Home Buying 101

Global Mobility Solutions™

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One year prior to purchasing, start saving up for the down payment

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- Check warranty deed
- Ask if the lender will keep or sell the loan to a secondary market
- Check time to record the new deed in the county and/or state

How Much House Should I buy? How Much Can I Afford?

The answer to this has a lot to do with your income and the amount of your debt load. As a rough rule of thumb, most home buyers purchase houses that cost between one and a half and two and a half times their annual income. For example, a home buyer earning $40,000 per year would buy houses costing between $60,000 and $100,000. There is, however, a degree of variation due to the individual market prices of the area in which you are interested. In some areas, there may not be houses available within that range, so you may need to spend a bit more. In general, however, your monthly mortgage payment cannot exceed approximately 30%-40% of your gross monthly income. Your total debt payments (car payments, credit card payments, etc. plus the monthly mortgage amount) cannot exceed approximately 36%-45% for Conventional loans and 50%+ for VHA loans, of your gross monthly income. These ratios will depend on the type of mortgage for which you are applying.

For more information on mortgages and to begin the application process by calling:

TIAA
888-882-3837

Prime Lending
877-947-5871

Quicken Loans
800-863-4332

Conventional & Government Loans

FHA Loans

The Federal Housing Administration (FHA), which is part of the U.S. Dept. of Housing and Urban Development (HUD), administers various mortgage loan programs. FHA loans have lower down payment requirements and are easier to qualify than conventional loans. FHA loans cannot exceed the statutory limit. Go to FHA's Programs page to get more information at

http://www.hud.gov

Veterans Affairs (VA) Loans

The Veterans Affairs loan, or VA loan, is a mortgage available to qualified United States veterans, reservists, active-duty personnel and their eligible spouses. A portion of these loans is guaranteed by the U.S. Department of Veterans Affairs and protects the lender's investment if the borrower defaults on the loan. The guaranty allows veterans and service persons to obtain home loans with favorable loan terms, usually without a down payment. In addition, it is easier to qualify for a VA loan than a conventional loan. The amount of guaranty on the loan depends on the loan amount and whether the veteran has had a previous VA loan. With the current maximum guaranty, a veteran who hasn't used the benefit may obtain a VA loan of up to $417,000 ($625,500 limit for Alaska, Hawaii, Guam and the U.S. Virgin Islands), depending on the borrower's income level and the appraised value of the property. VA determines your eligibility and, if you are qualified, VA will issue you a certificate of eligibility to be used in applying for a VA loan.

VA-guaranteed loans are obtained by making application to private lending institutions. If you are need more information about VA loans, go to http://www.homeloans.va.gov

RHS Loan Programs

The Rural Housing Service (RHS) of the U.S. Dept. of Agriculture guarantees loans for rural residents with minimal closing costs and no down payment. You can access their website at

http://www.rurdev.usda.gov

Ginnie Mae which is part of HUD guarantees securities backed by pools of mortgage loans insured by these three federal agencies -FHA, or VA, or RHS. Securities are sold through financial institutions that trade government securities.

State & Local Housing Programs

Many states, counties and cities provide low to moderate housing finance programs, down payment assistance programs, or programs tailored specifically for a first time buyer. These programs are typically more lenient on the qualification guidelines and often designed with lower upfront fees. Also, there is often loan assistance programs offered at the local or state level such as Mortgage Credit Certificate (MCC) which allows you a tax credit for part of your interest payment. Most of these programs are fixed rate mortgages and have interest rates lower than the current market.

Conforming Loans

Conventional loans may be conforming and non-conforming. Conforming loans have terms and conditions that follow the guidelines set forth by Fannie Mae and Freddie Mac. These two stockholder-owned corporations purchase mortgage loans complying with the guidelines from mortgage lending institutions, packages the mortgages into securities and sell the securities to investors. By doing so, Fannie Mae and Freddie Mac, like Ginnie Mae, provide a continuous flow of affordable funds for home financing that result in the availability of mortgage credit for Americans.

Fannie Mae and Freddie Mac guidelines establish the maximum loan amount, borrower credit and income requirements, down payment, and suitable properties. Fannie Mae and Freddie Mac announce new loan limits every year.

