Pick the right home

HOME BUYERS GUIDE

Avoid the costly mistakes many buyers make and maximize your next purchase

Meskovic RealtyGroup

WE MAKE IT EASY

HOW MUCH CAN YOU AFFORD?

Determining how much home you can afford, or what payment you feel comfortable with, can be a trying process. Calling lenders, looking at mortgage loan programs and interest rates can be confusing, to say the least. There is an easy way to get started, and give yourself an idea of where you stand.

The first step is to find out what mortgage interest rates are at the current time. You can typically do this with a couple of phone calls to lenders or some quick searching on the internet. Get your rates on conventional fixed rate loans.

To obtain a very clear picture of how much home you can actually qualify for, the best idea is to contact a reputable local lender and let them analyze your entire situation. The lender can calculate your income-to-debt ratio, do a quick credit score and give you the information you need. Typically, lenders like to see a ratio not exceeding about 28%. This does not take into consideration long term monthly debt. As an example, to qualify for a loan, lenders may require ratios of 28% or 36%. This means you can spend up to 28% of your gross monthly income on a mortgage payment, and no more than 36% of your gross monthly income on all forms of debt, mortgage included.

CLOSING COSTS EXPLAINED

Here is an overview of the types of closing costs you may incur on your loan. Some are one-time fees, while others reoccur over the life of the loan. When you apply for your loan, you will receive a Good Faith Estimate of Settlement Charges, and a booklet that will explain these costs in detail.

Loan Origination Fee: This fee covers the lender's administrative costs in processing the loan. It is a one-time fee, often expressed as a percentage of the loan. The origination fee is typically 1% of the loan, but remember, you can obtain a loan with no origination fee and a slightly higher interest rate.

Loan Discount: Often called "points", a loan discount is a one-time charge used to adjust the yield on the loan to what market conditions demand. One point is equal to 1% of the loan amount. This fee is rare when interest rates are low.

Appraisal Fee: This is a one-time fee that pays for an appraisal, which is a statement of property value viewed by the lender. The appraisal is made by an independent fee appraiser and can cost a standard $300 to $450, or much more, depending on the home's size and location.

Credit Report Fee: This one-time fee covers the cost of the credit report that is run by an independent credit reporting agency and is usually about $60-$75.

Title Insurance Fee: There are two title policies: a lender's title policy (which protects the lender against loss due to defects on title) and a buyer's title policy (which protects you). These are both one-time charges, but the one you usually pay as a buyer is $200.

Miscellaneous Title Charges: The title company may charge fees for a title search, title examination, document preparation, notary fees, recording fees, and a settlement or closing fee. These are all one-time charges and can add up to about $200.

Document Prep Fee: There may be a separate, one-time fee that covers preparation of the final legal papers, including the note and deed of trust. These legal documents run about $150.

Lender Fees: Other lender fees include an underwriting fee, a flood certification fee, an amortization schedule fee, and other miscellaneous fees that should be disclosed by your mortgage lender at loan application. These fees vary dramatically from about $450 to $900.

PMI (Private Mortgage Insurance): Depending on the amount of your down payment, you may have to pay an up-front fee for mortgage insurance (which protects the lender against loss due to foreclosure). You may also be required to put a certain amount into a special reserve account (an impound account) held by the lender for PMI.

Beginning of the Escrow Account: Your lender will typically have an account w here your property taxes and property insurance will be held. This account will be started with taxes approximately equal to two months in excess of the number of months that have elapsed this year. (If 6 months have passed, they will collect 8 months of taxes.) Your property insurance will be collected one year in advance, plus two months will be kept in your escrow account.

Earnest Money Deposit: It is important to have an understanding of the earnest money deposit, so you will not be placed in an uncomfortable position when you purchase a property. At the time a written offer is initiated, you will be required by the seller to include a personal check, cashier's check, or cash. The amount is normally deposited (cashed) into the designated title company's escrow account upon the offer's acceptance, and will remain in escrow until the time of closing.

This amount is credited to you as a partial down payment and represents your intent to purchase the property. If the offer is not accepted, this amount is returned to you promptly. Depending on the price of the property, you should anticipate a minimum of a $1,000 earnest money deposit. Also, in the event that you do not qualify with a lender for a new loan, the earnest money is refunded to you, provided the sellers are given written notice regarding the lender's disapproval, and provided you have supplied the lender with all documentation they have requested.

Title Insurance: When you purchase your home, both you and the lender need a preliminary title ment that will indicate exactly what recorded liens, encumbrances and recorded easements are currently in effect on the property. The title ment will also indicate the vested owner of record and any restrictions on the use of the property. Title insurance is, for all practical purposes, required on all property in most states and is normally a seller's expense. However, the buyer is required to furnish the lender with a lender's policy showing the lender as lien holder on that property. These charges will be incurred at the time of settlement as a part of your closing costs. When the purchase of the property is closed, and the title company has recorded the necessary documents, the title company will then issue a title insurance policy binder to you and the lender, showing clear title to the property.

Reminder: For the closing, you must bring a driver's license and a cashier's check for the remainder of your down payment, made out to the title company. At the closing, you may sign the cashier's check over to the title company. If the closing does not occur, you can deposit the cashier's check back into your own account.

