

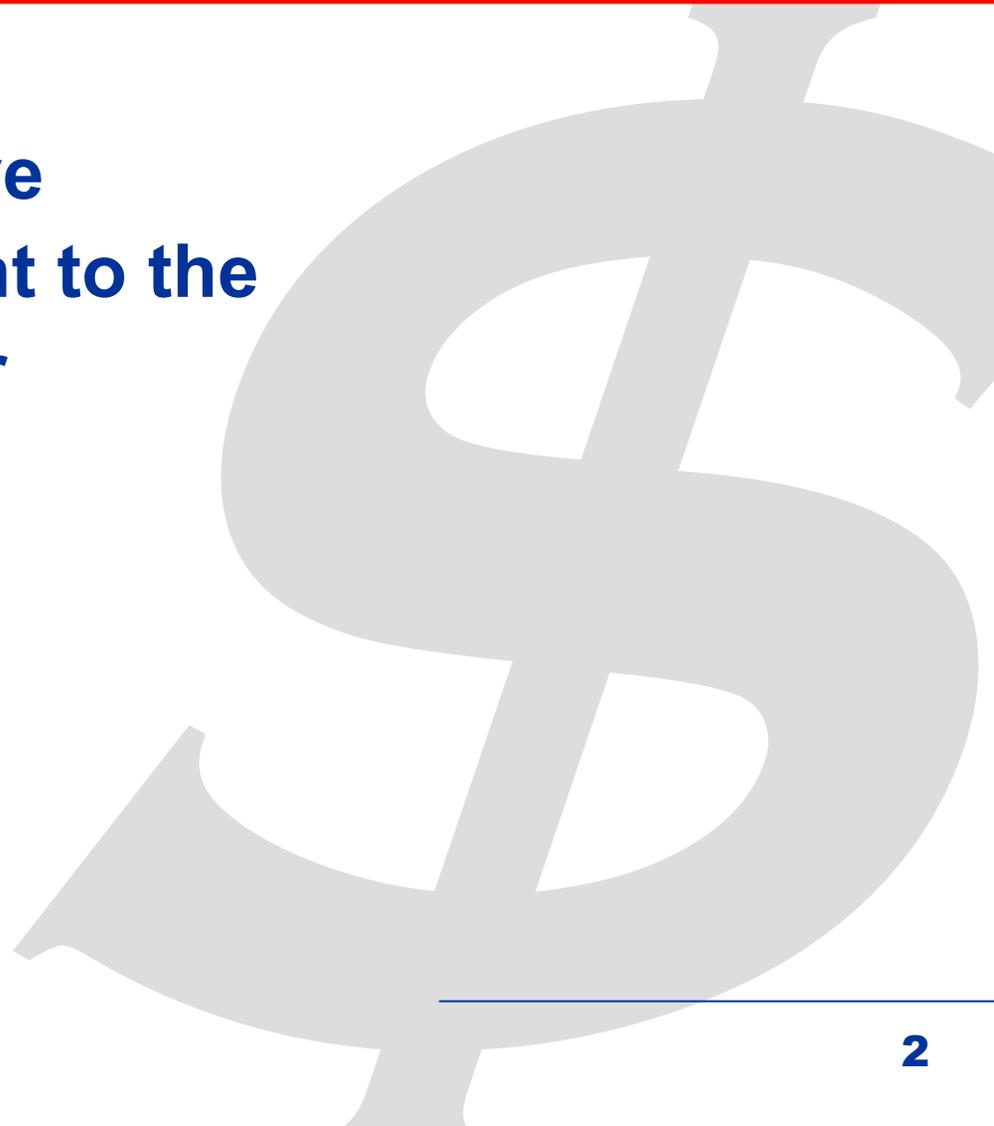
# HOUSING

***“Financial Readiness Means Mission Readiness”***



# Purpose

- ▶ **To provide objective information relevant to the military homebuyer**





## Topics Include:

- ▶ **Renting versus buying**
- ▶ **How much house can you afford?**
- ▶ **What to look for in a neighborhood**
- ▶ **Who does a real estate agent really represent?**
- ▶ **The importance of contingency clauses**
- ▶ **Types of mortgage loans**
- ▶ **Approximate closing and pre-paid costs**
- ▶ **Homeowner's insurance**



# Rent or Buy?

- ▶ **You may want to rent if:**
  - ▶ **Move every two or three years**
  - ▶ **Unfamiliar with area**
  - ▶ **Imminent separation/retirement**
  - ▶ **Low on cash**
  - ▶ **Cannot or will not maintain property**



# Rent or Buy?

- ▶ **You may want to buy if:**
  - ▶ **High appreciation of home values**
  - ▶ **Itemize deduction**
  - ▶ **Pets**
  - ▶ **Stability and a sense of community**