Jumbo Loans

Loans above the maximum loan amount established by Fannie Mae and Freddie Mac are known as "jumbo" loans. Because jumbo loans are bought and sold on a much smaller scale, they often have a little higher interest rate than conforming, but the spread between the two varies with the economy.

If you are looking for a jumbo loan and need more information or advice, contact your lender to discuss your options.

Fixed-Rate Mortgages

With fixed-rate mortgage (FRM) loan the interest rate and your mortgage monthly payments remain fixed for the period of the loan. Fixed-rate mortgages are available for 40-, 30-, 25-, 20-, 15 -and 10-years. Generally, the shorter the term of a loan, the lower the interest rate you could get.

The most popular mortgage terms are 30 and 15 years. With the traditional 30-year fixed rate mortgage your monthly payments are lower than they would be on a shorter term loan. But if you can afford higher monthly payments a 15-year fixed-rate mortgage allows you to repay your loan twice as faster and save more than half the total interest costs of a 30-year loan.

Balloon Loans

Balloon loans are short-term fixed rate loans that have fixed monthly payments based usually upon a 30-year fully amortizing schedule and a lump sum payment at the end of its term. Usually they have terms of 3, 5, and 7 years.

The advantage of this type of loan is that the interest rate on balloon loans is generally lower than 30- and 15-year mortgages resulting in lower monthly payments. The disadvantage is that at the end of the term you will have to come up with a lump sum to pay off your lender, either through a refinance or from your own savings.

Balloon loans with a refinancing option allow borrowers to convert the mortgage at the end of the balloon period to a fixed rate loan --based upon the outstanding principal balance --if certain conditions are met. If you refinance the loan at maturity you need not be re-qualified, nor the property reapproved. The interest rate on the new loan is a current rate at the time of conversion. There might be a minimal processing fee to obtain the new loan. The most popular terms are 5/25 Balloon, and 7/23 Balloon.

Combined (Hybrid) Loans

Hybrid loans, a combination of Fixed Rate and Adjustable Rate Mortgage (ARM) loans come in different varieties:

Fixed-Period ARMs

With fixed-period ARMs homeowners can enjoy from three to ten years of fixed payments before the initial interest rate change. At the end of the fixed period, the interest rate will adjust annually. Fixed-period ARMs --30/3/1, 30/5/1, 30/7/1 and 30/10/1 --are generally tied to the one-year Treasury securities index. ARMs with an initial fixed period beside of lifetime and adjustment caps usually have also first adjustment cap. It limits the interest rate you will pay the first time your rate is adjusted. First adjustment caps vary with type of loan program.

The advantage of these loans is that the interest rate is lower than for a 30-year fixed (the lender is not locked in for as long so their risk is lower and they can charge less) but you still get the advantage of a fixed rate for a period of time.

Two-Step Mortgage

Two-Step mortgages have a fixed rate for a certain time, most often five or seven years, and then interest rate changes to a current market rate. After that adjustment the mortgage maintains new fixed rate for the remaining 23 or 25 years.

Convertible ARMs

Some ARMs come with option to convert them to a fixed-rate mortgage at designated times (usually during the first five years on the adjustment date), if you see interest rates starting to rise. The new rate is established at the current market rate for fixed-rate mortgages.

The conversion is typically done for a nominal fee and requires almost no paperwork. The disadvantage is that the conversion interest rate is typically a little higher than the market rate at that time.

The other kind of convertible mortgage is a fixed rate loan with rate reduction option. If rates had dropped since the time of closing it allows you, under some prescribed conditions, for a small conversion fee to adjust your mortgage to going market rate. Generally the interest rate or discount points may be a little higher for a convertible loan.

Buy down Mortgage

A temporary buy down is the type of loan with an initially discounted interest rate which gradually increases to an agreed-upon fixed rate usually within one to three years. An initially discounted rate allows you to qualify for more houses with the same income and gives you the advantage of lower initial monthly payments for the first years of the loan when extra money may be needed for furnishings or home improvements. To reduce your monthly payments during the first few years of a mortgage you make an initial lump sum payment to the lender. If you do not have the cash to pay for the buy down, the lender can pay this fee if you agree on a little higher interest rate.

