



## *Getting Ready for Home Ownership*

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## 10 Ways to Prepare for Homeownership

- 1. Decide what you can afford.** Generally, you can afford a home equal in value to between two and three times your gross income.
- 2. Develop your home wish list.** Then, prioritize the features on your list.
- 3. Select where you want to live.** Compile a list of three or four neighborhoods you'd like to live in, taking into account items such as schools, recreational facilities, area expansion plans, and safety.
- 4. Start saving.** Do you have enough money saved to qualify for a mortgage and cover your down payment? Ideally, you should have 20 percent of the purchase price saved as a down payment. Also, don't forget to factor in closing costs. Closing costs — including taxes, attorney's fee, and transfer fees — average between 2 and 7 percent of the home price.
- 5. Get your credit in order.** Obtain a copy of your credit report to make sure it is accurate and to correct any errors immediately. A credit report provides a history of your credit, bad debts, and any late payments.
- 6. Determine your mortgage qualifications.** How large of mortgage do you qualify for? Also, explore different loan options — such as 30-year or 15-year fixed mortgages or ARMs — and decide what's best for you.
- 7. Get preapproved.** Organize all the documentation a lender will need to preapprove you for a loan. You might need W-2 forms, copies of at least one pay stub, account numbers, and copies of two to four months of bank or credit union statements.
- 8. Weigh other sources of help with a down payment.** Do you qualify for any special mortgage or down payment assistance programs? Check with your state and local government on down payment assistance programs for first-time buyers. Or, if you have an IRA account, you can use the money you've saved to buy your first home without paying a penalty for early withdrawal.
- 9. Calculate the costs of homeownership.** This should include property taxes, insurance, maintenance and utilities, and association fees, if applicable.
- 10. Contact a REALTOR®.** Find an experienced REALTOR® who can help guide you through the process.

## 5 Common First-Time Home Buyer Mistakes

1. They don't ask enough questions of their lender and end up missing out on the best deal.
2. They don't act quickly enough to make a decision and someone else buys the house.
3. They don't find the right agent who's willing to help them through the homebuying process.
4. They don't do enough to make their offer look appealing to a seller.
5. They don't think about resale *before* they buy. The average first-time buyer only stays in a home for four years.

Source: *Real Estate Checklists and Systems*, [www.realestatechecklists.com](http://www.realestatechecklists.com).



## Why You Should Work With a REALTOR®

Not all real estate practitioners are REALTORS®. The term REALTOR® is a registered trademark that identifies a real estate professional who is a member of the NATIONAL ASSOCIATION of REALTORS® and subscribes to its strict Code of Ethics. Here are five reasons why it pays to work with a REALTOR®.

**1. You'll have an expert to guide you through the process.** Buying or selling a home usually requires disclosure forms, inspection reports, mortgage documents, insurance policies, deeds, and multi-page settlement statements. A knowledgeable expert will help you prepare the best deal, and avoid delays or costly mistakes.

**2. Get objective information and opinions.** REALTORS® can provide local community information on utilities, zoning, schools, and more. They'll also be able to provide objective information about each property. A professional will be able to help you answer these two important questions: Will the property provide the environment I want for a home or investment? Second, will the property have resale value when I am ready to sell?

**3. Find the best property out there.** Sometimes the property you are seeking is available but not actively advertised in the market, and it will take some investigation by your REALTOR® to find all available properties.

**4. Benefit from their negotiating experience.** There are many negotiating factors, including but not limited to price, financing, terms, date of possession, and inclusion or exclusion of repairs, furnishings, or equipment. In addition, the purchase agreement should provide a period of time for you to complete appropriate inspections and investigations of the property before you are bound to complete the purchase. Your agent can advise you as to which investigations and inspections are recommended or required.

**5. Property marketing power.** Real estate doesn't sell due to advertising alone. In fact, a large share of real estate sales comes as the result of a practitioner's contacts through previous clients, referrals, friends, and family. When a property is marketed with the help of a REALTOR®, you do not have to allow strangers into your home. Your REALTOR® will generally prescreen and accompany qualified prospects through your property.

**6. Real estate has its own language.** If you don't know a CMA from a PUD, you can understand why it's important to work with a professional who is immersed in the industry and knows the real estate language.

