HANDY HOME BUYER GUIDE

ColoradoHomeFinder.com

Buying a home is an enormous financial commitment. You want to make sure you do everything right.

Buying a home can be one of the most exciting and stressful times in your life. You may be looking forward to a new beginning or a new locale or even all the new decorating possibilities within your new space. At the same time, you find yourself worrying if you can really afford to buy a home. Concerns about how to finance, how to negotiate with a seller, where to find movers, the schools in your new area, etc, can all add to your anxiety. RELAX! With some research and effort you will feel confident throughout the buying process.

First off, there are some things to avoid prior to purchasing a home.

Consider the following guidelines:

- **Don't make any major purchases of any kind before buying a new home.**
- This includes a new car, electronic equipment, expensive jewelry, vacations, etcetera. You want to be able to funnel all of your financial resources towards creating a new home for you and your family. After all is said and done, when you've determined how much your home will cost you, any surplus can be used any way you see fit.

- **Don't move money around.** When you apply for a home mortgage, it is the lender's responsibility to run a slew of background checks documenting your ability to pay back the loan. Bank statements from the past three months will usually be requested as well as statements for all assets. If you move funds around, it can make it more difficult for the lender to approve your loan. The simpler you keep your finances in the months prior to buying a home, the better. Also don't make any sudden changes in banks or brokerage services.

- **Don't change jobs.** If at all possible, try not to change employers while you are awaiting a loan approval to buy a home. Lenders like to see continuity and stability when considering a mortgage approval. Job variables such as commissions, bonuses, and job security can come into play and decrease your credibility to the lender.

BECOMING A HOMEOWNER

As soon as you make the decision to buy a home, you need to take a close look at your financial situation. Moving is a costly venture—you will need cash for a down payment and closing costs (which usually comprise approximately 3% of the home's price). Furthermore, your monthly mortgage payments may be higher than what you may pay as a renter. In order to secure a mortgage, a lender will need to know that you are making adequate income to meet your monthly payment. In addition, they will also need to check your credit history. Now that you're sure that you can afford to purchase a home, you'll be happy to learn that there are a number of major advantages to buying.

Here are a few of the factors to consider:

1. **Long-term Investment.** Buying a home is a long-term investment on your part. Generally, your monthly mortgage payments will remain the same while your property value goes up. Every monthly payment brings you a little bit closer to owning your very own home in full. Keep in mind that the initial mortgage payments pay mostly for the interest on the loan, while subsequent payments pay a greater part of the principle.

2. **Tax Benefits.** Homeowners are entitled to a number of tax benefits. As a homeowner, the IRS allows you to deduct all mortgage interest, providing you with a significant reduction on your annual tax bill. Further, you may use your home equity to procure interest-deductible loans for home improvements, to finance a college education, or if you plan on retiring or purchasing a new home. If you decide to sell your home, you may even qualify for a capital gains tax exemption, which means you might not have to pay taxes on the sale. (There will be more on taxes later.) In effect, the government helps to subsidize your purchase of a home.

3. **Stable Monthly Housing Costs.** Buying a home also affords you the comfort of stable monthly housing costs. While rents are often unpredictable and erratic, your mortgage is not. Particularly with a fixed rate mortgage, you are guaranteed one monthly amount for fifteen to thirty years. When you consider how costly rents will probably be in thirty years, the choice seems obvious!

HOW MUCH CAN I AFFORD TO SPEND?

Before you even begin looking at homes, it is in your best interest to first establish how large a loan you qualify for. This way, you will know the price range you should be looking in and will not be disappointed if you fall in love with a home you are not financially qualified to purchase.

Lenders will look at your total household income as well as your net worth – your total assets minus total liabilities. The higher your net worth, the larger the loan you will qualify for. In addition, both your down payment and interest rates will be lower. Assuming you put a down payment of 20% on the home, one way to estimate how much you can afford is to multiply your total annual income (your gross) by three.

DEBT-TO-INCOME RATIOS

To actually determine your maximum mortgage amount, lenders use guidelines called debt-to-income ratios. This is simply the percentage of your monthly gross income (before taxes) that is used to pay your monthly debts. Because there are two calculations, there is a "front" ratio and a "back" ratio and they are generally written in the following format: 33/38.

The front ratio is the percentage of your monthly gross income that is used to pay your housing costs, including principal, interest, taxes, insurance, mortgage insurance, and any homeowner's association fees. The back ratio is the same thing plus your monthly consumer debt. Consumer debt includes car payments, credit card debt, and any installment loans. Automobile and life insurance are not included.