A very popular buy down is the 2-1 buy down.

Example: If the interest rate on the note is 8 percent with a 2-1 buy down mortgage your initial discounted rate is 6 percent and you would have 6 percent interest rate for the first year, 7 percent for the second year, and 8 percent afterwards. You will need to prepay the difference in payments between the 6 percent and 8 percent rates the first year, and between the 7 percent and 8 percent rates the second year.

3-2-1 and 1-0 buy downs are also available, though less common. Compressed Buy down, works the same way, but with the interest rate changing every six months instead of on a yearly basis.

The lower rate may apply for the full duration of the loan or for just the first few years. A buy down may be used to qualify a borrower who would otherwise not qualify. This is because a buy down results in lower payments which are easier to qualify for.

With a variety of different loan programs available, it is important to choose the type of loan that will best suit your needs.

The right type of mortgage chiefly depends on how long you plan on staying in the house and the amount of monthly payment you can comfortably afford.

If you don’t plan to stay in your house for at least five to seven years, it will be reasonable to consider an Adjustable Rate Mortgage, Balloon Mortgage or Two-Step Mortgage. ARMs traditionally offer lower interest rates during the early years of the loan than fixed-rate loans. A Two-Step Mortgage will give you a lower interest rate than a 30-year mortgage for the first five or seven years. A Balloon Mortgage offers lower interest rates for shorter term financing, usually five or seven years. Because of a lower interest rate it is easy to qualify for these types of mortgages. However don’t accept the ARM unless you can afford the maximum possible monthly payment.

Generally, you can start to consider 15-or 30-year fixed-rate mortgages if you plan to stay in your home for more than seven years.

Resource: http://mortgage-x.com/general/mortgage_indexes.asp

Let FHA Loans Help You

FHA loans have been helping people become homeowners since 1934. How do they do it? The Federal Housing Administration (FHA) – which is part of HUD – insures the loan, so your lender can offer you a better deal.

• Low down payments

• Low closing costs

• Easy credit qualifying

What does FHA have for you?

Buying your first home?

FHA might be just what you need. Your down payment can be as low as 3.5% of the purchase price, and most of your closing costs and fees can be included in the loan. Available on 1-4 unit properties.

Want a fixer-upper?

FHA has a loan that allows you to buy a home, fix it up, and include all the costs in one loan. Or, if you own a home that you want to re-model or repair, you can refinance what you owe and add the cost of repairs -all in one loan.

Financial help for seniors.

Are you 62 or older? Do you live in your home? Do you own it outright or have a low loan balance? If you can answer "yes" to all of these questions, then the FHA Reverse Mortgage might be right for you. It lets you convert a portion of your equity into cash.

Want to make your home more energy efficient?

You can include the costs of energy improvements into an FHA Energy-Efficient Mortgage.

How about manufactured housing and mobile homes?

Yes, FHA has financing for mobile homes and factory-built housing. They have two loan products – one for those who own the land that the home is on and another for mobile homes that are -or will be -located in mobile home parks.

Ask an FHA lender to tell you more about FHA loan products.

Find an FHA lender at http://www.hud.gov/ll/code/llslcrit.cfm

Need advice?

Contact a HUD-approved housing counselor or call (800) 569-4287.

Need help with your down payment?

State and local governments offer programs that can help. Find a program near you by going to http://www.hud.gov/buying/localbuying.cfm

This information can all be found at http://www.hud.gov/buying/loans.cfm

How to Find, Interview & Hire a Real Estate Agent

A good real estate agent can make or break your deal. Do you know the difference between Realtors and real estate agents? Which type of real estate agency is best for you? Which listing agreement is most often used? Do you need to sign a buyers broker agreement? How are real estate agents paid and who pays them? Find out before you start shopping for a home.

