

# MORTGAGE LENDING UPDATE

By David Griffin

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## Five Questions for First Timers



Here's another excellent article from bankrate.com, this one penned by Aviva Kushner.

Usually, a first-time homebuyer picks out a house before lining up financing, but experts say it should be the opposite. Dan Huss, a mortgage consultant with BNC National Bank in Scottsdale, Ariz., says buyers often call a Realtor first and then the Realtor refers them to a mortgage person. "The first call really should be to a loan officer," Huss says. But before you make that first call, sit down and do some hard thinking. "Establish what you feel you could afford based on your budget," says Huss. "Once you make that phone call and the loan officer tells you what you actually qualify for, the temptation to go higher is real."

Before cashing in on the first-time homebuyer tax credit, ask yourself these five questions.

### 1. How much can I afford?



It may be hard to figure out what you can truly afford. "The very best ratio to have is one-fourth of your income going toward house payments," says Jessica Cecere, president of Consumer Credit Counseling Service of Palm Beach County and the Treasure Coast in Florida. Cecere says she means net income, or 25 percent of what you earn after taxes -- lenders calculate using gross income. "Anywhere between 25 (percent) and 32 (percent) is safe. Anything over 35 (percent) is the danger zone," she says. A higher ratio puts you at risk if anything changes, like an increase in insurance costs. "One hurricane in Florida and insurance charges can double," she says. Then there is the prospect of job loss. "With 25 percent, even with the loss of one income, you can still keep your home," Cecere says. Huss says you should know your financial situation before you approach a lender and borrow accordingly. A 30-year fixed mortgage is preferable. Chart out how high your payments would be at

different rates by using Bankrate.com's mortgage calculator. Once you know what you can afford to pay on the mortgage, you can figure out your housing price range, Huss says.

### 2. What are my other housing costs outside

First-timers tend to miscalculate the total of maintaining a home. "Have a thorough and closing costs," Huss says. You need to make sure you consider all the monthly don't always include taxes, homeowners mortgage insurance. They certainly don't which your landlord covered previously. If contractor bids so you know what lies new or old, to make any repairs," Cecere income, repairs can bring your cost to 30 three months of basic living expenses in a



the loan?

tab for sealing the purchase and the cost conversation about down-payment costs know the total out-of-pocket costs. Next, charges. Online calculators on realty sites association dues, utilities, and home and allow for flooring and window treatments, you're buying a fixer-upper, get several ahead. "You always have to be prepared, says. If your mortgage is at 25 percent of percent. "We always say you should have very liquid place, and part of that is your

house emergency fund," Cecere says. Finally, double-check utilities and tax costs to avoid nasty surprises.

### 3. What do I need in a house and a neighborhood?

"I always sit down and say, 'Give me your wish list,' " says Chris Pagano, a Realtor with Coldwell Banker in Chicago. "What are the must-haves?" Pagano says the way you live is key. He asks buyers, "What do you do when you come home?" That can help buyers determine whether proximity to a gym, park or good restaurants matters.



He urges buyers to consider how they will get from home to other places. Walking three blocks to a bus stop when it's 10 degrees can be bone-chilling. If you drive, try it before you buy. Check out potential neighborhoods at different times of day, Realtors emphasize. "Sure, look at the MLS, see the reports, but walk the neighborhood," says Michael Friedman, a Realtor with The Grubb Co. in the Oakland-Berkeley-Piedmont area in California.

#### 4. Will this house fit my long-term goals?



While you have to make a purchasing decision based on your current financial situation, you should imagine your future personal and work life. Friedman suggests buyers ask themselves, "Are we going to grow our family?" and "How many bedrooms do we need?" If you think an elderly parent may move in or you'll need a home office, include that in your decision. Don't forget about schools. Sometimes, paying more for a house can be cheaper in the long run. A pricier home in a better school district can be cheaper than a lower-priced home plus private school for 13 years. "This home will let us go for public school and not pay \$50,000 for private school," may be the thinking, Friedman says.

#### 5. Am I truly prepared to be a homeowner?

you have a home, a lot of your money will be spent dealing with your home." Make should ask yourself before buying if you take a homebuyer class in person or online. experts say homebuying can still be a wise better than renting," Huss says. "You house for what you can afford."

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"Whatever your money attitude is, when go (to it)," says Cecere. "A lot of your time sure you understand what's involved. You have good spending habits. If possible, If you're ready and buy responsibly, financial move. "Owning a house is still should absolutely be able to find a great

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