As shown above, the common guideline for debt-to-income ratios is 33/38. In this case, a borrower's housing costs take up 33% of their monthly income. If you add in their monthly consumer debt to the aforementioned housing costs, the total should not exceed 38% of their monthly income.

Of course, these guidelines are flexible and subject to change. The smaller the amount of your down payment or the more dubious your credit, the more rigid they become. However, if you have impeccable credit or are putting down a large down payment, they are far more flexible. Most FHA (Federal Housing Authority) guidelines will accept up to a 29/41 debt-to-income ratio.

YOUR DOWN PAYMENT

A typical down payment on a home is 5%-10%. With some government insured loans you can put down less (3.5% with an FHA loan and as low as 0% with a VA loan), but be aware that if you do so lenders will often make you take out private mortgage insurance (PMI) to protect them against any defaults in payment. You can cancel the PMI when your equity reaches 20% of the value of the home.

It may sound tempting to offer a larger down payment. However, this is not a good idea in most instances. Yes, it is true that you will need to borrow less, lowering your interest payments in the process. However, it also reduces the amount of interest deducted from your taxes. Therefore, you are left with less expendable cash that you may need to fix up the house, pay moving costs, tuition bills, etc. Please note that you cannot take out a loan for your down payment. If you are planning to use a gift from relatives to assist you, make sure to deposit it into your bank account at least six months prior to filling out a mortgage application – lenders will usually go through your bank statements for the last six months.

In addition to your down payment, moving also requires setting up an escrow account that contains several months of prepaid taxes and insurance, until you own 20% equity in your home. Finally, you will need to pay closing costs (all the fees for surveying, appraising, title feed, etc).

Lenders will be meticulously checking your credit history. It is extremely important that you have paid off as many of your debts as possible (such as credit cards, car payments, student loans). You may want to request a copy of your credit report to insure that it's accurate. It includes important information about your employment, credit cards, bank accounts, and debts. Make sure that any bounced check charges or back taxes have been taken care of and are removed from your record. Pre-qualifying for a loan is simply estimating the size mortgage you can afford. You do not need any official documentation. When looking at potential homes, you want to know that you have been preapproved for a mortgage. A pre-approval is an underwriter's official guarantee of a specified loan amount. This certified pre-approval can serve as a powerful negotiating tool once you have decided on a house you want to buy. The seller knows that you are serious in your intentions and that you can afford the property. An added bonus: it helps speed up the mortgage application process once you've made your offer.

FINDING THE RIGHT HOME

There are countless reasons why you might want to become a homeowner – a recent marriage, a new baby, a better school district, or a new job, to name a few. Your goal is to find a home in your price range that best suits your needs and desires. Once you've determined exactly what you're looking for, you should try to limit your search to those properties that meet your criteria. Expanding on that notion, there are a number of things to consider, especially if you are attempting to buy a home with good resale value (which obviously makes the most financial sense).

1. **Location, Location, Location –** Although it seems clichéd, there is no more important factor when it comes to buying a home. Clearly, there are many things you can change when it comes to your home's appearance. However, one thing that will always remain the same is the location. When considering resale in particular, location is critical. Always keep this in mind as you look. Remember that just because you don't mind the noisy bus stop across the street or the adjacent shopping center doesn't mean somebody else won't. Don't put yourself in a situation where you are forced to compromise the price of your home in the future because of negative influences you didn't consider at the time you bought the home. Take note of everything around the home you are considering. What is the neighborhood like? Local stores, parks, schools, etc? Are there any noisy highways or streets nearby that may deter others? Is there a high association fee that people may not want to pay? Consider all these factors and anything else you can think of. You can even make a pros and cons list for your own reference.

2. **Economic Stability –** When choosing a community, it only makes sense to select something in a city or town with a viable and stable economy. You want to know, or at least reasonable estimate, that in 5, 10, 15 years, when you want to sell your home, the location you've selected is still a desirable one. Look for telltale signs such as community organizations or neighbor-hood activities. You may also want to look into the surrounding commercial area. Are there reputable companies doing business in the area? This can translate into local jobs as well as money to maintain the community.

3. **Local Government Services –** Another important factor when looking at homes is the local government. You may want to check out the local branch of the library or the post office. Do they appear safe and clean? Also look into local crime statistics and compare them to the national average. What about community features? Are there recreation centers, youth programs, and parks? There are so many factors that need to be considered.

