



Hilliard Lyons

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Buying a Home

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There's no doubt about it--owning a home is an exciting prospect. After all, you've always dreamed of having a place that you could truly call your own. But buying a home can be stressful, especially when you're buying one for the first time. Fortunately, knowing what to expect can make it a lot easier.

How much can you afford?

According to a general rule of thumb, you can afford a house that costs two and a half times your annual salary. But determining how much you can afford to spend on a house is not quite so simple. Since most people finance their home purchases, buying a house usually means getting a mortgage. So, the amount you can afford to spend on a house is often tied to figuring out how large a mortgage you can afford. To figure this out, you'll need to take into account your gross monthly income, housing expenses, and any long-term debt.

Generally, if you're applying for a conventional mortgage, your monthly housing expenses (mortgage principal and interest, real estate taxes, and homeowners insurance) should not exceed 28 percent of your gross monthly income. In addition, the Consumer Financial Protection Bureau's mortgage rules suggest that borrowers have a debt-to-income ratio that is less than or equal to 43 percent. In other words, you should be spending no more than 43 percent of your gross monthly income on longer-term debt payment. It may be helpful to use one of the many real estate and personal finance websites to help you with the calculations.

Should you use a real estate agent or broker?

A knowledgeable real estate agent or buyer's broker can guide you through the process of buying a home and make the process much easier. This assistance can be especially helpful to a first-time home buyer. In particular, an agent or broker can:

- Help you determine your housing needs
- Show you properties and neighborhoods in your price range
- Suggest sources and techniques for financing
- Prepare and present an offer to purchase
- Act as an intermediary in negotiations
- Recommend professionals whose services you may need (e.g., lawyers, mortgage brokers, title professionals, inspectors)
- Provide insight into neighborhoods and market activity
- Disclose positive and negative aspects of properties you're considering
- Keep in mind that if you enlist the services of an agent or broker, you'll want to find out how he or she is being compensated (i.e., flat fee or commission based on a percentage of the sale price). Many states require the agent or broker to disclose this information to you up front and in writing.

• Choosing the right home

- Before you begin looking at houses, decide in advance the features that you want your home to have. Knowing what you want ahead of time will make the search for your dream home much easier. Here are some things to consider:
 - Price of home and potential for appreciation
 - Location or neighborhood

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- Quality of construction, age, and condition of the property
 - Style of home and lot size
 - Number of bedrooms and bathrooms
 - Quality of local schools
 - Crime level of the area
 - Property taxes
 - Proximity to shopping, schools, and work

• **Making the offer**

- Once you find a house, you'll want to make an offer. Most home sale offers and counteroffers are made through an intermediary, such as a real estate agent. All terms and conditions of the offer, no matter how minute, should be put in writing to avoid future problems. Typically, your attorney or real estate agent will prepare an offer to purchase for you to sign. You'll also include a nominal down payment, such as \$500. If the seller accepts the offer to purchase, he or she will sign the contract, which will then become a binding agreement between you and the seller. For this reason, it's a good idea to have your attorney review any offer to purchase before you sign.

• **Other details**

- Once the seller has accepted your offer, you, your real estate agent, or the mortgage lender will get busy completing procedures and documents necessary to finalize the purchase. These include finalizing the mortgage loan, appraising the house, surveying the property, and getting homeowners insurance. Typically, you would have made your offer contingent upon the satisfactory completion of a home inspection, so now's the time to get this done as well.

• **The closing**

- The closing meeting, also known as a title closing or settlement, can be a tedious process--but when it's over, the house is finally yours! The closing may require some or all of the following entities to be present: the seller and/or the seller's attorney, your attorney, the closing agent (a real estate attorney or the representative of a title company or mortgage lender), and both your real estate agent and the seller's. Depending on what state you live in, all parties may be required to attend the closing at once or the closing can take place over the course of several weeks. Some closings can be conducted by mail or via the internet.
- During the closing process, you'll receive and/or sign a variety of paperwork, including:
 - Closing Disclosure: This lists all of the final terms of the loan you've selected. Your lender is required to send you the Closing Disclosure at least three business days before the actual closing meeting.
 - Promissory note: This spells out the amount and repayment terms of your mortgage loan.
 - Mortgage: This gives the lender a lien against the property.
 - Deed: This transfers legal ownership of the property to you.
- In addition, you'll need to provide proof that you have insured the property. You'll also be required to pay certain costs and fees associated with obtaining the mortgage and closing the real estate transaction.

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