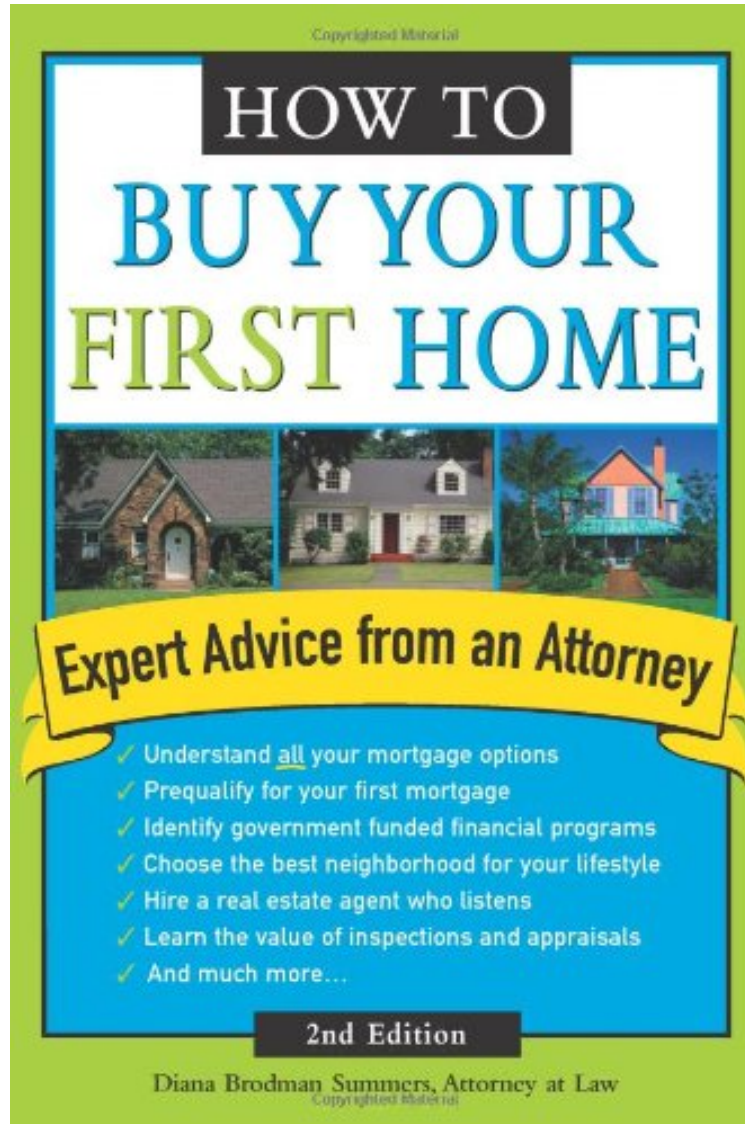


How To Buy Your First Home, Second Edition

Diana Summers

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Diana Summers : How To Buy Your First Home, Second Edition before purchasing it in order to gage whether or not it would be worth my time, and all praised How To Buy Your First Home, Second Edition:

22 of 22 people found the following review helpful. GREAT guide for a first-time buyerBy Amy G.My roommate works at the library and brought me home a dozen different books on how to go about buying your first home and what you would need to know (including the dummy/idiot books which I normally love). After taking a look at this one, I sent all the other ones back and ordered it from because it is by far the easiest, most comprehensive, and overall helpful guide for a first-time buyer. It answers all questions and can just be used as a good reference. It's questions and

answer format makes the book very easy to pick-up and less daunting-- some of the books seems like a giant boring novel!! I even gave this book as a gift to a friend considering buying a place of his own. 0 of 0 people found the following review helpful. Four Stars By Navyanth Gowda Very good book for beginners to know all about buying a house 3 of 4 people found the following review helpful. Good Enough By S. C. Carter The reading is very dry. Could not make it past a few pages without falling asleep. The worksheets in the back are excellent. So, if you are looking for a home buying book this one is a good one just for the worksheets.