**7. REALTORS® have done it before.** Most people buy and sell only a few homes in a lifetime, usually with quite a few years in between each purchase. And even if you've done it before, laws and regulations change. REALTORS®, on the other hand, handle hundreds of real estate transactions over the course of their career. Having an expert on your side is critical.

**8. Buying and selling is emotional.** A home often symbolizes family, rest, and security — it's not just four walls and a roof. Because of this, home buying and selling can be an emotional undertaking. And for most people, a home is the biggest purchase they'll ever make. Having a concerned, but objective, third party helps you stay focused on both the emotional and financial issues most important to you.

**9. Ethical treatment.** Every member of the NATIONAL ASSOCIATION of REALTORS® makes a commitment to adhere to a strict Code of Ethics, which is based on professionalism and protection of the public. As a customer of a REALTOR®, you can expect honest and ethical treatment in all transaction-related matters. It is mandatory for REALTORS® to take the Code of Ethics orientation and they are also required to complete a refresher course every four years.



## Questions to Ask When Choosing a REALTOR®

Make sure you choose a REALTOR® who will provide top-notch service and meet your unique needs.

**1. How long have you been in residential real estate sales? Is it your full-time job?** While experience is no guarantee of skill, real estate — like many other professions — is mostly learned on the job.

**2. What designations do you hold?** Designations such as GRI and CRS® — which require that agents take additional, specialized real estate training — are held by only about one-quarter of real estate practitioners.

**3. How many homes did you and your real estate brokerage sell last year?** By asking this question, you'll get a good idea of how much experience the practitioner has.

**4. How many days did it take you to sell the average home? How did that compare to the overall market?**

The REALTOR® you interview should have these facts on hand, and be able to present market statistics from the local MLS to provide a comparison.

**5. How close to the initial asking prices of the homes you sold were the final sale prices?** This is one indication of how skilled the REALTOR® is at pricing homes and marketing to suitable buyers. Of course, other factors also may be at play, including an exceptionally hot or cool real estate market.

**6. What types of specific marketing systems and approaches will you use to sell my home?** You don't want someone who's going to put a For Sale sign in the yard and hope for the best. Look for someone who has aggressive and innovative approaches, and knows how to market your property competitively on the Internet. Buyers today want information fast, so it's important that your REALTOR® is responsive.

**7. Will you represent me exclusively, or will you represent both the buyer and the seller in the transaction?** While it's usually legal to represent both parties in a transaction, it's important to understand where the practitioner's obligations lie. Your REALTOR® should explain his or her agency relationship to you and describe the rights of each party.

**8. Can you recommend service providers who can help me obtain a mortgage, make home repairs, and help with other things I need done?** Because REALTORS® are immersed in the industry, they're wonderful resources as you seek lenders, home improvement companies, and other home service providers. Practitioners should generally recommend more than one provider and let you know if they have any special relationship with or receive compensation from any of the providers.

**9. What type of support and supervision does your brokerage office provide to you?** Having resources such as in-house support staff, access to a real estate attorney, and assistance with technology can help an agent sell your home.

**10. What's your business philosophy?** While there's no right answer to this question, the response will help you assess what's important to the agent and determine how closely the agent's goals and business emphasis mesh with your own.

**11. How will you keep me informed about the progress of my transaction? How frequently?** Again, this is not a question with a correct answer, but it reflects your desires. Do you want updates twice a week or do you not want to be bothered unless there's a hot prospect? Do you prefer phone, e-mail, or a personal visit?

**12. Could you please give me the names and phone numbers of your three most recent clients?**

Ask recent clients if they would work with this REALTOR® again. Find out whether they were pleased with the communication style, follow-up, and work ethic of the REALTOR®.



## 7 Reasons to Own Your Home

**1. Tax breaks.** The U.S. Tax Code lets you deduct the interest you pay on your mortgage, your property taxes, as well as some of the costs involved in buying your home.

**2. Appreciation.** Real estate has long-term, stable growth in value. While year-to-year fluctuations are normal, median existing-home sale prices have increased on average 6.5 percent each year from 1972 through 2005, and increased 88.5 percent over the last 10 years, according to the NATIONAL ASSOCIATION OF REALTORS®. In addition, the number of U.S. households is expected to rise 15 percent over the next decade, creating continued high demand for housing.