4. **Schools –** One of the most important factors for many parents are the local school systems. If you do not have children, this may not seem of consequence to you. However, keep in mind that if you ever intend to sell the home, it may be a sticking point, so proceed with caution. Inquire to find out more about the schools. Find out how they are rated as compared to other local schools. Is there the option of going to a different public school other than the one for which the address is zoned, or are the zoning laws strict? Are the schools overcrowded? Much of this information can be found free of charge on the Internet.

5. **Property Taxes –** For many people, this is an oft-overlooked factor. However, when buying a home, property taxes are nearly as important an issue as the selling price of the home! Some cities have property taxes in upwards of $20,000 that may not only hinder you as the buyer, but also will most likely draw concerns when you attempt to sell your home.

ADDITIONAL TIPS

Once you've pre-qualified for your mortgage and can approximate how much you can spend, some further steps you can take now are to conduct specific research on the neighborhoods you might want to live in. Safety is also an important factor. Does the neighborhood appear to be safe to you? Check to see if there are bars on the windows or if you hear alarms going off. Don't forget to ask the local police department about crime statistics in the area. Make sure to visit the neighborhood at night. After all, you want to know that you and your family will feel safe walking the streets even when it's dark outside. Next, you may want to consider the character of the neighborhood. Are there many families around or is it mainly senior citizens? Talk to the neighbors and inquire about the churches, temples, and schools. This will help you gauge the people in your area and learn valuable information at the same time.

You should take the time to examine real estate records to see how high the property value is. Always remember that location is the single most important factor when valuing a home. If the home you are interested in is more expensive than others in the neighborhood, it may not retain its resale value. Other factors to consider include your proximity to shops, parks, libraries, highways and other forms of transportation. If you have children (or even if not, as explained above), you will want to research the school districts. Remember that homes in better school districts may have higher taxes, but they have higher property values as well. In short, take the time to really think about your personal priorities and look for a home that suits your needs accordingly.

Now that you've narrowed the playing field, you're ready to begin seriously looking at homes. Obviously, you should always keep an eye out for any defects or damages. Take notes so you can review them later and make comparisons to other homes you will be viewing. Write down the room measurements and draft the layout so you can figure out how your furniture can best be arranged. Make sure to ask plenty of questions. After all, the current owners know more about the house than anyone. If you are interested, arrange for another visit and bring a list of questions about the property and the neighborhood. Pay close attention to the manner in which the seller answers your questions – is he/she acting defensively or trying to hide something? You'll be amazed at how much you can learn from body language or how the seller responds.

THINGS TO LOOK OUT FOR

Once you have found your dream home and put down an offer, you will most likely have a professional appraiser examine the home. However, before you even reach this point, here are some problems or defects that you can look for yourself.

Upon arrival, take careful note of the exterior of the home.

- Loose bricks or corroded mortar joints can indicate a problem with the foundation.
- If there are bulges in the siding of the house, this too, may be a sign of foundation or moisture problems.
- Be sure to inspect all the doors and windows. If they are difficult to open, it could be due to anything from poor installation to a poor foundation. Leaky sealants and broken springs are some commonplace problems.
- It is very important that you carefully inspect the roof. If the shingles are ragged, you may experience leakage, which may be very costly to repair.
- Pay attention to the landscaping of the home. If the backyard resembles an overgrown jungle, chances are, the owner doesn't take pride in the home. In all likelihood, other sections of the home may be in disrepair.

After entry, pay careful attention to the condition of the interior of the house.

- Verify that the crawl space in the home is at least 80% covered with plastic. This helps to prevent dry rot and standing water that can result in structural problems as well as mold and mildew buildup. Also check the attic for water leaks.
- Check that the ceilings are not uneven or discolored. This may be another indication of structural damage.
- Take note that the home has proper insulation to prevent heat loss. If the insulation is not installed correctly, you could end up wasting thousands on energy bills to heat your home.
- Although a pest inspection is usually part of the general home inspection, look for obvious signs that the home may be infested such as wood damage by termites. The majority of real estate agreements include a clause that holds the seller responsible for up to 3% of the purchase price for remedying the problem.
- Air conditioning and heating are also essential to take note of. Find out what source of energy the house uses (i.e. gas, electric, oil, etc.). Note the location of all the vents and make sure they are in good working condition.
- Look for any leaks or plumbing problems. Check the water pressure by flushing the toilet and running the sink simultaneously. Also test the water heater by running the shower or tub for 15 minutes.
- Lastly, pay attention to the actual layout of the house. Is the kitchen convenient to the dining area? How far away are the bedrooms from the bathroom? Once you move in, you'll quickly learn how important it is to have a foyer where the kids can leave their dirty shoes rather than ruining the beige living room carpet!