Take the fear out of buying your first home For many, the process of buying a home for the first time can seem intimidating and overwhelming. How to Buy Your First Home is your resource for information on the subject. This book guides you through the entire process, including: Preliminaries-Renting versus buying, determining what you can afford, deciding where to live Searching for Your Home-What to look for in a home, hiring a realtor Finances-Mortgage basics, government agencies, home loans for veterans The Buying Process-Weighing your mortgage options, hiring an attorney, making an offer, inspecting and appraising your home The Future-Caring for your home and increasing the value of your investment Included within the text are Attorney Tip boxes that highlight important facts. Click on This boxes will guide you to helpful websites for additional information about calculating costs, locating homes in your area and more. Extensive appendices include a glossary of important terms, contact information for state offices of real estate regulation and sample worksheets to help you as you make your decisions. Written by an experienced attorney, How to Buy Your First Home is the resource that will take the mystery out of buying a home.

From the Publisher Take the fear out of buying your first home For many, the process of buying a home for the first time can seem intimidating and overwhelming. How to Buy Your First Home is your resource for information on the subject. This book guides you through the entire process, including: Preliminaries Renting versus buying, determining what you can afford, deciding where to live Searching for Your Home What to look for in a home, hiring a realtor Finances Mortgage basics, government agencies, home loans for veterans The Buying Process Weighing your mortgage options, hiring an attorney, making an offer, inspecting and appraising your home The Future Caring for your home and increasing the value of your investment Included within the text are Attorney Tip boxes that highlight important facts. Click on This boxes will guide you to helpful websites for additional information about calculating costs, locating homes in your area and more. Extensive appendices include a glossary of important terms, contact information for state offices of real estate regulation and sample worksheets to help you as you make your decisions. Written by an experienced attorney, How to Buy Your First Home is the resource that will take the mystery out of buying a home. About the Author Diana Brodman Summers received her J.D. from DePaul University College of Law and her undergraduate degree from Roosevelt University. She is an arbitrator for both the Cook and DuPage County mandatory arbitration programs and was recently appointed to the Liquor Commission for the City of Downers Grove. Ms. Summers is an active member of the Association of Trial Lawyers of America, the American Bar Association, the DuPage County Bar Association, and the Illinois State Bar Association. Ms. Summers has taught seminars for lawyers through several bar associations and has written articles on computerizing law offices. She volunteers with other Illinois State Bar Association attorneys in accordance with the local Judge Advocate General's office to provide low-cost legal service for returning members of the military. She currently maintains a law practice in Lisle, Illinois, a suburb of Chicago. Excerpt. Reprinted by permission. All rights reserved. How Much Can You Afford for a Mortgage? Every lender has a formula to tell how much a person can afford in mortgage payments. Formulas are good because they can give a definitive number. However, most formulas do not factor in a person's lifestyle (what is important to that person), future financial down-turns, or what each person feels comfortable paying for housing. COMMON DEBT-TO-INCOME RATIOS Mortgage lenders loan money based on a set of criteria. That criteria rates the property, the neighborhood, the building, and the borrower. This chapter will explore the common criteria used to rate the borrower and how you can use that information to make decisions before you ask for a mortgage. Housing-to-Income Ratio Lenders usually use a two-part ratio calculation that sets the boundaries of what you can pay for a home. This is currently expressed as the 28/36 formula (but the exact numbers may change by the time you read this). The first part, the front-end ratio or the housing-to-income ratio, is the total mortgage payment divided by your gross monthly income. The percentage result should be somewhere in the 28% to 33% range. Right now 28% is currently used by the majority of lenders. Depending on your credit history, amount of debts, and amount of potential future income, your lender may change the front end percentage. The total mortgage payment or housing costs includes: monthly loan payment, real estate taxes, home owners insurance, mortgage insurance (if any), and association fees (if any). Gross monthly income is what you receive each month from every source. This income total is before taxes or any deductions (such as deductions for your 401(k) program) are taken out. Debt-to-Income Ratio The second part, back-end ratio or total debts ratio is the percentage of your gross income that can go towards all of your monthly debt. In the 28/36 formula, a person should not pay more than 36% of his or her monthly gross income for all debts. Again, gross monthly income is what you receive each month from every source. This income total is before taxes or any deductions (such as deductions for your 401(k) program) are taken out. Monthly debt includes payments

