

DCC DOLLARS & \$ENSE

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Home Buying I

Special points of interest:

- How much home can you afford?
- Choosing the right Real Estate Agent

How Much House Can You Afford?

Buying a house commits your family to a long-term debt and requires a lot of time and energy to maintain. Most Americans spend between 21 and 54 percent of income on housing. How much each family

spends on housing depends on several factors.

Three basic considerations that can help a family determine how much house they can afford are:

1. The amount of take-home pay the family can reasonably expect.
2. The family's living costs and other debt payments.

The total amount of housing expenses, including taxes, insurance, energy, furnishings, maintenance, and mortgage payments.

Because of rising prices and increased housing-related expenses, the old rules on how much to pay for a house no longer apply. Lenders usually follow two basic guidelines in determining how large of a mortgage to grant to consumers:

Principal, interest, taxes, and insurance (PITI) should not exceed 25 to 29 percent of the consumer's gross income.

PITI plus other long-term debt should not exceed 33 to 41 percent of gross income. (Long-term debt includes car and installment loans, alimony, child support, and charge card balances that will take a set length of time to repay.)

The range the lender uses will depend on the size of the down payment. Lenders probably will use the 29 percent and the 41 percent figures if you are paying 10 percent down. If you are paying 5 percent down, lenders will probably use the more conservative 25 percent and 33 percent. Federal Housing Administration (FHA) loans use 29 percent and 41 percent.

These are general guidelines used by lending institutions. The prospective buyer should find out about these guidelines and then evaluate them according to their current standing in life.

To learn what your total housing costs might be, use this formula:

$$P + I + T + I = \text{Monthly Cost}$$
$$\text{Principal} + \text{Interest} + \text{Taxes} + \text{Insurance} = \text{Monthly Cost}$$

For example, a homeowner may have:
 $\$750 + \$75 + \$50 + \$25 = \$900$

$$\text{Principal} + \text{Interest} + \text{Taxes} + \text{Insurance} = \text{Monthly Cost}$$

NOTE: Insurance costs may include the homeowner's policy required by most lenders and also mortgage default and term life. Ask prospective lenders what they include in insurance costs. Also keep in mind utility and maintenance costs. When shopping for an existing house, ask to see the utility bills for the last 12 months. Learn as much as you can about the condition of the house to see if repairs will need to be made. With a new house, monthly utility and maintenance costs can only be estimated based on similar houses in the neighborhood or those of a similar size, style, and construction.

Home Buying I Cont. Choosing a Real Estate Agent

General Research

When looking for a Real Estate agent a consumer's best resource will be friends or family that have recently been through the process of looking for a new home. Consumers should check to see if anyone that they know could recommend an agent. This will typically give you good starting direction. If you're new to the area, there are other ways to research. Finding an agent/agency that has dealt with homes in the area that you're looking in will be beneficial as far as finding homes that fit your needs and additional information on schools or other areas that you might be interested in.

Interview The Agent

Once you know the area that you're looking to move into, you'll want to interview with the agents that are available. Consumers should start by making an appointment with the agency to meet with one of it's agents, or the specific agent that you have chosen.

There are several questions that you'll want to ask:

How long have they involved in Real Estate?

For consumers looking into the purchase of a home they will want to have an experienced real estate agent. Someone that has been in the industry for at least 3-5 years or more could be considered "experienced". Someone that has been successful enough in real estate to continue to work in that field for a multiple of years, is someone that is able to get the job done. An inexperienced real estate agent- and everyone starts somewhere- would fine for basic real estate transactions. For example if you were looking to purchase a condo, the process is preset and a lesser-experienced agent would be able to assist you. On the larger scale, a consumer should stick to someone with a greater experience in buying, selling and appraisal.

Is the agent part-time or full-time?

Part time means just that, the agent is only working in real estate part of the time. This typically

not advantageous for consumers, most real estate deals require someone who can commit themselves 100%. A part time real estate agent has other things that will occupy part of their time, which can cut into the time that the agent should be working for you.

How accessible is the agent?

When choosing an agent, a consumer should make sure that they could be reached when needed. A good agent would maintain at least working hours, with the ability to be reached outside of those hours in an emergency. The more flexible the agent is with their hours, the more you know that they want to work for you.

Once you feel convinced the agent can do a good job representing you, you need to decide what kind of relationship you will have. It used to be that agents always represented the seller of the home. Now, things are much different and you can choose what kind of relationship you will have with your real estate agent. There are few different options to choose from:

Buyers Agent:

The most obvious choice if you are looking to purchase a property. A Buyers Agent works exclusively for you, the buyer, and your best interests above all others.

Sellers Agent:

The obvious choice if you are the seller of the property. The Seller's Agent will look out for the best interests of the seller.

Dual Agent:

In this type of agreement, the agent works for both the buyer *and* the seller. This often happens when an agent sells a property they have listed for sale. The problem here is obvious. The agent is servicing two individuals and cannot put the interest of one above the other. As a homebuyer, you're better off working with an agent that is bound to look out for only your interests.