Questions to Ask a Real Estate Agent -How to Interview an Agent

1. How Long Have You Been in the Business?

The standard joke is there's nothing wrong with a new agent that a little experience won't fix. But that's not to say that freshly licensed agents aren't valuable. Much depends on whether they have access to competent mentors and the level of their training. Newer agents tend to have more time to concentrate on you. Some agents with 20 years of experience repeat their first year over and over. Other 20-year agents learn something new every year.

Experience counts; it can mean the difference between knowing how to handle a difficult situation to ignoring it or not recognizing the signs of a potential problem before it develops into a crisis. A minimum of five years' experience is usually a safe bet.

2. What is Your Average List-Price-to-Sales-Price Ratio?

Knowing the agent's average ratio speaks volumes. Excluding sizzling seller's markets, a good buyer's agent should be able to negotiate a sales price that is lower than list price for buyers. A competent listing agent should hold a track record for negotiating sales prices that are very close to list prices. Therefore, listing agents should have higher ratios closer to 100%. Buyer's agent ratios should fall below 99%.

When hiring a buyer's agent, expect to see list-to-sales ratios within 90 to 97% in a buyer's market; in a seller's market: 100% to 103%.

3. What is Your Best Marketing Plan or Strategy for My Needs?

As a buyer, you will need to know:

- How will you search for my new home?
- How many homes will I likely see before I find a home I want to buy?
- Will I be competing against other buyers?
- How do you handle multiple offers?
- Do you present offers yourself?

As a buyer, you should expect to see 5 to 7 homes a day, for as long as it takes to find your home. All the homes should fit your parameters, and the agent should preview those homes for you. The agent should also agree to solely represent you and not represent other buyers who are competing for the same inventory.

4. Will You Please Provide References?

Everybody has references. Even new agents have references from previous employers.

- Ask to see references.
- Ask if any of the individuals providing references are related to the agent.
- Ask if you can call the references with additional questions.

You might find references on an agent's Web site, but you should also ask to see letters of reference. Clients often send thank you notes or letters to the agent's broker. Check a minimum of three references.

5. What Are the Top Three Things That Separate You From Your Competition?

A good agent won't hesitate to answer this question and will be ready to fire off why she is best suited for the job. Everyone has their own standards, but most consumers say they are looking for agents who say they are:

- Honest and trustworthy
- Assertive
- Excellent negotiators
- Available by phone or e-mail
- Good communicators
- Friendly
- Analytical
- Able to maintain a good sense of humor under trying circumstances
- Strong repeat record of satisfied customers
- Extensive online marketing
- Good negotiation skills
- Assertive, doesn't take no for an answer
- Strong communicator

Examples can range from marketing to knowledge. Acceptable answers are:

6. May I Review Documents Beforehand That I Will Be Asked to Sign?

A sign of a good real estate agent is a professional who makes forms available to you for preview before you are required to sign them. If at all possible, ask for these documents upfront.

Ask for copies of the following:

- Buyer’s Broker Agreement (is it exclusive or non-exclusive?)
- Agency Disclosures
- Purchase Agreement
- Buyer Disclosures

When you see the sample purchase agreement and ask the agent to point out your cancellation rights in this document. If the agent hems and haws, or hesitates to explain the purchase agreement to you, hire another agent.

7. How Will You Help Me Find Other Professionals?

Let the real estate agent explain to you who they work with and why they chose these professionals. Your agent should be able to supply you with a written list of referring vendors such as mortgage brokers, home inspectors and title companies. Ask for an explanation if you see the term “affiliated” because it could mean that the agent and their broker are receiving compensation from one or all of vendors, and you could be paying a premium for the service. Ask the agent if the title company they recommends charges competitive fees. All agents build teams of professionals, from title companies to escrow officers to mortgage lenders, home inspectors and appraisers. Ask if the agent’s company is receiving compensation for the referral. If so, you might want to choose another professional. Payment of some referral fees are against the law.

8. How Much Do You Charge?

Don’t ask if the fee is negotiable. All real estate fees are negotiable. Typically, real estate agents charge a percentage, from 1% to 4% to represent one side of a transaction: a seller or a buyer. Ask the agent if the fee stated in the buyer’s broker agreement will be adjusted if the offered seller’s compensation is lower.