**3. Equity.** Money paid for rent is money that you'll never see again, but mortgage payments let you build equity ownership interest in your home.

**4. Savings.** Building equity in your home is a ready-made savings plan. And when you sell, you can generally take up to \$250,000 (\$500,000 for a married couple) as gain without owing any federal income tax.

**5. Predictability.** Unlike rent, your fixed-mortgage payments don't rise over the years so your housing costs may actually decline as you own the home longer. However, keep in mind that property taxes and insurance costs will increase.

**6. Freedom.** The home is yours. You can decorate any way you want and benefit from your investment for as long as you own the home.

**7. Stability.** Remaining in one neighborhood for several years gives you a chance to participate in community activities, lets you and your family establish lasting friendships, and offers your children the benefit of educational continuity.

Online resources: To calculate whether buying is the best financial option for you, use the "Buy vs. Rent" calculator at [www.GinnieMae.gov](http://www.GinnieMae.gov)

## Tax Benefits of Homeownership

The tax deductions you're eligible to take for mortgage interest and property taxes greatly increase the financial benefits of homeownership. Here's how it works.

### Assume:

\$9,877 = Mortgage interest paid (a loan of \$150,000 for 30 years, at 7 percent, using year-five interest)

\$2,700 = Property taxes (at 1.5 percent on \$180,000 assessed value)

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\$12,577 = **Total deduction**

Then, multiply your total deduction by your tax rate.

For example, at a 28 percent tax rate:  $12,577 \times 0.28 = \$3,521.56$

**\$3,521.56 = Amount you have lowered your federal income tax (at 28 percent tax rate)**

*Note: Mortgage interest may not be deductible on loans over \$1.1 million. In addition, deductions are decreased when total income reaches a certain level.*



## Take the Stress Out of Homebuying

Buying a home should be fun, not stressful. As you look for your dream home, keep in mind these tips for making the process as peaceful as possible.

- 1. Find a real estate agent who you connect with.** Home buying is not only a big financial commitment, but also an emotional one. It's critical that the REALTOR® you chose is both highly skilled and a good fit with your personality.
- 2. Remember, there's no "right" time to buy, just as there's no perfect time to sell.** If you find a home now, don't try to second-guess interest rates or the housing market by waiting longer — you risk losing out on the home of your dreams. The housing market usually doesn't change fast enough to make that much difference in price, and a good home won't stay on the market long.
- 3. Don't ask for too many opinions.** It's natural to want reassurance for such a big decision, but too many ideas from too many people will make it much harder to make a decision. Focus on the wants and needs of your immediate family — the people who will be living in the home.
- 4. Accept that no house is ever perfect.** If it's in the right location, the yard may be a bit smaller than you had hoped. The kitchen may be perfect, but the roof needs repair. Make a list of your top priorities and focus in on things that are most important to you. Let the minor ones go.
- 5. Don't try to be a killer negotiator.** Negotiation is definitely a part of the real estate process, but trying to "win" by getting an extra-low price or by refusing to budge on your offer may cost you the home you love. Negotiation is give and take.
- 6. Remember your home doesn't exist in a vacuum.** Don't get so caught up in the physical aspects of the house itself — room size, kitchen, etc. — that you forget about important issues as noise level, location to amenities, and other aspects that also have a big impact on your quality of life.
- 7. Plan ahead.** Don't wait until you've found a home and made an offer to get approved for a mortgage, investigate home insurance, and consider a schedule for moving. Presenting an offer contingent on a lot of unresolved issues will make your bid much less attractive to sellers.
- 8. Factor in maintenance and repair costs in your post-home buying budget.** Even if you buy a new home, there will be costs. Don't leave yourself short and let your home deteriorate.
- 9. Accept that a little buyer's remorse is inevitable and will probably pass.** Buying a home, especially for the first time, is a big financial commitment. But it also yields big benefits. Don't lose sight of why you wanted to buy a home and what made you fall in love with the property you purchased.
- 10. Choose a home first because you love it; then think about appreciation.** While U.S. homes have appreciated an average of 5.4 percent annually over from 1998 to 2002, a home's most important role is to serve as a comfortable, safe place to live.