# KEYS TO HOME BUYING

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Whether you are a first-time home buyer or you have some experience in buying and selling a few homes over the years, it is always a good idea to review the basics and have a plan.

**Money**, of course, will guide and control everything else. The sooner you have a plan and the discipline with which you employ that plan, the sooner and better positioned you will be able to make the purchase you want.

**Down Payment** - If you don't have enough cash (or equity in your present home) to purchase the home you want, you will have to finance the purchase with a mortgage. You will want to have some amount of cash to use as a down payment and closing costs, so you'll want to establish a routine for saving now. Ideally, your goal should be to have a down payment of at least 20% of the purchase price of the home you wish to purchase. So, for example, if you've decided that the home you will be happy with is going to cost as much as $350,000, then you'll want to have at least $70,000 cash available for the down payment ($350,000 x .20 = $70,000). A home with a purchase price of $168,000 will require $33,600 to meet the 20% down goal. The reason that you should try to have at least 20% as a down payment is to avoid having to pay private mortgage insurance (PMI), which will be required otherwise. PMI is insurance coverage for the lender required by the Federal Housing Authority (FHA) to protect them against default by the borrower. Homeowners do not ever benefit from the insurance coverage and it is not tax deductible. There are loan programs readily available that do not require 20% down – 0 down, 3% down, 5% down, etc. – but they all require PMI payments of a couple of hundred dollars per month – depending on the percentage down payment and your credit score.

So, get to work at scrimping and saving as much as you can to use as a down payment.  Every effort you make will be worth it.

In addition to the down payment, there are going to be lots of other required up front expenses – often referred to as closing or settlement costs.  Every transaction is different, but some the possible expenses will be: credit application fee, lender fees, appraisal cost, property taxes and transfer charges (prorated), homeowner's insurance, home inspection fee, pest (termite) inspection fee, HOA dues, Condo dues, front foot fees, capital improvement fee, utility hook up charges and deposits, title search and insurance, attorney fees, settlement officer fees, real estate company admin fee, real estate commission (most always paid by sellers), cleaning costs, moving company, etc., etc.  There are many variables with these expenses such that the best general estimate with further specifics would be approximately two to five percent of sale price – independent of down payment.  So on the $350,000 home, closing costs may run from $7,000 to $17,500.  On the $168,000 home, from $3,360 to $8,400. Some of the expenses will have to be paid out of pocket – prior to settlement, but most of the costs will be paid at settlement.  In some cases, it may also be possible to roll some or all of those costs in the amount financed – reducing the amount of upfront cash needed, but ultimately raising the monthly payment.  Generally speaking, depending on all the variables involved, for every thousand dollars financed with a 30-year mortgage, the monthly payment will increase by $5 to $7.  It may also be possible to get the seller or new home builder to pay some or all of your closing costs.

Your **Credit Score** and **History** are major factors in determining if you can qualify for financing.  Your **Income-to-Debt Ratio** will also play a role in that determination along with how much additional debt (amount of loan) you can afford.  To evaluate these personal characteristics is known as the process of pre-qualifying you for the amount of home (and financing) you can afford and ultimately obtain approval for.  Though you can try making this determination yourself, the only place to get an authoritative opinion or determination will be from an actual lender: bank, mortgage company, credit union, etc. In addition to determining "if" and "how much" financing the mortgage company might approve, they will also be able to tell what interest rate you may qualify for. The time to do this is just before you start searching for property in earnest, and want to be able to make an offer in writing for a purchase. After all, if you can't afford it and can't get loan approval, why spend the time and effort shopping for a property?

By the way, along with your plan and effort to save as much as possible for the down payment, you will naturally want to use your existing credit accounts responsibly. Pay down any credit card debts as quickly as possible. Do not incur any credit card debts you cannot immediately pay for on the next due date. Do not open or close any new credit accounts. Do not make any large purchases. In other words, just put a hold on all financial activity and maintain a stable profile.

