

Presented by Mortgage Express – Maui Team
(Based on FreddieMac Resources)

BUYING A HOME IN TODAY'S MARKET

Why Own?

There are many great reasons to consider owning a home:

- **You'll have a place that is yours!**

You'll own it, have a place to raise your children and become a part of your community. You can pass your home down to your children, and their children, creating security for generations to come.

You may pay less to own a home than you would to rent – and it's yours at the end!

Homeownership can reduce the federal income taxes you pay. You can deduct the interest on your home mortgage and property taxes you pay on your home on the tax returns you file each year. These tax savings partially reduce, or offset somewhat, the actual cost of owning your home.

- **Your monthly payments won't ever go up if you choose a fixed-rate mortgage!**

If you choose a mortgage with a fixed-interest rate (one that stays the same for the life of the loan, say 30 years), you'll pay the same mortgage payment each month for the entire 30 years of the loan (if your taxes go up, your escrow will go up – increasing your monthly payment).

- **You'll build a good nest egg!**

Owning a home and building equity is the single greatest source of financial security and independence for the majority of people who've taken this step.

How Much Can You Afford to Spend on a Home?

To get a quick idea of what you can afford to spend, multiply your annual gross income by 2.5. For example, if your annual household income is \$50,000, you might be able to qualify for a \$125,000 home. This is just a rough estimate – the actual number will vary based on factors such as current interest rates and the rate for which you'll qualify based on your debt and credit history, as well as other financial factors.

Mortgage lenders typically use two ratios to more accurately determine how much you can afford to spend on your mortgage.

- **Housing Expense Ratio**

Mortgage lenders recommend that your monthly mortgage payment be less than 28% of your monthly gross income and that your recurring debt plus your monthly mortgage payment be no more than 36%. This percentage can change based on the type of mortgage you choose and sometimes the area in which you're looking to buy.

- **Debt-to-Income Ratio**

You need to factor your other debts into determining an affordable monthly mortgage payment. Mortgage lenders look at whether your total debt is larger than 30-40% of your monthly gross income. Remember, debt is not just credit cards and student loans. It can also include alimony, child support, car loans, and housing expenses.

These guidelines may vary slightly in different states, so talk to a mortgage lender or housing counselor who can help you better understand the guidelines or requirements. Before you talk to one,

down payment, closing costs, inspection costs, moving, and other related expenses, and be sure to factor in any future plans that might impact your household budget.

Give yourself a buffer. Remember that the mortgage is not the only expense of homeownership. Other expenses include homeowner's insurance, interest and taxes (which may be factored into your monthly mortgage payment), maintenance costs, utilities, and other expenses you probably didn't pay for as a renter, such as water and garbage, and unexpected repairs. When deciding what you can afford, be sure to look at the big picture and not just the price of the home.

Don't be discouraged!

If what you can afford is less than the average single-family home in your area, look at townhouses, condos, and affordable projects.

As you build equity in your townhouse or condo, you may find that in several years you can buy a single-family home.



Is Homeownership Right for You?

Buying a home is the largest purchase most people will ever make. Homeownership has great benefits. Homeownership also comes with certain responsibilities.

Are you ready for homeownership? Look at your current situation and determine if:

- You have a steady, reliable source of income and a steady employment history for at least two years.
 - You have a credit history.
- Your total debt is manageable and you can afford to take on the costs associated with homeownership.
- You have money saved for a down payment and closing costs or you have access to other sources of funds, such as an employment bonus, tax refund, or a gift from a relative.

Think about your future plans that might affect your ability to manage the costs of homeownership.

- Consider whether you need to make lifestyle changes that might include not taking expensive vacations or purchasing luxury cars, and dining out less.
 - Consider the costs of a growing family when looking at your homeownership budget.
- Consider whether your future plans might include a wedding or college education for yourself or your children.

And remember, the mortgage is not the only expense you need to consider. Homeownership comes with other potential budget items such as repairs, maintenance, taxes, landscaping, etc.

Once you fully understand your current situation, your future plans, and the big picture in terms of homeownership, it's important to look at the pros and cons of homeownership to make the best decision for you and your family.



Credit and Homeownership

If you're thinking about buying a home, you should also be thinking about your credit. The first step in the homebuying process is understanding your credit.

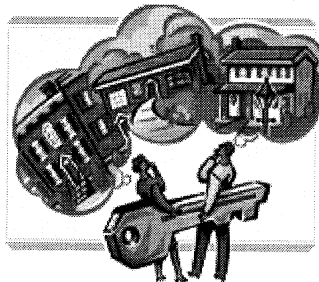
When you apply for a mortgage, lenders will review your credit report. Your credit report is a history of how you've managed your finances: it's a record of money you've borrowed, your history of paying it back, and how much open credit is available to you.

Your credit report follows you wherever you go and will have a big influence on whether or not you can get a mortgage, the terms of that loan, and the interest rate. If you have good credit, you may have a much wider range of mortgage options with lower rates.

So how do you better understand credit?

- Be aware of how important your credit history is to the process. Establish good credit and protect your credit. Look at your credit report and credit scores.
- Make sure you correct any mistakes on your credit report right away.

House Hunting



Once you know how much money you can borrow and have an estimate of your closing costs, you'll know the price range you can afford. You might already have your "dream home" in mind. Perhaps you want to settle down in a particular neighborhood, or maybe you just need more space for your growing family.

Even if you know exactly what you're looking for, the house hunting process can be overwhelming. It takes time.

The First Step – A Reality Check

It's fun to look at houses. And this part of the process is very exciting, but don't let your excitement rule the house-hunting process.

- Stick within your budget – don't look at homes above what you can afford – even if it's "just a little" more.
- Don't let your heart rule over your head. You may fall in love with a property, but if it is beyond your means, it is not the right house for you.
- Be flexible. Don't be disappointed if the houses in your price range differ from your dream. Buy the home you can afford rather than the home that "has it all."
 - Compare what you'd like to have with what you really need.

Some good house-hunting tips

- Take pictures inside and outside the home.
- Bring a spouse, family member, or friend.
- Make sure the house fits into your budget.
- Ask about utility and maintenance costs.
 - Think of commuting time and costs.
- Consider your monthly budget – can you afford the renovations and maintenance that you'll need to do?
 - Don't make a "spur-of-the-moment" decision.

◦ ***Additional tips to make the house-hunting process easier***

- Concentrate on a few neighborhoods. Decide what's most important to you about the neighborhood you want. This can greatly narrow down your search.
- Work with a real estate agent you feel comfortable with. They'll have many more listings than you can find on your own.
- Compare homes. Make sure you know what you would get and what you would miss in each house before you make a decision.
- Work with a Loan Officer that has evaluated your income and expenses and worked with you on accurate pricing of your affordability.