Lesson Three
Buying a Home

Practical Money Skills
Buying a home is easier than you might think – we'll walk you through the five basic steps.

**phase 1: determine home-ownership needs**
- What type of housing should I buy?
- How much can I afford to spend?

**phase 2: locate and evaluate a home**
- Where do I want to live?
- What aspects of the home need improvement?

**phase 3: price the property**
- What is an appropriate market price?
- How much negotiation movement exists?

**phase 4: obtain financing**
- How much down payment is available?
- What are current mortgage rates?
- Can I qualify for a mortgage?
- What type of mortgage should I get?

**phase 5: close the purchase transaction**
- What funds and documents will be needed for the closing?
- Is everything understood before the final signing?
qualifying for a mortgage

- Determine the estimated value of the home you would like to purchase.
- Obtain funds for a down payment from savings or through gifts or loans from family members.
- Reduce other debts or improve your credit record, if necessary.
- Compare fees, services, and mortgage rates for different lenders.
- Prepare the mortgage application.

Your mortgage acceptance will be based on your credit record.
The amount of the mortgage for which you qualify will be influenced by:
- Your income
- The amount available for a down payment
- Current mortgage rates
fixed-rate, fixed-payment mortgages:
- Conventional 30-year mortgage
- Conventional 15- or 20-year mortgage
- FHA/VA fixed-rate mortgage
- “Balloon” loan (3-10 year terms)

adjustable-rate, variable payments:
- Adjustable-rate mortgage (ARM)
- Graduated-payment mortgage
- Growing-equity mortgage

other financing methods:
- Buy-downs
- Shared-appreciation mortgage (SAM)
- Second-mortgage (home equity loan)
- Reverse mortgage
- Refinancing
at the real estate transaction settlement, commonly referred to as the “closing”, the following are some of the costs that are typically incurred by a person buying a home:

- Title search fee ($50-$150)
- Title insurance ($100-$600)
- Attorney fees ($50-$700)
- Appraisal fee ($100-$300)
- Recording fees and transfer taxes ($15-$30)
- Credit report ($25-$75)
- Termite inspection ($50-$150)
- Lender’s origination fee (1-3% of loan amount)
- Reserves for home insurance and property taxes (amount varies)
- Interest paid in advance (if applicable)
selling your home

before putting your home on the market, make any preparations that could increase appeal and market value
- Make necessary repairs
- Paint exterior and interior areas
- Update various features (such as new carpeting or plumbing fixtures)

determine the selling price, based on:
- An appraisal to estimate current market value
- The location, features, and age of the home
- Current mortgage rates and market demand in your area

decide if you will do a "sale by owner"
- Advertise your home in various media (e.g., newspapers, internet, flyers)
- Be ready to meet and show your home to prospective buyers
- Make use of the services of a lawyer and/or title company for the legal aspects

consider using the services of a real estate agent
- Interview two or more agents to compare their services and experience
- Expect the agent to provide a marketing plan and to handle the financial and legal aspects of the sale
- Communicate with the agent on a regular basis regarding the selling price and prospective buyers