As you view potential homes, you may find yourself in contact with sellers and lenders who seem reluctant to work with you. If you suspect the reason to be of racial or ethnic origin, you may be protected under the Fair Housing Law. This law serves to prevent discrimination in the real estate market. The law says that you cannot be denied the right to buy based on your race, color, nationality, religion, gender, or disability. If you feel this applies to you, record each instance where you may have been discriminated and maintain a detailed account of the incident. If problems persist, you can write or call the national, state, or local fair-housing enforcement agency. The toll-free number is **1-800-669-9777.**

The length of time a house has been on the market can greatly affect your negotiating position.

NEGOTIATING WITH THE SELLER

Congratulations! You've narrowed it down to the one house you really want. The next step is to make an offer. Take into consideration what you are willing and able to pay. Typically, a seller will pad their asking price about 5%-10%, well aware that they won't get the full price. Still, an offer of anything less than 90%-85% may insult the seller and make him disinclined to work with you. Sometimes a seller may remain firm on the asking price, but be willing to negotiate elsewhere, such as with appliances, repairs, or closing costs. Always keep in mind that EVERYTHING is negotiable!

The length of time a house has been on the market can greatly affect your negotiating position. In a seller's market, a well priced home may receive numerous bids in the span of a couple of weeks. In this case, you probably don't have much leverage in terms of negotiation. If you aren't willing to pay the asking price, it is likely that someone else will. On the other hand, if a home has been on the market for several months, the seller is probably quite eager to sell and willing to make allowances.

When making an offer, the first step in determining a fair number is to look at the recent sales of similar homes. These are known as "comparable sales." Specifically, you want to compare prices of homes that are similar in square footage, number of bedrooms and bathrooms, garage size, and lot size. If the home you are interested in is part of a housing community or a tract of homes, you can probably even compare with exact model matches.

Another critical factor is motivation, both yours and the sellers. Always attempt to conceal your motivation, but try to determine the seller's. For example, if your lease is up on your apartment and you need to move within the next few months, do NOT divulge this information to the seller. They will realize that your time frame is quite inflexible and try to pressure you into a higher selling price. However, if the seller has already purchased a new home and has plans to move in within 60 days, this is very valuable information to know. Since the seller is eager to unload the home, you are in a strong position to negotiate. Oftentimes, this can be the case since nobody wants to pay two mortgages at one time!

Your Offer to Purchase Real Estate contract will be drawn up by your REALTOR and will outline the specific terms of the sale.

These include:

Your Offer to Purchase Real Estate form should outline the specific terms of the sale. These include:

- The earnest money amount due upon signing the sales agreement and the total purchase price.

- The provision that the sale is dependent on satisfactory appraisal and inspection of the home.
- A timetable for the buyer to: obtain a mortgage, inspect the home, review title and home owners association docs, and close on the home.
- The financing terms you are seeking.

In the case that any or all of the contingencies are not met, you have the option to withdraw your offer completely, have the issue rectified, or adjust the price accordingly. Next, to prove your interest is sincere, you should accompany your offer with a good faith deposit called "earnest money". This is generally 1-2 percent of the property's total price. The money is placed in escrow and refunded after a specified period of time if the offer expires or if you decide to withdraw.

To put yourself ahead of other potential bidders, you have the option of making an offer higher than the asking price or offer to cover owner fees such as the title insurance. Other options include being flexible with the closing date or showing documented proof of pre-qualification.

Now it is up to the seller. They may choose to accept your offer, decline it, or submit a counter offer. Usually, they will opt to negotiate on the selling price. As a buyer, it is in your best interest to secure the lowest possible price. Conversely, the seller is trying to get the most for their home. This tends to require some haggling and amendments such as keeping the appliances, satellite dish, etc. Remember the more concessions you request as a buyer, the more reluctant a seller will be to sell to you.

