LOIS LANE PROPERTIES

Buying a Home

Thoughts on Buying a Home

Renting versus buying

When deciding whether or not to buy a home for the first time, it is essential to compare the benefits of buying versus renting. Renting provides the liberty to move when the lease expires rather than having to wait until you sell your home. On the other hand, landlords can also decide to end your lease, and then you are forced to move. Renting allows you to avoid the cost of maintaining the property and requires less cash up front; however, homeowners have the freedom to remodel as they choose. Also, renting throws away money that could be building equity.

When you own your home, your monthly mortgage payment not only pays for you to live in the house but is also an investment. Although you generally invest 10% percent of your own money and 90% of the bank's money, you receive the benefit of 100% of the house appreciating each year. When you sell your house, you receive money that you would not have received when you are renting. Plus, you can deduct items on your taxes, including interest on your mortgage and property taxes. Provided that you choose a fixed rate mortgage, you lock in a consistent payment, while renters should expect a few rent increases over the years.

Are you ready to buy a home?

Some factors to consider when preparing to buy a home are whether or not you have a steady source of income and if you have been employed on a regular basis for the last few years. Also, determine how much money you have saved for a down payment and what would be a realistic amount of money that you could spend on a mortgage each month. There are additional expenses such as closing costs, taxes, insurance and homeowners' association fees that you should calculate as well. Your realtor can help you do this.

First, your agent should help you investigate the maximum loan amount that you would be able to afford in order to establish the price range of houses to consider. Mortgage lenders are chiefly concerned with your ability to repay the mortgage. To determine if you qualify for a loan, they will consider your credit history, your monthly gross income and how much cash you'll be able to accumulate for a down payment.

So how much house can you afford?

What is your gross monthly income (wages, investments, alimony, other)? ____________
What is your total monthly debt (housing/car payments, bills, credit cards)? ____________
How much cash do you have available? ____________
What is your credit score? ____________

Lenders calculate your total debt-to-income ratio, or "back ratio", which is a comparison of your expenses to your gross (pre-tax) income. The total debt-to-income ratio shows how much of your gross income would go toward all of your debt obligations, including mortgage, car loans, child support and alimony, credit card bills, student loans and condominium fees. In general, your total monthly debt obligation should not exceed 40% of your gross income. To calculate your debt-to-income ratio, multiply your annual salary by 0.40, then divide by 12 (months). The answer is your maximum allowable debt-to-income ratio.

Maximum allowable total monthly debt: ($__________gross annual salary x 0.40) / 12 months = $______________

Of course, these are merely guidelines to give you an idea of where you stand. Lender and loan requirements vary widely. The maximum allowable debt-to-income ratio also depends on your credit score, the amount you want to borrow as compared to the value of the home, as well as the type of property you wish to buy. For example, someone with a credit score of 750 who can pay 20% of the sale cost as a downpayment for a single-family home to be used as a primary residence, may be okay with a 50% back ratio.

There are many reputable online mortgage loan calculators that can estimate mortgage payments under different loan conditions. Speak to a reputable banker to discuss the best loan options available to you. *Before you make an offer on a home, you will want to have a pre-approval letter from your lender in hand.*

Pre-qualification letters are different from pre-approval letters in that they do not include an analysis of your credit report or your true ability to purchase a home. All it means is that someone has taken a general look at your income and expenses in order to determine your debt-to-income ratio. This gives you a general idea of the price range you can afford. There is no charge to obtain pre-qualification letters. Pre-qualification letters are a good idea to obtain so that you have an idea of the price range to begin looking at. However, as soon as you are seriously looking for a new home, it is important to get pre-approval. This will save you time and give you more buying power.

What next?

Once you and your agent have agreed on the price range of homes to look at, next you should discuss your needs. Think about where you would like to live and how much space you would like to have. Drive through neighborhoods you are considering and attend local open houses to get an idea of what you want. When deciding on possible locations, think about distance to your job, schools, family, etc. It's best to make a list of your priorities, such as location, size, and amenities. Determine the minimum requirements that the house must have for you to consider it as well as a wish list of perks you would like it to have. Share these with your agent so that he has a clear idea of what your needs are.