on credit card debts, loans, alimony, child support, plus housing costs, but does not include household expenses like utilities, food, clothing, and the like. Monthly housing costs are mortgage payment, real estate taxes, home insurance, mortgage insurance, and association fees. HOW TO USE THESE RATIOS So, you are probably looking at these ratios and saying "How does that affect me? All I want to do is to get a mortgage without the hassle of dealing with math equations." Not only do I understand, I feel exactly the same. These ratios were created and are routinely used by lenders, you know, those people who enjoy working with numbers. For the rest of us, these ratios can give us an approximation of what we can afford in a mortgage and for our total debt. While we can use the ratios like the lenders (as guidelines and generalities to determine if someone qualifies for a mortgage loan), there are two important pieces of information on ratios. First-the ratios can vary by lender, by type of mortgage, and by what the economy is doing. Second-lenders do not only use these numbers. Other factors such as your credit history, the size of your down payment, the cost of the home, the appraised value of the home, and other facts about you and the property go into the decision to issue a mortgage. This can be better explained through examples. Let's follow two potential home buyers as they wade through the ratios. (We will also see how numbers can be deceiving.)

***Example 1: Janet is single. She works as a computer programmer making \$42,000 per year. Her gross monthly income is \$3,500. According to the 28/36 formula: Gross monthly income \times 0.28 = Total monthly housing expense $\$3,500 \times 0.28 = \980 Or, in words, Janet can afford a \$980 total monthly housing expense. (Remember that total monthly housing expense includes the mortgage payment, plus homeowners insurance, plus real estate taxes, plus any mortgage insurance payments or association payments.) Looking at Janet's debts: Gross monthly income \times 0.36 = Total monthly debt expense $\$3,500 \times 0.36 = \$1,260$ This shows that Janet's total monthly debts should not exceed \$1,260. Again, remember that this does not include those pricey household expenses such as utilities, food, clothing, transportation, and other living expenses. Looking at Janet's monthly debt, she is paying \$150 a month on credit card bills and \$100 a month on a student loan. If you add the \$980 of a total mortgage payment plus the \$250 a month on debts, Janet comes up with a total of \$1,230 in obligations. This is \$30 less than the maximum debt obligation that the 28/36 ratio allows. So Janet should be approved to get a mortgage from the lender that uses this ratio. Or should she? The numbers look great, but what if the credit history is not so good? Janet's employment history may be spotty. She may have had several jobs in the past 15 years, never staying longer than two years at each job. Janet's employer may have publicly announced that they are closing. So, Janet may not automatically get the mortgage loan she wanted. What if Janet's credit worthiness is ok, but the property she wants has problems? Maybe the house is in terrible condition and did not appraise for the amount she is asking the bank to loan her? Janet may not be able to get the mortgage she wanted on that property.

***These two scenarios show that although a person can be within the 28/36 ratio, there may still be problems obtaining a mortgage. In both of these cases, Janet may have to provide a larger down payment or she may have to select another property. On the other hand Janet, like many of us, may not feel comfortable with a \$980 monthly mortgage payment. She may be planning to buy a new car, plus a house full of new furniture. So how does the 28/36 ratio relate to real life? These numbers are merely maximums. This ratio says that Janet should not take on a total mortgage payment of more than \$980 and that she should not have total debt of more than \$1,260. So, if Janet can come up with a sizable down payment, or look for a house with a lower total cost, she may be able to get that total monthly mortgage payment down to around \$600. This would allow her to go into more debt on other items.