Disclaimer

The information presented herein must also be supported by your own research and/or advisement from a professional before making any financial decisions.

Factors that go into the consideration to buy a house are going to be unique to your specific financial and life situation.

Why Are We Here?

- Review some basic differences between renting a home and home ownership

- Discuss the preparation steps to purchase a house

Pros and Cons of Renting

Pros

- **Renting allows you not to be locked into a long-term financial commitment. Most leases are 1-3 years.**
- **Most maintenance expenses over a certain amount are the responsibility of the landlord.**
- **Renting requires less money to move into a house.**

Cons

- **You typically may have to move more often than if you owned a home.**
- **You don’t have the ability to build equity as the home appreciates in value.**
- **You don’t get to deduct the mortgage interest on your taxes.**
- **The cost of the rent may increase over time and is not as stable as a mortgage.**



The Pros and Cons of Ownership

Pros

- **Your wealth will increase as you gain more home equity.**
  - In most cases (2007-2012 being a recent exception), homes typically appreciate over time. Many parts of the country have seen home prices rebound 5-10% on average over the past year. When they do and a principal residence is sold after two years of purchase, the IRS allows the homeowner to keep up to $250,000 per individual and $500,000 per married couple free of taxes.
- **Mortgage interest is tax deductible as per the IRS code.**
  - In most cases homeowners get back approximately 20% of the total mortgage amount paid during the first 7 years of home ownership.
- **Monthly payments are more stabilized if you have a fixed-rate mortgage.**
- **You can stay in the property for as long as you make timely mortgage payments and can potentially pay off the home all together.**

Cons

- **Maintenance costs — it takes work and money to keep a home in good condition.**
- **It is not as flexible, and moving is more difficult and complicated. Ownership can be a long-term commitment.**
- **Can fluctuate in value — there is no guarantee that your home will increase in value; it could decrease in value.**

Two Main Types of Ownership (Fee Simple and Condo)

- **The most common form of home ownership is Fee Simple where both the improvement (house) and the land are owned by the homeowner.**

- **Condos are owned by the homeowner, but have certain shared elements and amenities that require all of the owners to jointly contribute to (typically for items like trash and snow removal, elevators, common areas and other things like parks, pools, etc.).**

The Chronological Order of Events in Purchasing a House

- Pre-qualification
- The Home Search
- Submitting an Offer/Contract Ratification
- The Home Inspection
- The Appraisal
- The Closing

Qualifying for a Mortgage

- **You must establish good credit (typically 640+ credit score) for most mortgages. Bankruptcies and judgments will prohibit your ability to get qualified for a mortgage. Good credit is also needed for most rental opportunities.**

- **Most lenders will qualify you for a mortgage up to 28% of your monthly gross income (often referred to as debt-to-income ratio).**
  - **For example: A person making $60,000/year equals $5,000/month and would get qualified to afford a mortgage of $1,400/month (which equals a home value of approximately $240,000 at 3.75%).**

- **Lenders consider qualifying income to be from a permanent job and typically require a month's worth of paystubs. Self-employed income requires two-year's worth of tax returns to have the income considered. Temporary income and self-employed income for less than two-years will not be counted toward qualifying income for a mortgage.**

Two Financial Components of Purchasing a House

- **Most mortgages require you to put down a down payment to qualify for a mortgage.**
  - **FHA mortgages currently require a 3.5% down payment.**
  - **Conventional mortgages require a 5,10,15 or 20% down payment.**
  - **Down payment funds can come from your checking/savings accounts, a gift from a family member or your retirement savings.**

- **Purchasing a home also requires closing costs to be paid, which typically are 5-6% of the cost of the home. Closing costs consist of the following:**
  - **Lender related fees (origination points, processing fees, credit report fees, appraisal fees, etc.)**
  - **Prepaid Items (interest for the current month, home owners insurance)**
  - **Escrow Setup (mortgage interest escrow, property tax escrow)**
  - **Title Fees (abstract, title search, title insurance, processing, etc.)**
  - **Transfer and Recordation Taxes**

Timeline to Qualify After Various Life Events

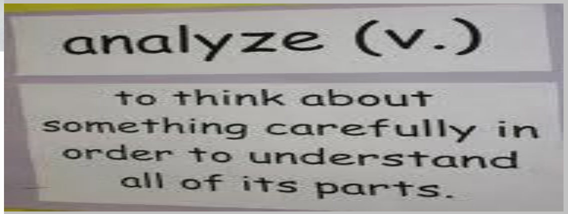
- **After a bankruptcy, you typically have to wait between 2 years if you have declared a Chapter 13 and 2-4 years for a Chapter 7.**

- **After completing a short sale, the waiting period is 1-3 years, based upon varying factors.**

- **You typically have to wait 7 years after a foreclosure to purchase another property.**

Discussion Scenarios








Helpful Websites

- www.mrishomes.com
- www.Zillow.com
- www.realtor.com
- www.consumerfinance.gov