.

No-Document ("No-doc) Loans: No-doc mortgages are generally a wise choice for self-employed people, those who do not wish to verify their income, and those with a brief or

blemished credit history, or no credit. The benefits of a no-doc mortgage include a shorter application process since you are not required to provide income, employment or asset documentation, as well as a streamlined approval process because there is little subsequent verification. However, no doc mortgages generally will be at slightly higher interest rates and are offered by fewer lenders.

Points or No Points

A large component of your mortgage decision has to do with one of the first charges associated with your loan--even before you make your first payment--the "points" attached to the mortgage. A point is 1% of the loan amount, paid to the lender or the mortgage broker at closing (in cash)..

Mortgage Comparisons

Once you have a general idea of the type of mortgage that best suits your situation, the next step is to begin to make comparisons among the lenders that are available. Weekend newspapers will often have the rates of individual local lenders posted in their Real Estate section. To get the specifics of each lender's rate and term, you can contact the bank or mortgage company directly. Another source is a mortgage broker in your area, who will often represent a number of sources of mortgage funds and can assist you in your choice.

Credit Problems

There are options for those who have had credit problems and still want to own a home.