Buying a Home & Owning a Home

BUYING A HOME

phase 1: determine home-ownership needs

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

phase 2: locate and evaluate a home

- Where do I want to live?
- What aspects of the home need improvement?

phase 3: price the property

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

phase 4: obtain financing

- How much down payment is available?
- What are current mortgage rates?
- Can I qualify for a mortgage?
- What type of mortgage should I get?

phase 5: close the purchase transaction

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

QUALIFYING FOR A MORTGAGE

- Determine the 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
- Shared-appreciation mortgage (SAM)
- Second-mortgage (home equity loan)
- Reverse mortgage
- Refinancing

CLOSING COSTS

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

- Title search fee ($50-$150)
- Title insurance ($100-$600)
- Attorney fees ($50-$700)
- Appraisal fee ($100-$300)
- Recording fees and 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)

SELLING YOUR HOME

before putting your home on the market, make any preparations that could increase appeal and market value

- Make necessary repairs
- Paint exterior and interior areas
- Update various features (such as new carpeting or plumbing fixtures)

determine the selling price, based on

- An appraisal to estimate current market value
- The location, features, and age of the home
- Current mortgage rates and market demand in your areA

decide if you will do a "sale by owner"

- Advertise your home in various media (e.g., newspapers, Internet, flyers)
- Be ready to meet and show your home to prospective buyers
- Make use of the services of a lawyer and/or title company for the legal aspects

consider using the services of a real estate agent

- Interview two or more agents to compare their services and experience
- Expect the agent to provide a marketing plan and to handle the financial and legal aspects of the sale
- Communicate with the agent on a regular basis regarding the selling price and prospective buyers

PROS AND CONS OF RENTING

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- Not responsible for property maintenance
- Generally under a rental contract, or lease, for one year or less, creating greater flexibility to move
- You don’t have costs associated with homeownership, like property taxes and homeowner’s insurance. You may, however, have renter's insurance.

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- You are not the owner of the home
- Your rent might increase over time
- You might not always be able to renew your lease
- You will not receive a federal tax deduction for rent payments, but when you own a home, mortgage interest is tax-deductible

PROS AND CONS OF BUYING

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- You may build equity, which is the value of your home minus the debt you owe on it
- Once you pay the mortgage in full, you own the home!
- Your income tax may be reduced, because mortgage interest and property taxes are generally tax deductible

