Frequently Asked Questions

{slide=How Do I Figure My Finances?}
There's no point wasting time and energy house-hunting before you know what you can afford. So your next step is to assess your finances:

* Compare Buying with Renting
* Find out about interest rates
* Understand your closing costs
* Figure out your income, debt and down payment
* Calculate how much home you can afford!

Does it Pay to Buy a Home or Simply to Rent?

If, like most first-time buyers, you are presently renting, it's easy to calculate your cost - simply, the monthly rent you pay. (Utilities, phone, cable, and other costs can be ignored in this comparison because they'll be approximately the same whether you rent or buy.) But calculating the cost of homeownership is much more complicated, because income tax considerations affect your bottom line. And there is, in addition, the uncertainty about how much the value of your home will rise (or even fall) in the coming years. As a tenant, you may be taking a standard deduction on your income tax return. This is the time to judge how that standard deduction stacks up against the amount you'd be able to subtract from income if, like most homeowners, you itemized deductions instead. Once you itemize, you can deduct:

* Home mortgage interest;
* All real estate taxes on any property you own;
* Your state income taxes;
* Charitable contributions;
* Medical and dental expenses that exceed 7.5% of your income;
* Personal property taxes if your state has them; and most important
* Certain moving expenses

At the start of a mortgage repayment schedule, when the debt hasn't been reduced yet, almost all of your monthly payment goes toward interest. A bit goes toward reducing principal (the amount borrowed), so that the next month you're borrowing a bit less, and owe a little less interest. That allows more of your next payment to go toward reducing principal. However, this process is very slow in the beginning and the interest portion remains high for many years. Between the mortgage interest and the property tax deductions, you can figure that Uncle Sam is shouldering part of your monthly mortgage payment - 28% of it, in fact, if that's your tax bracket. Your state income tax bracket can also be added to that, before you calculate how much you save on income tax as a homeowner.
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{slide=What Do Interest Rates Mean?}
As you start shopping for a home loan, your first question of each lender will probably be "What's your interest rate? How much are you charging?"

Interest rates are usually expressed as an annual percentage of the amount borrowed. If you borrowed $120,000 at 10% interest, you'd owe interest of $12,000 for the first year. With most mortgage plans you'd pay it at the rate of $1,000 a month. You would also send in something each month to reduce the principal debt you owe - and the next month you'd owe a bit less interest.

When your grandparents bought their home (putting at least half the purchase price down, by the way), their interest rate was probably around 4 or 5%. Rates stayed the same for years at a time. Then in the years following World War II, things became more turbulent. As economic changes speeded up, rates began to change several times a year. By the l980s, lenders were setting new rates on mortgage loans as often as once a week - and they still do today. When inflation hit a high in the '80s, some mortgage loans carried interest rates as high as 17% - and those who absolutely needed to buy, paid that much.

Rates dropped gradually through the 1990s, and by 1998 had reached their lowest rates in decades. Heading toward the millennium, home buyers appear to have the most favorable conditions for mortgage borrowing since their grandparents' days - and without 50% down payments either.
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{slide=How Much Will I Pay in Closing Costs?}
On the day you actually buy your new home, in addition to your down payment and the prepaid property tax and homeowners insurance premiums, you'll need cash for various fees associated with the purchase. These expenses are known as closing costs and are paid by both buyers and sellers.

Some closing costs you pay up-front when you apply for a mortgage loan. That includes money for a credit check on all applicants and an appraisal on the property. Keep in mind that even if you don't eventually receive the loan, that money is not refundable.

Other closing costs are possible and should be considered when evaluating your financial situation. These may include, but are not limited to:

* Title insurance fee;
* Survey charge;
* Loan origination fee;
* Attorney fees or escrow fees;
* Document preparation fee;
* Garbage or trash collection fees; and the big one
* Points - up-front interest paid in return for a lower interest rate. Each point is one percent of the loan amount. Sometimes you can contract for the seller to pay your points.

NOTE: Consider closing costs when choosing one mortgage plan over another. The good news is that if your cash is limited, some mortgage plans allow the seller to pay some or all of your closing costs, such as title insurance, escrow fees, and points. Certain closing costs can sometimes be added to the amount of mortgage loan you're receiving.
Figuring Out Your Monthly Income

When you apply for a home loan (and even long before that, when you first speak to a Realtor) the first question may likely be "what is your income?" In making this determination, lenders consider the income of all parties who will be owners of the property. Be prepared to provide a monthly accounting of all sources of income.
Figuring Out Your Monthly Debt

Lenders are interested mainly in your present monthly payments because they want to be sure you can handle the mortgage payment you'll be applying for. Different mortgage plans consider payments on any debt that won't be paid off within, for example, six months, nine months, or a year.
Amount of Your Down Payment

Your down payment is paid in cash and is not included as part of the loan amount. The bigger your initial down payment, the smaller your loan, which reduces the amount of your payments.

How much you'll put down depends on the cash you have available and the amounts you'll need for closing costs and prepaid property taxes and homeowners' insurance.

Mortgage plans have various down payment requirements and they can range from 0% down on a VA Veterans Administration Loan - to between 3 and 5% down on a FHA Federal Housing Administration Loan - to 20% down, the traditional amount for a conventional loan. In addition, special state programs for first-time home buyers may set different sums, which are usually lower than conventional financing.

If you put less than 20% down on most loans, you'll be asked to protect the lender by carrying private mortgage insurance (PMI). Carrying PMI ensures that the debt is repaid if you default on the loan. This adds approximately an extra half a percent onto the loan.

FHA mortgages, in return for their low-down-payment requirements, also charge for mortgage insurance premiums (MIP).
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{slide=How Do I Find the Best Agent for Me?}
Finding the right real estate professional requires doing a little research and asking a few questions. You need to know everything about the selling process. What is the marketing strategy? What kind of advertising will be done? Is the realtor capable and willing to communicate effectively? Can the realtor effectively present and sell the less-noticeable assets of the property?

Real estate professionals also need to be knowledgeable about the community. They need to have a feel for the history of the area and the approximate price that people will be willing to pay. Also, real estate agents should know what the competition is and how much it will effect your sale.

NEVER choose a realtor on price alone. Remember that a realtor cannot magically raise the selling price of the house. Consider the buyer. The purchaser won't willingly pay too much; it's most likely that he or she will do research on the market and try to find the best product for the best price. The facts simply cannot be changed, no matter which realtor you select. In spite of these unchangeable factors, the realtor you select must still be diligent and knowledgable.

If your property does not elicit attention within several weeks, the cause can most likely be attributed to one of these

three factors: location, condition, and price. The location obviously cannot be changed. You should consider examining the conditioning of your property and reevaluating the marketing strategy. Ask your realtor to offer an explanation of the competition and your pricing strategy.
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