9. What Kind of Guarantee Do You Offer?

If you sign a buying agreement with the agent and later find that you are unhappy with the arrangement, will the agent let you cancel the agreement? Will the agent stand behind their service to you? What is their company’s policy about canceled agreements? Has anybody ever canceled an agreement with them before?

If the agent will not release you from a buying agreement prior to its expiration upon request, then you should hire another agent. Ask about this before you sign a the agreement. Some agents will release you; others will not.

10. What Haven’t I Asked You That I Need to Know?

Pay close attention to how the real estate agent answers this question because there is always something you need to know, always. You want an agent to take their time with you --to make sure you feel comfortable and secure with her knowledge and experience. They should know how to listen and how to counsel you, how to ask the right questions to find out what she needs to know to better serve you.

You might ask the agent to reiterate your goals and objectives. If the agent does not appear to have a thorough understanding of what you want, despite your attempts to explain what you want, then hire somebody else. Some agents do not listen very well. You want an agent who will listen to you and communicate with you. The best way to find out if the agent comprehends your desires is to ask the agent to repeat it back to you.

Resource: www.about.com/real estate agent/

Home Inspection Checklist

All home inspections are different and can vary dramatically from state to state, as well as across counties and cities. Much depends on the home inspector and which association, if any, to which the home inspector belongs. The following is based on inspections conducted in accordance with the standards of practice established by the National Association of Certified Home Inspectors (NACHI) guidelines.

General Home Inspection Checklist Items

1. Structural Elements Construction of walls, ceilings, floors, roof and foundation.
2. Exterior Evaluation Wall covering, landscaping, grading, elevation, drainage, driveways, fences, sidewalks, fascia, trim, doors, windows, lights and exterior receptacles.
3. Roof and Attic Framing, ventilation, type of roof construction, flashing and gutters. It does not include a guarantee of roof condition nor a roof certification.
4. Plumbing Identification of pipe materials used for potable, drain, waste and vent pipes. Including condition. A toilet, showers, sinks faucets and traps. It does not include a sewer inspection.
5. Systems and Components Water heaters, furnaces, air conditioning, duct work, chimney, fireplace and sprinklers.
6. Electrical Main panel, circuit breakers, types of wiring, grounding, exhaust fans, receptacles, ceiling fans and light fixtures.
7. Appliances Dishwasher, range and oven, built-in microwaves, garbage disposal and, yes, even smoke detectors.
8. Garage Slab, walls, ceiling, vents, entry, firewall, garage door, openers, lights, receptacles, exterior, windows and roof.

Home Inspection Checklist Items Needing Service

Home inspection reports do not describe the condition of every component if it’s in excellent shape, but should note every item that is defective or needing service. The serious problems are:

1. Health and safety issues
2. Roofs with a short life expectancy
3. Furnace / A/C malfunctions
4. Foundation deficiencies
5. Moisture / drainage issues

Home Inspection Checklist of Items Not Inspected

A home inspector's standard practice typically does not include the following, for which a specific license to inspect and identify is required:

1. Asbestos
2. Radon, Methane, Radiation and Formaldehyde
3. Wood-Destroying Organisms
4. Mold, Mildew and Fungi
5. Rodents
6. Lead

*If your report has these items listed, an additional inspection is recommended by a licensed contractor.

Home Inspection Checklist Items Sellers Should Fix

If you have a choice, it is smarter to hire your own contractors and supervise repairs. Before issuing a formal request to repair, consider the seller's incentive to hire the cheapest contractor and to replace appliances with the least expensive brands.

Home inspectors are reluctant to disclose repair costs. You should call a contractor to determine the scope and expense to fix minor problems yourself. No home is perfect. Every home will have issues on a home inspection, including new homes.

A repair issue that will be a deal breaker for a first-time home buyer, causing the buyer to cancel the contract, will not faze a home buyer versed in home repair. Talk to your agent, family, and friends and call a few contractors to discuss which types of defects are minor. It could be a simple solution is available such as replacing a $1.99 receptacle, which can resolve many outlet problems.

Resource: www.homebuying.about.com

Home Inspection Recommendation: www.ralis.com