# What Are Your Goals?

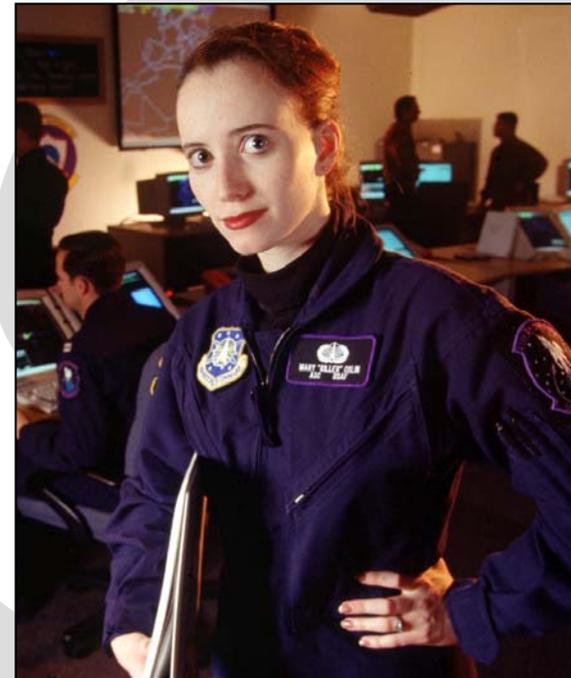
- ▶ Identify your needs vs. your wants





# What Are Your Goals?

- ▶ **How much can you afford?**
  - ▶ **Set your price range**
    - ▶ **Income**
    - ▶ **Debt**
    - ▶ **Credit History**
    - ▶ **Down payment**
  - ▶ **Monthly payment**





# What Are Your Goals?

## ▶ Calculating your monthly debt-to-income ratio

	Mortgage Only	All Debts
▶ VA loans	28%	41%
▶ All others	28%	36%



# Target Neighborhood

- ▶ **Location**
- ▶ **Take a tour**
- ▶ **Family needs:**
  - ▶ **Distance to work**
  - ▶ **Shopping, recreation, medical care, church, public transport**
- ▶ **Crime**
- ▶ **School district**



# Selecting a Real Estate Agent

- ▶ **They will help you to:**
  - ▶ **Target suitable neighborhoods**
  - ▶ **Identify available homes**
  - ▶ **Identify prices and features**
  - ▶ **Compare cost per square foot of recent sales**
  - ▶ **Assess your financial situation**
  - ▶ **Manage the details**



# Selecting a Real Estate Agent

- ▶ **Principal broker**
- ▶ **Listing agent**
- ▶ **Selling agent**
- ▶ **Buyer's agent**





# Finding the Right Home

- ▶ **Family meeting**
- ▶ **Discuss “needs” and “wants”**
- ▶ **Recheck loan qualification**
- ▶ **Caveat Emptor**
- ▶ **Potential for improvement**
- ▶ **Utility bills, (Perc) test, well water certification**
- ▶ **MLS, FSBOs, foreclosures**



# Negotiating the Deal

- ▶ **Offer to purchase**
- ▶ **Setting the price**
  - ▶ **Personal property**
  - ▶ **Repairs**
- ▶ **Earnest money deposit**
- ▶ **Financing**



# Negotiating the Deal

- ▶ **Selling your present home**
- ▶ **Contingency clauses**
- ▶ **Closing date**
- ▶ **Closing costs**
- ▶ **Pre-paid costs**



# Figuring Your Monthly Payments

- ▶ **Use handout as a tool**
- ▶ **List payment on Financial Planning Worksheet**
- ▶ **Determine impact on budget**
- ▶ **Make necessary reductions or adjustments in other living expenses**



# Finding the Right Lender

- ▶ **Compare lenders:**
  - ▶ Discount points
  - ▶ Loan origination fees
  - ▶ Lock-in
  - ▶ Rate protection option
- ▶ **Referrals**





# Choosing a Mortgage Loan

- ▶ **Assumption**
- ▶ **“Buy Down”**
- ▶ **Fixed-rate loans**
- ▶ **Adjustable-rate loans**
- ▶ **Step loans**



# Choosing a Mortgage Loan

- ▶ **Balloon loans**
- ▶ **FHA loans**
- ▶ **VA loans**
- ▶ **Seller financing**





# The Mortgage Application Process

- ▶ **Pre-qualification**
- ▶ **Formal application**
- ▶ **Processing time**
  - ▶ **Conventional loans - 4 to 6 weeks**
  - ▶ **VA loans - 6 weeks to 2 months**



- ▶ **Take possession**
  - ▶ **Collect all keys/change locks**
  - ▶ **From the seller, ask for:**
    - ▶ **Operating instructions for appliances, heating/cooling system**
    - ▶ **Names of contractors**
    - ▶ **Paint colors**
    - ▶ **Locations of utility turn-offs**
    - ▶ **Security system combinations, if applicable**