Another expense that is covered by the seller is the title insurance policy. This step is required by the lender in order to approve the loan application for the buyer. The title company searches all public records for outstanding taxes, judgments, or liens. It also looks for third party claims from an ex-spouse, heir, or business partner. If there are any blemishes in the record, it's probably in your best interest to either withdraw the offer or insist they are cleared.

As a buyer, you should be aware of environmental concerns such as lead paint poisoning or dangerous radon levels in the home you are considering. Federal Law requires sellers of homes built before 1978 to inform potential buyers about any lead-based paint used on the property. In many states, sellers are also required to disclose information regarding asbestos and pest infestation. Furthermore, any knowledge of unhealthy radon levels must also be divulged to the buyer prior to sale.

Prior to the purchase, look into all the factors that may impact the cost of ownership, such as taxes, utilities, and insurance. Some areas maintain unusually high property taxes, which may make them unaffordable. You will need to find out specific rates from the seller and local tax assessor. Also look into the average cost of utilities. If the house uses oil, it can be very expensive. Obtain old energy bills and factor them into your final monthly costs. Insurance is another often overlooked consideration. Some form of homeowner's insurance must be purchased prior to settlement. The policy should be dated as of the settlement date and the mortgage lender named the beneficiary. Ranging from state to state, additional insurance may be required, including flood, hurricane, or earthquake insurance. If you are looking for the lowest rates possible, your best bet is to take on a deductible. Similar to automobile insurance, this means you will pay up to a given amount out-of-pocket before your policy coverage begins.

In addition to the expenses listed above, some neighborhoods or developments charge mandatory "association fees." The fees often go to cover public amenities, such as a pool, Jacuzzi, or tennis courts. Sometimes they may simply pay for the landscaping in the area or a security patrol. These fees can run anywhere from $100 to $500 a month. Tacked onto your mortgage, this could be a substantial expense.

Barring any of the above issues, the following step would be to obtain a letter of commitment from the lender that guarantees that you have been approved to buy the home. There are a number of terms and loan conditions you need to be aware of and understand. If everything looks satisfactory, sign the letter and return it to the lender, after making a few copies for yourself.

Federal Law gives you the right to see a Uniform Settlement Statement just prior to settlement. This document simply lists all costs associated with the purchase of the house. Again, if everything checks out, you and the seller may take your final walk-through of the house. At this point, you're merely checking to make sure every-thing is in order. The house should be in the same condition as when you first saw it, and all repairs should be completed. Ideally, try and schedule this walk-through during daylight hours where you can clearly notice details.

DISCLOSURES

The seller has years of background knowledge about his or her home that may be of interest to you. For this reason, you should require a Seller's Disclosure Statement.

Although you have extensively toured the property, looked at the walls and ceiling, turned on the faucets, and played with the light switches, remember that you have not actually lived in this home. The seller has an intimate knowledge about his or her home that may be of interest to you. For this reason, you should require a Seller's Disclosure Statement. Basically, you want the seller to disclose any adverse conditions that may have a substantial impact on your decision to purchase his or her home. This would include anything from the home being located on an earthquake fault zone to faulty plumbing. In this way, you can protect yourself from any unknowns that may come back to haunt you in the future. A few other things you may want to consider include:

Official Home Inspection – Aside from the appraisal process you may also want to have a professional check out the house and identify any potential problems. Of course, you have already inspected the home on your own, but a professional will be able to notice certain things with a trained eye. These issues may not even fall under the responsibility of the seller to repair or replace, but at least you will have the foreknowledge of them just in case.

Final walk-through Inspection – Just prior to closing, be sure to revisit the property one last time to make sure everything is in order. Make sure that you retain this right as part of the Sales Agreement.

FINANCING YOUR NEW HOME

How Financing Details Will Affect Your Offer. Since chances are you will probably make your offer contingent upon obtaining a mortgage, the seller has the right to be informed of these financing plans in order to evaluate your credibility as a homebuyer. For this reason, financing details will be included in your offer. Two of the things that you should pay particular attention to are:

Your Down Payment – As part of your offer, you will need to disclose the size of your down payment. This allows the seller to evaluate your likelihood of being approved for your mortgage. Clearly, it will be easier to secure a mortgage when you are making a larger sum down payment. The underwriting guidelines will be less strict.

Interest Rate – Typical interest rates should also be included as part of your offer, mainly for your benefit. In the instance that interest rates suddenly become volatile and rise quickly, your mortgage payment could be substantially higher than you anticipated. You may not be able to afford the increase and be forced to nullify the contract. By putting a maximum acceptable rate clause into the Sales Agreement, you can protect yourself by allowing for this loophole.

