

# BUYING A HOME



## BEFORE YOU BUY

- Know your credit score
- Find out what you can afford
- Save for the home purchase



## READY TO BUY

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- Set priorities
- Get pre-approved



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# LIFE

For when you reach your life's milestones

# BEFORE YOU BUY

Buying a home is a major financial decision that requires research, thought, and time. All of that work can be worth it when you finally have a place of your own. However, because you don't buy a home every day it can be a daunting and scary task. With a little preparation, the process can be a lot easier. Below are some things to consider before you begin your new home search.

## **Know Your Credit Score**

Your credit score will not only help determine whether you are approved for a mortgage or not, it may also determine the interest rate you will be charged. It could also determine the cost of your homeowner's insurance as well as whether you will be able to get utilities in your name. You can visit any of the three major credit bureaus, Transunion, Experian, or Equifax, to get a copy of your credit report and review your credit score.

## **Find Out What You Can Afford**

Knowing how much home you can afford before you begin your search will keep you from finding your dream home and then finding out you can't afford it. There are a couple rules to follow. The first is that you should spend no more than two to two and a half times your annual income on a home. So a family with an annual household income of \$80,000 would want to stay in the \$160,000 to \$200,000 price range. The other rule of thumb is that your monthly payment should be no more than 28% of your gross monthly income. With an annual household

income of \$80,000 the monthly gross income is \$6,667 and therefore your monthly mortgage payment (principal, interest, and taxes) should not exceed \$1,866 ( $\$6,667 \times .28$ ). Of course these calculations show you the suggested maximums. The less you spend on a house and the less you borrow, the quicker you will be able to pay off the loan. The mortgage loan professional at your credit union will be happy to help you determine what you can afford and set you on the right path.

## **Save for the Home Purchase**

When you're ready to buy your home and take out a mortgage you will need money for the down payment and closing costs. You will also want to make sure you have money saved to cover moving expenses, painting and decorating of the new home, furniture and appliances if necessary, and any other unexpected expenses that are part of home ownership.

- 1. Down Payment** – The goal to aim for with a down payment is 20% of the purchase price of the home. If you put less than 20% down you will be required to pay PMI (private mortgage insurance) for the loan. Some loans are available that require as little as 3% down, although you would pay more interest on the loan and build equity more slowly.
- 2. Closing Costs** – Closing costs are paid in addition to the purchase price of the house, such as an appraisal fee and title insurance. To insure the home is in good condition you

may have home inspection fees, water and gas tests, and more. You will also be required to make a deposit in your escrow account that will cover your homeowner's insurance, property taxes, and PMI if required. As an estimate, closing costs can be anywhere from 3% to 5% of the home's purchase price.



# READY TO BUY

Once you've determined your credit score, know what you can afford, and have saved money for your down payment, you're ready to buy. When you're looking for the right home, there are a lot of things to consider.

## **Determine a Location and Time Line**

A few questions you'll want to ask yourself include:

- Where do you want to live?
- How much are property taxes in the area you like?
- Does the neighborhood you're looking into have homeowner's association dues? What are they?
- Do you like the school system associated with your neighborhood?
- Would you like to build a new home or buy an existing home?

It may also be good to determine the time frame you are working with. Depending on your situation, you may need to look into a home you can get into quickly. For others, you may have more time to explore several options.

## **Set Priorities**

A house may be the most expensive purchase you'll make, and it's not flexible. You can't return it for a full refund after a week if you decide it doesn't suit you. This purchase requires a great deal of thought.

When setting priorities, you'll need to consider:

- What you want in a home
- What your family members want in a home
- What you may need or want in your home in three years
- What the average buyer wants in a home (considering resale)

Determining the "must-have" features you want can make the house shopping process go smoothly. When you do decide on these features, keep in mind the features the average home buyer in your area prefers. Be especially thoughtful if you intend to keep the home for three years or less. Once you have a sense of what you're looking for in a home, visit your credit union to determine how much you can reasonably afford to spend.

## **Get Pre-approved**

You should also consider getting pre-approved. Based on your specific situation, your credit union can help you look at mortgage options, terms, closing costs, and any government assistance that may apply. By getting a pre-approval, this shows you are a serious shopper when looking for a home. Sometimes this can even help you negotiate a better price.



# TIME TO BUY

Once you find the house you want, you need to move quickly to make your bid and get the process started.

