

From the Heart...

... Life Skills for Today

By Sharon L. Benedict MS, ACC



Purchasing Your First Home Home/Vehicle/Possessions Series

When you think about buying your first home, do you get all warm and fuzzy all over? Yet, after the initial search starts, does reality meet you at the door? Do you start to ask yourself, “Is this where I want to live? Can I really afford this? How much responsibility do I really want?” The questions only continue as the search goes on.

Don't let your American Dream become your American Nightmare! Remember, home ownership has both advantages and disadvantages. It is not always the best choice at a given time. According to K.R. Tremblay Jr., Colorado State University Cooperative Extension housing specialist, for most families the advantages of buying a home far outweigh the disadvantages

[\[http://www.ext.colostate.edu/pubs/consumer/09937.html\]](http://www.ext.colostate.edu/pubs/consumer/09937.html).

Advantages

- Home ownership is a forced savings plan—mortgage principal payments retained as equity in the home.
- If properly maintained, it becomes a good long-term investment.
- You can deduct property taxes and interest payments from income tax.

- Because inflation causes prices and incomes to rise, over time mortgage payments become cheaper in "real" dollars.
- As equity builds, you can step up to a larger home or borrow against your home to finance large purchases.
- Home ownership can enhance your family's sense of control over your lives and environment, as well as promote stronger community ties.
- **You can customize the home to suit special needs and tastes.**

Disadvantages

- Monthly payments (principal, interest, taxes and insurance) may be higher than rent payments, at least initially.
- You must pay for regular maintenance and periodic repairs. There is no landlord or manager to call if something goes wrong with your home.
- Owning is less flexible than renting; it's more difficult to pick up and move.
- Like any investment, there is no guarantee that its value will increase.

Here are five top questions from Quicken Loans (www.quickenloans.com):

1. How long do you plan on living in the home?
2. Can the home meet your future needs?
3. What does your financial picture look like?
4. Where will the money come from?
5. Have you considered the ongoing costs of home ownership?

So, if you have already asked yourself some of these questions, you are on the right track.

How Long at the Homestead?

Americans, on the average, live in their homes from seven to nine years. Some reasons for leaving may range from a job change, a income step-up to a larger/more expensive home, and sadly divorce or death in the family. The short time you live in that home, the less time there is for the value to appreciate in order to recover the buying and selling costs. If you live in an area where appreciation averages 5% per year, plan to stay in your home for at least three to four years. With economic upturn, it may take less time; if a downturn happens, it will take longer. A choice of a mortgage package will also depend on how long you intend to live in your home—fixed or adjustable rates with lower payment options.

Does it Meet Your Future Needs?

As you can imagine, finding a home and a home loan that meets your current and future needs are important decisions to your overall life goals. This is particular true if you are planning to have children, or start a business. Wise planning will help you save on your finances and avoid added stress in the long run.

Can You Afford It?

Just about any lending company will find a way to set you up with some type of loan. However, be cautious about stepping out beyond your means. If you do, your good credit rating will take a dive, or the already poor credit rating will hike your loan rates and fees up big time. Even if you are sure you will get that

raise next year, consider well any financial strain that may occur if you don't get the raise.

Quicken Loans again suggest following the "28/36" rule. This means your monthly housing costs shouldn't exceed 28% of your monthly income. In addition, your total debt payments should not exceed 36% of your total monthly income. Yet, you may be able to find a workable plan customized to your assets, credit history, job potential and other factors. Although not typically recommended, some lenders use a ratio that are 40-60% or higher.

Where Does the Down Payment Come From?

The first question to ask yourself here is, "How much can I afford to shell out for my down payment and closing costs?" You don't always have to put a large down if you are a good credit risk, and can afford the monthly payments. There are zero down and low down payment home loans out there.

Can You Afford To Take Care Of It?

Here are the added basic costs to your mortgage payment—maintenance, improvements, taxes and insurance. Then possibly add a monthly/yearly homeowner's association fee. Be sure to stay within the overall costs you can routinely afford each month.

As you consider these five questions for your own home shopping adventure with the advantages and disadvantages, next week's article will offer more essential tips for buying your first home.

Book Resources:

Bell, W. F. (2001). How to get the best home loan. New York: John Wiley & Sons.

Cauldwell, R. (2001). Inspecting a house. Newton, CT: Taunton.

Carlson Dunlap and Associates. (2004). Inspecting a house. Chicago: Dearborn.

Fields, A., & Fields, D. (2002). Your new house. Boulder, CO: Windsor Peak.

Friedman, J. P., & Harris, J. C. (2001). Keys to mortgage financing and refinancing.

Irwin, R (2004). Home closing checklist. New York: McGraw-Hill.

Irwin, R. (2005). Tips and traps for new home owners. New York: McGraw-Hill.

Lank, E., & Amoruso, D. (2001). The homebuyer's kit. Chicago: Dearborn.

Summers, D. (2003). How to buy your first home. Naperville, IL: Sphinx.

Tribble, M. (2004). My home workbook. New York: Sterling.