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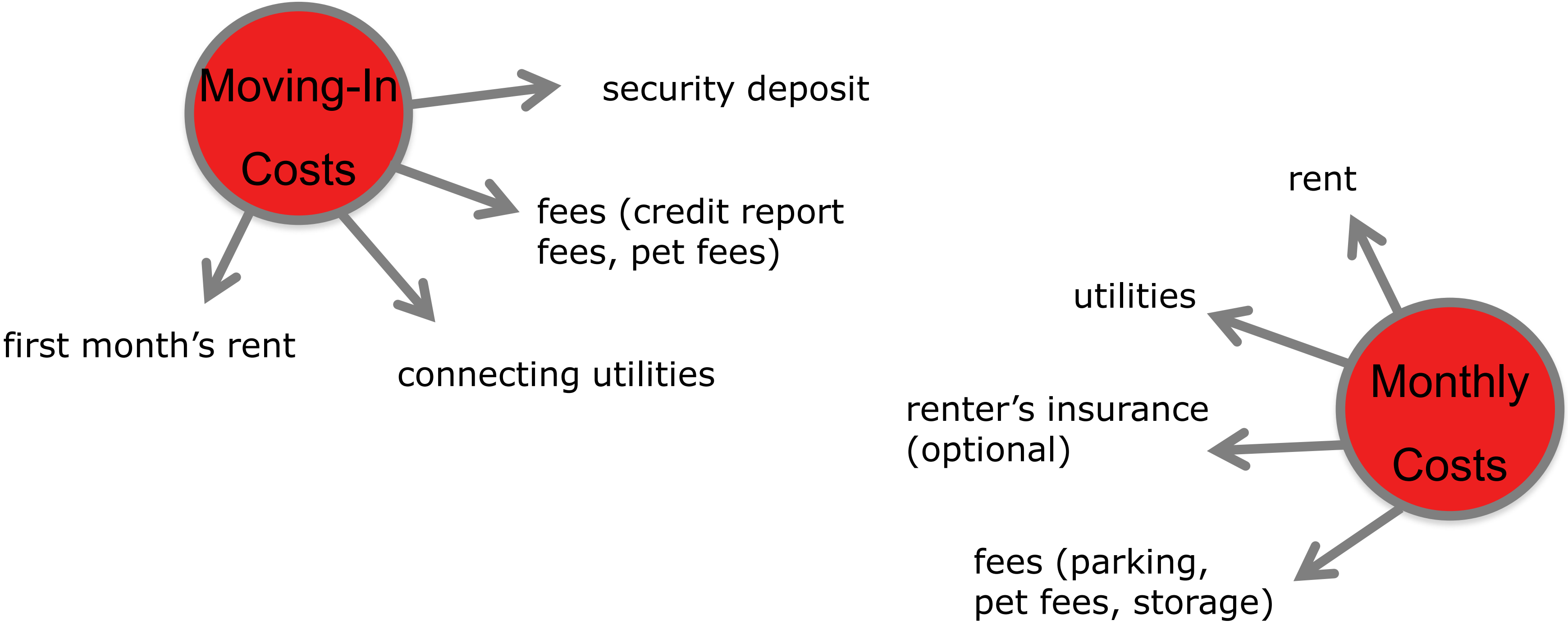
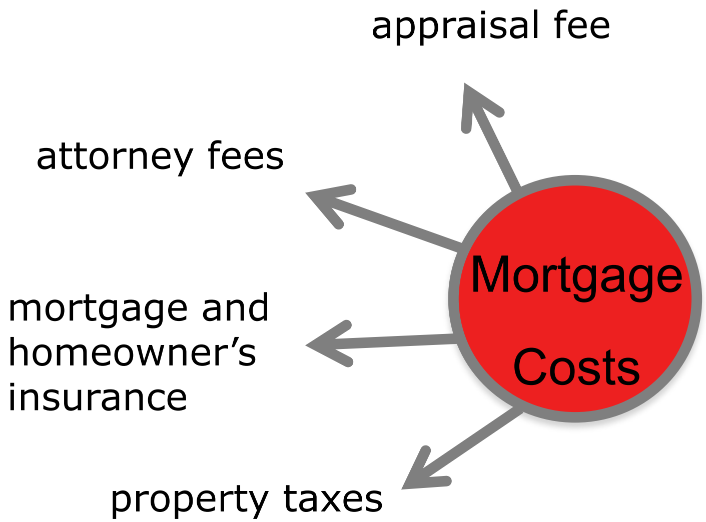
- You will have to purchase homeowner's insurance and possibly other insurance such as flood insurance
- Buying a home requires more cash up front for a down payment
- You may need to purchase additional insurance, such as that covering earthquakes or floods
- It is not as easy to move when you own a home
- You may have to pay monthly condominium or homeowner association fees. These vary considerably, but generally cover expenses such as the maintenance of common areas in your community.

RENTING COSTS



BUYING COSTS

A mortgage is a loan, provided by a financial institution, to buy a house or condo. Most first-time home buyers obtain a mortgage to help finance the home.



HOUSING CHALLENGE 1

Jay is moving out on his own next month. He found a great apartment for $695 a month. His total net income is $1,590 and his current expenses, between his car, food, entertainment, and cell phone are about $950 each month, give or take $100.

Jay is signing the lease on the dotted line today. Is his choice wise?

WISE

UN-WISE

HOUSING CHALLENGE 2

Rionna graduated from college several years ago, and her career as a graphic designer is going well. She works for one of the largest design firms in her area. Since she has started working, she has always rented a studio apartment to save on costs but now she is ready for more space. She has been shopping for houses, but she decided to wait to buy until next year because by then she will have saved up enough money to put a 10% down payment on the home.

Rionna will buy a house next year with a 10% down payment. Is her choice wise?

WISE

UN-WISE

HOUSING CHALLENGE 3

Mason has a steady job as a law clerk, but is living with his parents at home to save money while he prepares to buy a house. He has been approved for a $200,000 mortgage. If he decides to borrow the full amount, his monthly mortgage payments would be $1,300. Mason earns $2,800 net pay each month and his expenses include credit card payments ($500), groceries and eating out ($300), entertainment ($200), car payment ($250), and cell phone ($75).

Mason finds a home he likes for $195,000 and decides to put in a full-price offer. Is his choice wise?

WISE

UN-WISE