## **Negotiate and Make the Offer**

If you're working with a buyer's broker, then get advice from them on an initial offer. If you're working with a seller's agent, devise the strategy yourself. Do research on at least three houses that have sold recently in the area. For example, if the average difference is 5 percent below the asking price, then you know you can make an offer 8 to 10 percent below, leaving yourself a little room to negotiate. If you really want the house, don't lowball. The seller may give up in frustration.

Another factor to consider in determining your bid is whether the trend in recent home sales is up or down over the past year. For instance, if houses a year ago were selling at list price and recent ones are going at 3 percent below, then you might want to sharpen your pencil for your opening bid to just 5 to 8 percent below list price.

There's no foolproof system for negotiating a fair price. Occasionally it's best to deal directly with the seller yourself. In general, don't let the other side begin to believe you are negotiating in bad faith or being deceptive -- any deal you eventually reach has to involve trust on both sides. Once you reach a mutually acceptable price, the seller's agent will draw up an offer to purchase that includes an estimated closing date (usually 45 to 60 days from acceptance of the offer).

## **Review the Offer and Make a Deposit**

Have your lawyer or buyer's agent review the offer to purchase document to make sure the deal

is contingent upon:

1. obtaining a mortgage;
2. a home inspection that shows no significant defects (make sure you're clear on the definition of "significant");
3. and a guarantee that you may conduct a walk-through inspection 24 hours before closing. This last clause allows you to check the home after the sellers have moved out so you have time to negotiate payment for repairs. This is just in case the movers cause any damage, or that big living room sofa was hiding a hole in the floor.

You also need to make a good-faith deposit (usually 1 to 10 percent of the purchase price) that should be deposited into an escrow account. The seller will receive this money after the deal has closed. If the deal falls through, you will get the money back only if you or the home failed any of the contingency clauses.

## **Terms, Inspections, and Other Details**

Now is also the time to meet with your credit union and work on the terms of the mortgage. This will include items like choosing a fixed or adjustable rate, paying points, getting an appraisal, and closing cost fees. If you don't already have one, look into taking out a homeowner's insurance policy, too. Ask for recommendations from friends, your lawyer, or your real estate agent. Most lenders require that you have homeowner's insurance in place before they'll approve your loan.

In addition to the appraisal that the mortgage lender will make of your home, you should hire your own home inspector. Again, ask for refer-

als, or check with the American Society of Home Inspectors, a trade group. An inspection generally takes two hours or more and costs about \$300, on average, and up to \$1,000 for a big job. Ask to be present during the inspection because you will learn a lot about your house including its overall condition, construction materials, wiring, and heating. If the inspector uncovers major problems, like a roof that needs to be replaced, then ask your lawyer or agent to discuss it with the seller. You will either want the seller to fix the problem before you move in or deduct the cost of the repair from the final price. If the seller won't agree to either remedy you may decide to walk away from the deal, which you can do without penalty if you have that contingency written into the contract.

About two days before the actual closing, you will receive a final HUD Settlement Statement from your lender that lists all the charges you can expect to pay at closing. Review it carefully. It will include things like the cost of title insurance, which protects you and the lender from any claims someone may make regarding ownership of your property.

The lender might also require you to establish an escrow account in case you fall behind on your mortgage or property tax payments.



# AFTER YOU BUY

Just as with your body, the better shape you keep your home in, the longer it will last for you.

## **Maintenance**

By performing simple maintenance tasks on your home year-round, you prevent major problems from sneaking up on you and save yourself thousands of dollars in professional technician costs. Just a few hours a year will keep your house in good shape.

- Check the batteries in your smoke alarms and carbon monoxide alarms
- Inspect the filters in your heating and air conditioning systems and clean or replace them as needed
- Inspect your basement for water or dampness
- Inspect the caulking around exterior windows and doors to keep out drafts
- Clean out the inside of your chimney and your fireplace
- Clean out the gutters and downspouts and inspect for leaks and damage
- Trim tree branches that are touching or near your roof

## **Items to Purchase**

Make sure you have money left over after you purchase your home to buy necessary items.

- Keys and locks - the first thing you should do is change your door locks. The previous sellers may have given out a set of keys to neighbors, friends, or coworkers. Even new home builders give out keys to contractors.
- Lawnmower
- Garden supplies
- Tools and repair items
- Snow removal equipment
- Window coverings
- Appliances
- Linens, towels and floor coverings

