BUYERS

What You Can Afford

Buying Your Home – What You Can Afford

How much does my real estate agent need to know?
Real estate agents would say that the more you tell them, the better they can negotiate on your behalf. However, the degree of trust you have with an agent may depend upon their legal obligation. Agents working for buyers have three possible choices:

- They can represent the buyer exclusively, called single agency, or represent the seller exclusively, called sub-agency, or represent both the buyer and seller in a dual-agency situation. Some states require agents to disclose all possible agency relationships before they enter into a residential real estate transaction. Here is a summary of the three basic types:
- In a traditional relationship, real estate agents and brokers have a fiduciary relationship to the seller. Be aware that the seller pays the commission of both brokers, not just the one who lists and shows the property, but also to the sub- broker, who brings the ready, willing and able buyer to the table.
- Dual agency exists if two agents working for the same broker represent the buyer and seller in a transaction. A potential conflict of interest is created if the listing agent has advance knowledge of another buyer's offer. Therefore, the law states that a dual agent shall not disclose to the buyer that the seller will accept less than the list price, or disclose to the seller that the buyer will pay more than the offer price, without express written permission.
- A buyer also can hire his or her own agent who will represent the buyer's interests exclusively. A buyer's agent usually must be paid out of the buyer's own pocket but the buyer can trust them with financial information, knowing it will not be transmitted to the other broker and ultimately to the seller.

How much will I spend on maintenance expenses?
Experts generally agree that you can plan on annually spend 1 percent of the purchase price of your house on repairing gutters, caulking windows, sealing your driveway and the myriad other maintenance chores that come with the privilege of homeownership. Newer homes will cost less to maintain than older homes. It also depends on how well the house has been maintained over the years.

What is the standard debt-to-income ratio?
A standard ratio used by lenders limits the mortgage payment to 28 percent of the borrower's gross income and the mortgage payment, combined with all other debts, to 36 percent of the total. The fact that some loan applicants are accustomed to spending 40 percent of their monthly income on rent -- and still promptly make the payment each time -- has prompted some lenders to broaden their acceptable mortgage payment amount when considered as a percentage of the applicant's income.

Other real estate experts tell borrowers facing rejection to compensate for negative factors by saving up a larger down payment. Mortgage loans requiring little or no outside documentation often can be obtained with down payments of 25 percent or more of the purchase price.

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What can I afford?
Know what you can afford is the first rule of home buying, and that depends on how much income and how much debt you have. In general, lenders don't want borrowers to spend more than 28 percent of their gross income per month on a mortgage payment or more than 36 percent on debts. It pays to check with several lenders before you start searching for a home. Most will be happy to roughly calculate what you can afford and prequalify you for a loan. The price you can afford to pay for a home will depend on six factors:

1. Gross income
2. The amount of cash you have available for the down payment, closing costs and cash reserves required by the lender
3. Your outstanding debts
4. Your credit history
5. The type of mortgage you select
6. Current interest rates

Another number lenders use to evaluate how much you can afford is the housing expense-to-income ratio. It is determined by calculating your projected monthly housing expense, which consists of the principal and interest payment on your new home loan, property taxes and hazard insurance (or PITI as it is known). If you have to pay monthly homeowners association dues and/or private mortgage insurance, this also will be added to your PITI. This ratio should fall between 28 to 33 percent, although some lenders will go higher under certain circumstances. Your total debt-to-income ratio should be in the 34 to 38 percent range.

When is the best time to buy?
Here are some frequently cited reasons for buying a house:

- You need a tax break. The mortgage interest deduction can make home ownership very appealing.
- You are not counting on price appreciation in the short term.
- You can afford the monthly payments.
- You plan to stay in the house long enough for the appreciation to cover your transaction costs. The costs of buying and selling a home include real estate commissions, lender fees and closing costs that can amount to more than 10 percent of the sales price.
- You prefer to be an owner rather than a renter.
- You can handle the maintenance expenses and headaches.
- You are not greatly concerned by dips in home values.

Where do I get information on housing market stats?
A real estate agent is a good source for finding out the status of the local housing market. So is the statewide association of Realtors, most of which are continuously compiling such statistics from local real estate boards. For overall housing statistics, U.S. Housing Markets regularly publishes quarterly reports on home building and home buying. More than likely, local builders associations get this report too. If not, the housing research firm is located in Canton, Mich.; call (800) 755-6269 for information; the firm also maintains an Internet site.

Finally, check with the U.S. Bureau of the Census in Washington, D.C.; (301) 763-2422. The census bureau also maintains a site on the Internet. The Chicago Title company also has published a pamphlet, "Who's Buying Homes in America." Write Chicago Title and Trust Family of Title Insurers, 171 North Clark St., Chicago, IL 60601-3294.

What is Fannie Mae's low-down program?
Fannie Mae is expanding the availability of low-down-payment loans in an effort to help more people nationwide qualify for a mortgage. Two new programs will help potential buyers overcome two of the most common obstacles to home ownership, low savings and a modest income. To address many first-time buyers' struggles to save the down payment, Fannie Mae developed Fannie 97. The program provides 97 percent financing on a fixed-rate mortgage with either a 25- or 30-year loan term through Fannie Mae's Community Home Buyers Program.

Fannie Mae's new Start-Up Mortgage will assist buyers with a 5 percent down payment who are at any income level. Yet applicants do not need as much income to qualify and less cash for closing than with traditional mortgages. Borrowers will receive a 30-year, fixed-rate mortgage with a first-year monthly payment that is lower than the standard fixed-rate loan. Freddie Mac, Fannie Mae's counterpart, also offers low-down-payment loan programs.

How long do bankruptcies and foreclosures stay on a credit report?
Bankruptcies and foreclosures can remain on a credit report for seven to 10 years. Some lenders will consider a borrower earlier if they have reestablished good credit. The circumstances surrounding the bankruptcy can also influence a lender's decision. For example, if you went through a bankruptcy because your employer had financial difficulties, a lender may be more sympathetic. If, however, you went through bankruptcy because you overextended personal credit lines and lived beyond your means, the lender probably will be less inclined to be flexible.

How do you determine the value of a troubled property?
Buyers considering a foreclosure property should obtain as much information as possible from the lender, including the range of bids expected. It also is important to examine the property. If you are unable to get into a foreclosure property, check with surrounding neighbors about the property's condition. It also is possible to do your own cost comparison through researching comparable properties recorded at local county recorder's and assessor's offices, or through Internet sites specializing in property records.