In addition to the money you will need for a down payment and settlement and closing fees and moving expenses, guess what else you'll need?: **More Money** - for all kinds of expected and unforeseen items and services. Invariably, there will be a list of "must-haves" at the time of moving. Possibilities include: tips for the movers, cleaning supplies and equipment, or - the cleaning crew you hadn't planned on having to hire until your back went out, restaurant and take-out meals because you're not able to prepare a meal in either kitchen, ladder, doormats, picture hanging hardware, shelf lining paper, window treatments, rugs, chair mats for the home office, a new supply of household goods like toilet paper, Kleenex, napkins, paper towels, laundry supplies, dish detergent, toiletries, grocery staples like flour and sugar. All the supplies that you purposely exhausted prior to the move so that you wouldn't have to move them. Replacements for all the essential things that get broken or go missing during the move – or that gone thrown out when packing for the move (on purpose or accidentally). That doesn't include the other list of things like: new fixtures, door locks or rekeying the existing ones, padlocks, security system, fire extinguishers, paint, new carpeting / flooring, maybe an appliance or two. It can add up very quickly.

OK, you've now got the money thing under control and a good solid lender lined up and ready to go.  The next step is to select a good real estate agent .  First criteria, make sure they are not only licensed as an agent but that they are also a member of the **REALTOR®** organizations – local, state, and national.  As a buyer, it would be best to try to select an agent with the National Association of REALTORS® (NAR) designation, Accredited Buyer Representative (ABR).  That distinction is held by a small percentage of REALTORS® that have gone the extra mile to educate themselves in buyer representation.

Naturally, you will want to deal with someone you are compatible with and who will represent you and your best interests through this entire process - whether it goes smoothly or whether you encounter many challenges along the way. My best advice is to make sure that you are compatible with the agent you choose. There should be an obvious level of comfort and trust with this person. You should never feel pressured into working with an agent or dislike anything about them. Everybody has their own tastes and preferences in who they can work with. Be cautious of anyone that makes a lot of grand promises - you are likely to be disappointed. Spend some time looking for a good match and trust your instincts.

By the way, the good news is that your buyer-agent REALTOR® is commonly paid by the seller's broker at settlement (for bringing the buyer). In almost all cases, even though your agent works for and only represents your best interests, they don't cost you a penny.  There can be exceptions to that rule – so have a full discussion about it with the agent you select at the very beginning of your relationship.  Doing so is not at all innapropriate.

You may also find it beneficial to seek the advice and counsel of other professionals, like an accountant, and/or an attorney, and/or an appraiser. Find people that you like, that you feel are knowledgeable and competent. People that you can work with, spend many hours with, and ones that will truly put your interests first.

OK, **the search** is on. You've been preapproved to purchase a $250,000 home. You have $50,000 (20%) in cash for the down payment. And, you also have another $10,000 or so if needed. The projected monthly mortgage payment including loan principal and interest, property taxes and insurance (PITI) is going to be very manageable. Fantastic! Does that mean you should spend all of it? Of course not. But it is good to know what your upper limit is – just in case the house of your dreams pops up and it is a super bargain.

Consider stepping back though from all the excitement and taking a look at some less expensive properties and stay under your preapproved limit if you can. That said, it is also a good idea to try to envision at least short term future needs for location, space and amenities so that you don't have to move every year or two.

Lastly, be prepared to **be flexible and compromise** – on everything. There is probably not going to be the perfect house, in the perfect location, at half the price you expected to pay. And, if such a property comes on to the market, it will go under contract so quickly it will make you dizzy. So, be prepared. Go back to beginning of this article and read it again. The key to this process is being prepared!

**DISCLAIMER**

**John P. Hale is a licensed real estate agent in Maryland and Pennsylvania. He is affiliated with Coldwell Banker Residential Brokerage in Westminster, Maryland. John has been licensed since 2000 and also practiced in Tucson, Arizona for many years. Mr. Hale holds the following designations and certifications awarded by the National Association of REALTORS® (NAR) and other authorized institutions: ABR-Accredited Buyers Representative, AHWD-At Home With Diversity, CNE-Certified Negotiation Expert, CRMS-Certified Risk Management Specialist, CRS-Certified Residential Specialist, CTA-Certified Tourism Ambassador, e-PRO-Online Real Estate Practice, GRI-Graduate of Realtor Institute, MRE-Master of Real Estate, MREP-Mortgage Real Estate Professional, MRP-Military Relocation Professional, and Workforce Housing Certification.**

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