Obtaining the Loan

Since very few buyers can actually pay for a home in cash, the chances are very good that you have to take out a home loan. As soon as you and the seller sign the sales agreement, you should submit a loan application if you haven't already. You will need to provide the lender with bank statements (usually from the last two months), income tax returns (last 2 years), pay stubs (last 30 days), and other proof of income and assets. The lender will explain loan origination fees, typically 1% of the loan, which are part of your loan closing costs. In addition, you should be given an estimate of all other closing costs and learn how long the interest rate is valid and if and when it can be locked in. Finally, a lender can help you determine if you need private mortgage insurance or other kinds of special insurance.

These are some of the items you should have prepared when applying for a loan to expedite the process:

- W2 Forms for the past two years
- Recent pay stubs (for the past two months)
- Federal Tax Returns (1040's) for the last two years if:
    - you are self-employed
    - earn regular income from capital gains
    - own rental property
    - earn more than 25% of your income from bonus or commissions
    - earn sizable interest income
- Year-to-Date Profit and Loss Statement (for self-employed individuals)
- Pension Award Letter (for retired individuals)
- Social Security Award Letters (for those individuals on Social Security)
- Bank statements (for the past two months)
- Statements for stocks, mutual funds, bonds, etc. (for the
- past two months)

- Copy of latest 401K statement
- Explanations for any large deposits and source of those funds
- Explanations for any negative items on your credit report
- Copy of bankruptcy papers (if you have filed for bankruptcy within
- the past seven years)
- Landlord's name, address, and phone number
- (for rental verification purposes)
- Gift Letter (if sizable funds come as a gift from a family member)

Take note: "Gifts" may also require further documentations including verification of the donor's ability to make the gift, a copy of the check used to make the gift, and a copy of the deposit slip showing the funds deposited to your account.

Before you settle on a type of mortgage, diligently compare the various mortgages available. This can help you lower your monthly payments and may even save you thousands of dollars over the course of your loan.

There are four main types of mortgage lenders. The most common of these are large banks. They have the strictest requirements, but they usually offer the lowest interest rates. Credit unions and local banks are another option. Many of these institutions are more flexible than the larger banks. They will examine your financial history as well as your current ability to make payments. You may also want to consider a mortgage broker. Mortgage brokers charge a fee to match the borrower with an appropriate lending institution. They represent banks, organizations, and private individuals with money to lend.

A less conventional alternative is to go through government agencies such as the Federal Housing Authority (FHA) or the Veteran's Administration (VA). These are not traditional lenders; they act as insurers who guarantee your loan in case you default. You must qualify in order to obtain a FHA loan. One advantage is that your down payment can be as low as 5%. VA mortgages are only available to qualifying veterans. With this type of loan, you do not even need a down payment. You might also want to look into whether your state has financing agencies that offer low-interest home financing through mortgage revenue bonds. These Housing and Urban Development (HUD) programs require that applicants have not owned a home in the last three years.

You are free to choose a mortgage with fixed or variable interest rates and payment periods. It is important to remember that only the APR (Annual Percentage Rate) factors in all costs incurred when borrowing money with a fixed rate loan, including the interest rates, points, and closing fees. The Federal Law requires that the lender supply you with a "Truth in Lending Disclosure" estimate, which includes APR, three days after applying for a loan. Some other considerations include early and late payment terms and refinancing options.

The four primary types of mortgages include :

1. **Fixed rate mortgages have a set interest rate and fixed monthly payments, usually over a 30-year time period.** This type of mortgage is often most appealing to buyers because it features a fixed, regular payment schedule. This makes it easier for buyers when planning their monthly budget. If you qualify, you may also want to consider a 15 or 20-year loan, which will increase your monthly payments by about 15%-25%. This

option could save you upwards of 50% in total interest throughout the life of the mortgage.

2. **Adjustable rate mortgages (ARMs) provide a preliminary interest rate of at least one or two points lower than a conventional mortgage.** This rate is linked to a market index and fluctuates regularly. If you opt for this type of loan, be sure to insist on an interest rate cap. This safeguard will limit your rate increase to two percentage points per year and five to six points over the course of the mortgage. This mortgage carries more risk since interest rates can be unpredictable. A number of ARMs afford you the option to lock in a low interest rate or refinance after a specified time period. Of course, you will have to pay a fee for this.

