



For many people, buying a home is the biggest financial transaction they'll ever make. Therefore, it is important to make sure you are properly prepared. Armed with the right knowledge, you can start realizing your homeowner dreams. The purpose of this document is to provide an overview of the various considerations when buying a home.

FINANCIAL POSITION



The amount you can afford to spend on a home is tied to the mortgage you can afford. You will need to evaluate your gross monthly income, housing expenses, and long-term debt. One way to gauge if you're financially ready to buy a home is to ask yourself:

- Is my credit in good shape?
- Do I have a steady job history?
- Can I afford to make monthly mortgage payments? (As a rule of thumb, your total mortgage payment should be no more than 28% of your gross monthly income).
- Have I saved enough for a down payment?
 - At least a 20% down payment of the purchase price is generally recommended.
 - Withdrawing from your retirement account for a down payment is generally not recommended.
- Do I qualify for a first-time buyer program?
 - Some banks and lenders offer special programs for first time buyers.

TYPES OF MORTGAGES



After you determine that you are financially ready to buy a home, you will need to evaluate what type of mortgage works best given your situation. As a borrower, one of your first choices is whether you want a fixed-rate or adjustable-rate mortgage loan. Characteristics of these loans are explained below:

FIXED-RATE MORTGAGE	ADJUSTABLE-RATE MORTGAGE
<ul style="list-style-type: none"> • The interest rate stays the same for the life of the loan. • The payment amount remains the same from month to month. • Offers the benefit of predictability since the interest rate never changes. • 15-, 20- and 30-year terms are common. • Generally the best option for people who plan to stay in a home for many years. 	<ul style="list-style-type: none"> • The interest rate will change at specified intervals over the life of the loan. • Rate adjustment is unpredictable. • Interest rate cap limits how much the rate can change per annum. • Lower fixed rate typically only for the first few years. • Typically considered for a homeowner who plans to stay for only a few years, or who believes that interest rates will remain low.

RESALE VALUE



When you buy a home, it is important to consider its resale potential. Below are some tips to consider:

- A single-family detached house is typically easier to resell than a condo or townhome.
- Conventional styles and standard interiors for the region generally sell better than unconventional.
- Look closely at the neighborhood and its zoning. Look for good schools, well-kept yards, access to highways and transportation, shopping, recreational opportunities, and services.
- Compare how fast homes have been selling in the area versus the rest of the city.
- Consider the reputation of the company that built the house.
- Have a professional inspection of the house completed before the purchase is finalized.
- Review a website, such as www.realtor.com, for an estimated market value of the home you are considering purchasing. You can find a good starting point for the value of the home, but keep in mind this estimate is not an official appraisal.

TYPES OF HOME SALES



There are several types of home sales available to buyers. Below is a breakdown of common home sales:

BUYER BENEFITS	BUYER DISADVANTAGES
Traditional Sale	
<ul style="list-style-type: none">• Home is likely to have been lived in and taken care of.• Timeliness is likely to be important.• Seller is likely to offer incentives such as: assistance with closing costs or making repairs found in home inspections.	<ul style="list-style-type: none">• Sellers may not be realistic about their home's condition or current value.• Sellers may be emotional about their property or situation.• Some traditional listings expire because the seller may not need to sell.
Short Sale	
<ul style="list-style-type: none">• It is easier to negotiate a lower price with the seller since they need to sell the home to pay off debt.• The home is likely to be in better condition than a foreclosure.	<ul style="list-style-type: none">• The bank can review a sale for months then decline the offer.• If there are two or more mortgages, all lenders must agree to the sale.
Real Estate Owned Sale	
<ul style="list-style-type: none">• There are potentially quicker responses on offers because the home must be sold.• Some homes may be priced lower than their value.	<ul style="list-style-type: none">• Properties are bought "as is."• Banks may try to create a bidding war.• Homes may sit vacant and be damaged.

HOME TITLE



Title is important when it comes to the ability to deduct mortgage interest and real estate taxes and can affect the ability to claim a home sale exclusion. For 2019, a \$500,000 lifetime gain exclusion (\$250,000 for individuals) may be allowed if both spouses lived in the home for two out of the five years prior to sale if all requirements are met. Common forms of ownership are: individual, tenants in common, and joint tenancy.

TAX PLANNING



Tax Deductible Expenses

- If you itemize expenses on your tax return, you may be able to deduct certain expenses (such as mortgage interest, property taxes, and moving expenses). Consult a qualified tax professional to discuss your individual situation. NOTE: Current tax law limits state and local tax deductions (including income taxes, property taxes, etc.) to \$10,000 for both Individual and Joint filers.

CHECK LIST



General Information

- Has personal information been gathered?
- Has your financial situation been assessed (income, expenses, assets, liabilities)?

Choosing the Right Home

- Has a price range been determined?
- Have the desired home features been determined?
 - Number of bedrooms, bathrooms
 - Location
- Has a real estate professional been contacted?

Financing

- Are there sufficient funds available for a down payment?
- Have various mortgage types been considered?
- Have mortgage terms and rates been compared?
- Has prequalification or preapproval for a mortgage taken place?
- Have you checked your credit report for errors and/or negative credit?
- Has the necessary paperwork for mortgage approval (tax returns, bank statements, etc.) been gathered?

First-Time Homebuyer

- Have you reviewed Conventional, FHA, and if applicable, VA loans?
- Has a first-time homebuyer class offered by bank/lender been attended?

Insurance Planning

- Has the premium been estimated for homeowners, and if applicable, flood insurance?
- If a business will be run out of the home, has insurance coverage been considered?
- Review other insurance needs based on the home purchased.

Tax Planning

- If this is a principal residence, have the tax benefits of home ownership been reviewed?
- If a business will be run out of the home, has eligibility for home office deduction been discussed?

Estate Planning

- Are there specific property ownership issues that need to be addressed?
 - Sole ownership
 - Tenancy in common
 - Joint tenancy
 - Community property