MAKE YOUR NEXT OFFER COUNT

Be a Pre-Approved Buyer: A pre-approved buyer always has the advantage in an offer situation. Becoming pre-approved is very easy: you complete your loan application with a credit check prior to beginning your home search process. Pre-approval means that you have actually been approved for the purchase by a lender, which gives you the edge in home purchase negotiating.

Beat The Competition to The Best New Listings: The search process can be both fun and trying. You will notice that some homes sell very fast and others hang around for long periods of time. The best homes at the best prices sell fast. Keeping on top of this is essential. Connect with a professional Real Estate agent that knows the market and keeps you updated.

Do The Research: Make yourself a "home value expert." Investigate the areas and price ranges for the kind of home you are looking for. Get a good idea of the price ranges these homes sell for and how long the market time is for them. Your agent is a great asset here.

Have Your Offer Presented in Person: Your agent represents you and your best interests. To adequately do this, make sure that your home offer is presented by them directly to the seller. The personal touch will give you the edge. Your agent also might pick up critical information during this meeting.

Prove That You Are a Serious Buyer: The best way to accomplish this is with strong earnest money. This might mean that you put 5% or more down to get the sellers attention.

Don't Go Crazy: Even in a hot market, be cool and calculated with your decisions. A knowledgeable agent can really help you here. Your home purchase may be your single largest investment. It is important to make sure that you get the best deal possible. Overpaying now will make it harder to get your value back when you sell.

Keep Your Offer Simple and Clean: Make sure that your contract to purchase is simple, clean and not bogged down with unnecessary contingencies, especially repairs. Keep the time frames of repairs and responses to a minimum. The cleaner your offer, the more interested the seller will become. This may help you purchase the property at the best price.

Don't Wing It Alone: What you need most in today's complex marketplace is an experienced and professional real estate agent who represents your interests only. No matter how heated the competition or the negotiations, a professional agent will represent your best interests, keep you from paying too much and help you maximize your investment.

QUESTIONS TO ASK YOUR AGENT

How long have you been in residential real estate in our area? If they have not been in local real estate for several years, they have not been involved in the cyclical market that has defined our market to date. Along with this, ask how many transactions they average per year. One agent could have been in business 10 years and have only closed 30 transactions, while another agent could have been in business 5 years, yet closed 500 plus transactions. Experience is relative to the amount of business the agent does.

What is your procedure for assisting a buyer from beginning to closing? Make sure that the agent has a precise presentation for you that explains exactly how they work and how they represent only you and your best interests.

What is your experience with financing alternatives, and what might they be in my situation? Each buyer's situation is different. We can literally put you in a much better financial situation with the same monthly payments simply by adjusting the financing. You might have many alternatives. Don't depend solely on the lender. Your agent should lead the way.

How do you determine my qualifications and when? You would be shocked at how rare it is for an agent to complete your qualifications right away. Even so, it is important to have this done early in the process. This way you are ready to make a strong offer at a moment's notice, increasing your chances for not only finding, but buying the home of your dreams.

How do you provide me with information on new homes for sale? Your agent should have a system that automatically updates you when new homes meeting your criteria come on the market.

What is your negotiating philosophy, and how do you apply it to me? This is important. Play close attention to how many transactions the agent does per year. More is better. The more transactions the agent closes, the more experience they have in negotiating just about every situation that could come up.

How do you find the best value for me? How do you make sure it is a good value? This is important because the agent should have some immediate and concise answers as to how they accomplish this for you. They should have systems in place and be able to explain them to you.

How do you protect me from the extensive costs that lenders, title companies, inspectors and others charge a home purchaser? The typical answer is that these charges are just normal. Make sure that the agent has relationships with companies that can offer you good service and some discounts. Also make sure that the agent has an immediate knowledge of what typical costs are.

Can you sell us a new, resale or foreclosed home? Most agents will answer affirmatively, but you should follow up with questions about specific builders and areas.

QUESTIONS TO ASK YOUR AGENT

Purchasing a home can save you money very quickly. FIRST, you'll save on taxes because the interest on your home mortgage is tax deductible. If you rent, your landlord gets the break.

SECOND, you'll save on interest payments while keeping the great tax advantage.

For example: if you are paying $900 per month in rent, you are paying a portion of this towards your landlord's property taxes and mortgage loan interest. Your landlord can write this amount off. You derive absolutely no tax break. When you own a home, you now reduce your taxes for the mortgage interest and for your property taxes. Your interest is always the highest during the early years of your loan, so your overall write-off is largest during these early years.

Paying rent is like throwing your money out the car window each month. You pay it out and never see it again. With home ownership you receive loan interest write-off, and gain money over the years from the increased value of your home. Over a ten year period, on an initial purchase price of $100,000, you could gain over $100,000 in tax advantages and appreciation based on an 8% mortgage interest rate and 5% per year increase in home values.

On both the 15 year and 30 year loans, your interest deduction is highest in the first few years of the loan, so your tax deduction is highest then, too. Remember, if you plan to move or refinance after 5 years, you will maximize your tax deductions. Keep in mind that as you pre-pay part of your loan to reduce the interest expense, you also reduce your tax deduction. How long you plan to keep your current mortgage loan can help determine which type of loan, and which payment strategy, is ideal for you.

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