3. **Balloon mortgages demand that you pay large lump sums at fixed intervals in addition to regular monthly payments.** These large payments can decrease the life of the loan substantially. However, most people are unable to make an additional lump payment to do this.

4. **Graduated payment mortgages (GPMs) start off with a low monthly payment, but then gradually increase.** This permits buyers to buy a more expensive home than they can currently afford, with the assumption of increased income in the future. The danger with this kind of loan is known as negative amortization. In this scenario, if the buyer is forced to sell after only a few years, you still owe interest and have not even made a dent in the principal.

For some buyers it may be extremely difficult to procure a mortgage. This is especially true for first-time buyers or those who have had credit problems in the past. There are some unconventional options that you may want to consider. In some cases, the seller may be willing to hold onto the deed and receive payments directly from you. This is known as seller assisted financing. In essence, the seller becomes your lender. If you should default, the seller reserves the right to foreclose on the home.

Having a co-signor might be a good way to increase your odds of securing a mortgage loan. If your credit is less than perfect, perhaps you can convince a family member to act as a guarantor on your loan. This means that they will accept responsibility for the payments if you default.

Lastly, you may opt to borrow from your pension or profit-sharing plan. The law permits you to borrow up to one-half of the vested amount or $50,000, whichever is the lesser amount. If the loan is to buy a primary residence, there is no term limit imposed on the loan. Similarly, you can also borrow against your life insurance policy. Most policies allow you to borrow up to 95%, with no time restraints. Keep in mind that your coverage is reduced by the amount you choose to borrow.

TAX OPTIONS FOR THE HOMEOWNER

As most people have undoubtedly told you, owning a home is a great tax shelter. As a homeowner, you can use your loan interest as a tax deduction, as well as closing costs and use of a home office. You may be interested in hiring a tax lawyer or accountant so you can be sure that you are maximizing your tax savings. Federal tax laws (including possible exemptions) are complicated in nature and vary considerably from state to state.

The interest payments that you make on your principal residence can be deducted from your gross annual income each year. This can mean big savings for you, especially at the beginning of the mortgage when the majority of your payments go towards the interest. To gain a better understanding of how much of your monthly payments go towards the interest, consider the following:

If you take out a $100,000 loan with a 30-year term at 8%, nearly $8,000 of your $8,800 will go towards paying your interest. That comes to over 90% of the total!

Your property taxes are also deductible from your taxable income each year. This holds true even if the home is not your principal residence.

If you are one of the many homeowners who use their home for business, you are probably eligible to write off a portion of your home expenses. Estimate the percentage (in square feet) of the section of your home used for business. Use that percent of your yearly mortgage bill to determine your write-off amount.

Additional Tax Deductions. Generally speaking, there are numerous tax advantages associated with the purchase of a home. A homeowner can deduct points used to obtain a mortgage when buying a home, mortgage interest paid during the year, as well as property taxes. Now the specifics as to what it all means to you:

Points – You've probably heard of points when it comes to real estate and wondered what exactly they are. Basically, when you obtain a mortgage, certain costs are associated with that mortgage. One of these costs is called the loan origination fee, which is typically expressed as "points."

For example, one "point" on a $150,000 loan would be $1500. Similarly, 2 points on a $150,000 loan would be $3000. On most loans, points are often broken down into two categories: the loan origination fee (which is usually one point) and discount points (which are also a percentage of the loan balance). Both of these are deductible. However, keep in mind that the loan origination fee must be expressed in points in order for it to be tax deductible.

Deducting Points – When buying a home, points are deductible for the year in which they are paid, providing they meet certain conditions. The main condition is that the mortgage is secured by the home you primarily live in.

Also in the case that the seller pays part of these points on behalf of the buyer (as part of a previously agreed upon condition), the buyer can still deduct the amount from their taxes. The only catch is that the seller must relinquish the right to do so as well. The amount cannot be deducted twice.

A last exception to the above deductions is if you make too much money. While we may wonder if such a thing is possible, the IRS has deemed that people earning an adjusted gross income of $128,950 are limited in terms of what they can deduct on their taxes. For married couples filing separately, the figure is half of that.

CLOSING COSTS

When you talk to a lender, they will usually prepare a "Good Faith Estimate" of your expected closing costs. They are usually required to provide this estimate to you within three business days of your loan application. Buyers typically assume that since your lender is the one providing you with this estimate, the costs listed are all associated with the lending institution. This is not the case. The lender is simply the one preparing this estimate for you based on his or her past experience. It is an educated guess on their part to assist you in planning your budgets.

