BUYING A HOME

Buying your home will probably be the biggest purchase you will make. First time home purchasers need to spend time researching in order to do it right! Mistakes can cost you thousands of dollars and can even result in losing the home to foreclosure. Below are some basic points to help you start your research for your home purchase.

Identify your needs

Location, location, location – proximity to work, shopping, restaurants, schools, hospitals, churches, airports, parks, friends and family as well as safety, quality of schools and zoning restrictions.

Type of home – new vs. old; well maintained vs. "fixer-upper"; single-family vs. condominium/townhouse; country/suburbs vs. urban; one story vs. two story/split level; number of bedrooms and bathrooms; square footage.

Lifestyle – Who is going to live in the house? What are you going to be doing in the house? Do you have pets? Will you be traveling frequently?

Can you afford to buy?

Down payment – Larger down payments result in smaller mortgage payments and less total interest paid. If you have a 20% or larger down payment, you won't have to purchase private mortgage insurance (PMI). PMI protects the lender.

Closing costs – Various costs in completing the purchase. Typically 2%-4% of the house purchase price. Often can be added to the mortgage.

Principal, Interest, Taxes, Insurance (PITI) & maintenance – You will be required to pay back the mortgage with interest. There will be yearly property tax payments due to the local government. The lender will also require that you purchase home owner's insurance to protect against fire or other loss. You will also be responsible for your own house repairs such as plumbing or electrical. If you live in a condominium or townhouse, you may have monthly maintenance fees for common areas.

Important factors in obtaining a mortgage

Income – Many lenders follow the 28/36 rule: PITI should not exceed 28% of gross monthly income (GMI) and overall debt should not exceed 36% of GMI.

Credit Score – Obtain free annual credit reports from annualcreditreport.com. You can also obtain your credit scores at myfico.com.

Down payment – the larger the down payment, the less risk for the lender.

Other assets - Mutual funds, stocks, bonds, savings or checking accounts that would be available to be converted to a mortgage payment if needed. You should have at least 6-8 months of expenses saved in an emergency fund.

Main types of mortgages

Fixed-rate mortgage – Borrower pays the same amount every month typically for 15 or 30 years. This is the safest choice for most people.

Adjustable-rate mortgage (ARM) – Low initial interest rate for a short period of time (often 1 or 2 years). Rate fluctuates after initial period, usually every year. Typically there is a 2% yearly increase cap and a 6% total increase cap. ARMs are more risky for you than a fixed rate loan.

Hybrid (Hybrid ARM) mortgage – Initial interest rate is lower than fixed rate. Initial rate period is fixed for 3, 5, 7 or 10 years. Rate fluctuates (becomes ARM) after initial period. May be an option if you know you will be moving within the initial rate period.

Other mortgage considerations

VA (Department of Veteran Affairs) Loans - VA guarantees part of the loan. Visit homeloans.va.gov.

Federal Housing Administration (FHA) Loans – FHA guarantees part of the loan. Visit hud.gov.

Escrow (Impound) Accounts – The lender will probably pay your taxes and home owner insurance to ensure that these costs are paid. Usually, lenders add an estimated cost

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to your monthly mortgage payment to cover the taxes and insurance costs. Remember, your payments could increase even for a fixed-rate mortgage if you have an escrow account and your property taxes or home owner insurance increases.

Points – A point is 1% of the loan balance. Banks often allow borrowers to purchase points in order to reduce the interest rate of the loan. Whether you decide to purchase points usually depends on the amount of interest rate deduction for each point, the length of time you plan to live in the house and whether you plan to refinance.

Prepayment penalty - Avoid mortgages that charge you when you make early payments on your mortgage principal.

Tax advantages – Mortgage interest and property taxes are normally tax deductible from gross income. See a competent accountant to determine other possible deductions.

Prequalified vs. Preapproved – Prequalification requires you to give income and debt estimates to the lender who then gives you an estimate of what you can borrow. Preapproval requires you to provide documentation such as pay stubs, tax returns, proof of other income & assets and information of current debts. The lender will then provide you a written commitment to loan you money. There is usually a charge for the preapproval process.

Assembling YOUR Team

Real Estate Agent – Most important member of your team. You will want an agent with experience, professionalism and integrity. Seek referrals and track neighborhood signs. Interview at least 3 agents. Check licenses and references, especially if the agent is independent. Agents receive a commission normally paid by the seller of the house. Recommend that your agent be a “buyer’s agent” who will represent you. The agent can explain the entire purchasing process to you, find prospective homes, accompany you during home visits, research comparable sales data, provide advice during negotiations, draft written purchase offer, open escrow account, recommend others to be members of your team, coordinate activities prior to closing, ensure you receive explanations of all required documents and answer questions about the community after the purchase.

Lenders – Banks and Savings & Loans provide loan options to eligible borrowers. Borrowers can also review rates at bankrate.com.

Mortgage brokers – People who shop around at different lenders to find the best deals. Brokers receive payments from lenders. Select a mortgage broker by referrals from people you trust.

Real Estate Attorney – Select an attorney experienced in home purchases. The attorney will help you review the sales contract to ensure legal compliance, complete the title search and explain all the documents you are signing during closing. Make sure you receive a cost estimate and agreement that the attorney will contact you if expenses will exceed the estimate.

Property Inspectors – Inspectors inspect the inside and outside of the home for structural and mechanical defects. The inspector will not repair problems but will recommend solutions which your real estate agent can relay to the seller’s real estate agent. Choose one who is experienced and licensed by the American Society of Home Inspectors. Accompanying the inspector during the inspection gives you an opportunity to learn about your new home.

Pest inspector – Pest inspections are separate and will look for damage due to insects such as termites or beetles.

Closing Agent – The closing agent can obtain the title report and coordinate title insurance; prorate taxes, insurance and loan interest; hold earnest money in a separate account, pay recording fees and taxes; coordinate all required closing paperwork; transfer and record the deed; and transfer your payment to the seller.

Insurance Agent – Before the purchase is complete, the lender will require that you have a home owner insurance policy in place which will cover the dwelling (cost to rebuild home), personal property (loss of your possessions), and liability (protects you financially if accidents occur on your property). Make sure that you understand what hazards are and are not covered. Separate policies against flood, earthquake and some other hazards not normally covered under home owner insurance are available if you want them.