# Closing Costs

- ▶ **Between 2% and 4% of loan amount**
- ▶ **Traditionally paid by buyer**
- ▶ **Negotiable, can be paid by seller**



# Examples of Closing Costs

- ▶ **Appraisal (\$300)**
- ▶ **Attorney's fees (\$350)**
- ▶ **Credit report (\$60)**
- ▶ **Escrow/title company costs (\$300)**
- ▶ **Home inspection (\$100 - \$300)**
- ▶ **Home warranty programs  
(varies with realtor)**



# Examples of Closing Costs

- ▶ **Loan origination fee (0-2%)**
- ▶ **Pest inspection fee (\$100 - \$200)**
- ▶ **Recording fee (\$50 - \$100)**
- ▶ **Survey (\$150 - \$200)**
- ▶ **Title search and insurance  
(based on loan amount)**



# Pre-Paid Costs

- ▶ **Private Mortgage Insurance (PMI)**
- ▶ **Mortgage Insurance Premium (MIP)**
- ▶ **VA Funding Fee - 2%**
- ▶ **Homeowner's insurance - 14 mos.**
- ▶ **Property taxes - 3 mos.**
- ▶ **Interest - Date of closing to end of month**



# Reducing Payback Time

	<b>15 Year</b>	<b>30 Year</b>
<b>Principal &amp; Interest Payment (per mo.)</b>	<b>\$899</b>	<b>\$665</b>
<b>Total paid over term in P &amp; I</b>	<b>\$161,789</b>	<b>\$239,511</b>
<b>Total interest over term</b>	<b>\$61,789</b>	<b>\$139,511</b>
<b>Total Savings 15 year vs 30 year = \$77,722</b>		



# Reducing Payback Time

- ▶ **Prepay the principal - 30 to 20 yrs.**
  - ▶ Extra lump sum payment per year
  - ▶ Increase monthly payment by 1/12th
  - ▶ Bi-weekly payments
- ▶ **Prepay the principal - 30 to 15 yrs.**
  - ▶ Pay the next month's principal amount with each payment



# Homeowner's Insurance

- ▶ **Minimal Coverage:**
  - ▶ Dwelling, cost to rebuild not what you paid
  - ▶ Other structures
  - ▶ Personal property, up to 50%
  - ▶ Living expenses, up to 20%
  - ▶ Personal property while away from home



# Homeowner's Insurance

- ▶ **Minimal Coverage (cont.):**
  - ▶ **Personal liability, up to \$100,000**
  - ▶ **Medical payment, set at \$1,000 per person**
  - ▶ **Damages to trees, shrubs, and plants, up to 5%**
  - ▶ **Good neighbor clause, damage to others' property, up to \$250**
  - ▶ **Umbrella policy**
  - ▶ **Riders**



# Homeowner's Insurance

- ▶ Replacement cost coverage
- ▶ Umbrella policy
- ▶ Riders





# Reduce Premium Costs

- ▶ **Shop around**
- ▶ **Raise deductibles**
- ▶ **Non-smoker's discount**
- ▶ **Security system**
- ▶ **Same company as life and auto insurance**



# Exclusions & Limitations

- ▶ **Flood**
- ▶ **Earthquake**
- ▶ **War and nuclear damage**





# Most Common Itemized Deductions

- ▶ **State income tax**
- ▶ **Real estate tax**
- ▶ **Personal property tax**
- ▶ **Mortgage interest**
- ▶ **Points**
- ▶ **Charitable contributions**



# Owning a Home as a Tax Break

- ▶ **Itemized deductions should exceed standard deduction**
- ▶ **Mortgage interest single largest deduction**
- ▶ **Buy at beginning of year**



# Summary

- ▶ **Know what you can afford**
- ▶ **Target a good location for resale**
- ▶ **Home inspection contingency clause**
- ▶ **Replacement cost homeowner's insurance**



## Summary (continued)

- ▶ **Weigh tax advantage against**
  - ▶ **commitment of time**
  - ▶ **expenses of buying and maintaining**
  - ▶ **inconvenience, possible financial loss when time comes to sell**
- ▶ **Renting MAY be the better option!**



# Conclusion

- ▶ **Top 5 financial mistakes first-time home buyers make:**
  - ▶ **Blowing your budget - spending more than you earn**
  - ▶ **Not saving enough for down payment/closing costs**
  - ▶ **Underestimating maintenance costs**
  - ▶ **Lack of knowledge concerning various mortgage options**
  - ▶ **Not knowing when to seek professional help**



# Conclusion

- ▶ **Top 5 emotional mistakes first-time home buyers make:**
  - ▶ **Falling in love**
  - ▶ **Losing control of purchase**
  - ▶ **Being indecisive**
  - ▶ **Underestimating the responsibilities of homeownership**
  - ▶ **Buying a home before you're really ready**