The following pages are a detailed list of costs that you may incur when buying a home. They are broken down by costs associated with your lender and other additional costs. Also keep in mind that these costs are all non-recurring costs, which means that they are paid one time only. Recurring costs include such items as property taxes and homeowner's insurance, which are paid regularly.

LENDER FEES

Loan Origination Fee. The loan origination fee is often referred to in terms of "points." One point is equal to one percent of the loan amount. As a rule, if you are willing to pay more in points, you can secure a lower interest rate. On a VA or FHA loan, the loan origination fee is always one point. Anything in excess of this one point on government loans is referred to as "discount points."

Appraisal Fee. Since the home you are looking to buy must serve as collateral for your mortgage, lenders want to be certain of the value. As a result, they will usually require an appraisal to determine if the price you are paying is comparable to recent sales of similar properties. The fee can vary depending on the value of the home. More unique and expensive homes will usually require a more substantial appraisal fee.

Credit Report. As part of your underwriting review, your mortgage lender will require a credit report. The report can run from as little as $7 to $60 depending on the specific type of report required from one of three national credit agencies.

Tax Service Fee. During the life of your mortgage loan, you will be making property tax payments. These can be made either on your own or through your impound account with your lender. Since property tax liens can sometimes take priority over a first mortgage, it may be in your lender's interest to pay an independent service to monitor your property tax payments. The fee for this typically ranges between $75 and $85.

Flood Certification Fee. Your lender has the right to determine whether or not your property is located in a federally designated flood zone. This fee will be charged by an independent service contractor.

ADDITIONAL COSTS

Closing Fee. The specific methods of closing a real estate transaction vary greatly from region to region as do the fees. Check with your local lender.

Title Insurance. The purpose of title insurance is to ensure the homeowner that they have clear title to the property. The lender may also require it to insure that their new mortgage loan will be in first position. The cost can vary significantly here too. Once again, check with your lender.

Notary Fees. Most sets of loan papers will be in triplicate and require notarization. Usually your escrow agent can arrange for you to sign these forms and charge a fee in the neighborhood of $40.

Recording Fees. Certain documents must be filed away with the County Recorder's Office. Fees for this also range by region, but tend to run between $40 and $80.

Pest Inspection. This is sometimes referred to as a Termite Inspection. The inspection checks for everything from actual pest infestation to items such as wood rot and water damage. The inspection usually costs about $75 and may be paid for by the seller. If repairs are in order, the bill is something to be negotiated by the buyer and the seller.

Home Inspection. A thorough inspection of the home is highly recommended by the lender. However, since the choice is left up to the homebuyer, the cost is usually not included as part of the Good Faith Estimate.

Homeowner's Association Transfer Fee. If you are buying a home that is part of a Homeowner's Association or condominium unit, the governing association will usually charge a fee to transfer all of the ownership documents to your name.

CLOSING THE DEAL

The final step involved in buying your new home is referred to as closing or settlement. Specifically, this entails the formal transfer of the title and the signing of all final legal documents. Each party has their own responsibilities. The title company will prepare the warranty deed and the Bill of Sale. As a buyer, you are required to bring funds for your down payment, the tax deposit and insurance, and all other loan fees. Be sure to review all documents before signing them as they are legally binding.

One of the documents you will be asked to sign is a mortgage note. This document secures your loan and outlines the specific terms. It includes repayment terms, which you should make careful note of. Upon signing, you grant the lender a lien on the property. Both the mortgage and a deed of trust will be recorded in the County Recorder's Office by the title company

Lastly, the buyer and seller are usually required to sign an affidavit swearing the property is free of liens, judgments, assessments, or other encumbrances. Now you can finally move in! Don't forget to mail or fax a Change of Address Notice (available at the post office) to all your friends and family. Try and give at least two weeks advance notice. Next, take an inventory of all your possessions to calculate moving costs. Most moving companies will charge per hundred pounds. Only move what you feel you will use in your new home. Now is a good time to weed out things you no longer use. Holding a garage sale might be a good idea! Before committing to a mover, be sure to get at least three estimates. Find out what their insurance policy covers and if there is a deductible. Usually, the movers must be paid in cash. Finally, ensure that all of your utilities will be turned on and transferred to your name.

Congratulations – you’ve successfully purchased a new home!