Weiss, M., & Reyis, R. (2003). The everything homebuying book. Avon, MA: Adams Media.

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First Home Buying Tips Home/Vehicle/Possessions Series

Francois de La Rochefoucauld, French author and moralist of the 17th century, asks us look beyond our first dream house before buying.

“Before we set our hearts too much upon anything, let us examine how happy those are who already possess it.”

So, before you begin to visit all those gorgeous open house models, visit friends and family who have gone before you with their first home buying adventure.

What you will hear and discover can be a real eye opener! Then, if you are still excited about your first dream home, start working on these nine steps to buying your first home offered by the US Department of Housing & Urban Development (HUD) (<http://www.hud.gov/buying/index.cfm>):

Step 1: Figure out how much you can afford

What you can afford depends on your income, credit rating, current monthly expenses, down payment and the interest rate.

- Use the HUD calculator online to get a glimpse into how much home you can afford along with visiting a lender to see real numbers
- Buying vs. Renting—which option is best for you at this time in your life.
- How much of a down payment and/or closing costs can you afford? Check out HUD links to home buying programs.

- HUD sponsors housing counseling agencies throughout the country that can provide advice on buying a home, renting, defaults, foreclosures, credit issues, and reverse mortgages.

Step 2: Know your rights

Check out fair housing rights and responsibilities, RESPA requirements, borrower's rights, and predatory lending fraud. RESPA is a HUD consumer protection statute requiring that consumers receive disclosures on closing costs and settlement procedures at various times in the transaction and outlaws kickbacks that increase the cost of settlement services. This statute helps you become a savvier home buying consumer.

Step 3: Shop for a loan

Save money by doing your homework. Take the time to look for the best mortgage; shop around. Talk to several lenders, compare costs and interest rates, negotiate to get a better deal. Consider getting pre-approved for a loan. Check out FHA loans and interest-only ones.

Caution: When buying a house, you must decide if an interest-only mortgage payment (an I-O mortgage or an adjustable-rate mortgage-ARM—with the option to make a minimum payment is right for you.

Lenders have a variety of names for these loans, but keep in mind that with I-O mortgages and payment-option ARMs, you could face "payment shock." Your payments may go up considerably, even double or triple, once the interest-only period ends. "In addition, with payment-option ARMs you could face negative amortization. Your payments may not cover all of the interest owed. The unpaid interest is added to your mortgage balance so that you owe more on your mortgage than you originally borrowed. Be sure you understand the loan terms

and the risks you face. And be realistic about whether you can handle future payment increases. If you're not comfortable with these risks, ask about another loan product.”

Step 4: Learn about home buying programs

In addition to HUD's mortgage insurance programs, there may be programs sponsored by your state/local government or other organizations. Go to the HUD website and select the state that interests you. HUD has a number of programs such as Good Neighbor Next Door (formerly known as Teacher/Officer/Firefighter), Next Door Hurricane Evacuees discounted sales, Homeownership for public housing residents, and Indian Home Loan Guarantee Program (Section 184).

HUD also recommends FHA loan programs that offer lower down payments, lower closing costs, easier credit qualifications, and are a good option for first-time homebuyers, fixer-uppers, energy efficient improvements, financial help for seniors, even those who want to purchase a manufacture or mobile home.

Step 5: Shop for a home

You can utilize HUD links in your choice of real estate agents, fill out the pdf “**Wish List**” and **Home-shopping Checklist**, and links to homes for sale. You can also learn the facts and the pitfalls of fixer-uppers & home improvements. If you have an interest in either purchasing a manufactured/mobile home, there are additional links, basic tips and cautions.

If you are thinking about building a home, there are things you need to know—i.e. Minimum property standards, Do's and don'ts of land sales, and resources for consumer agencies, and choosing a homebuilder.

Step 6: Make an offer

Discuss the process with your real estate agent. If the seller counters your offer, you may need to negotiate until you both agree to the terms of the sale. Your purchase contract must be in writing. Oral contract are unenforceable in court. Real estate purchase contract forms are not "standard"; each one is unique. Some states have certain forms or terms that must accompany residential sales contracts. Yet, you can add terms you want as the buyer or seller. Some essentials to study online (summarized from HUD external link):

- **Consider who wrote the form**—Many of the forms prepared by the National Association of Realtors have hidden clauses which are anti-seller, anti-buyer or both. They are written with the primary goal of getting the sale closed.
- **Don't be afraid to cross out the printing you don't like**—Just because something is printed on a purchase contract doesn't mean you must accept it. Either cross it out or modify and initial the change to meet your wishes. Don't hesitate to take the form to your attorney—preferably an experienced real estate attorney for advice.
- **A confused mind says "no"**—Buying a home is confusing enough, but reading and understanding the purchase contract plus other required paperwork can be overwhelming, many say "I want to think it over." They are really saying they are either overwhelmed by the complexity of the forms or they don't understand something and are reluctant to admit it.
- **Start with a good printed residential contract**—Virtually any printed residential purchase contract can be easily adapted to include all the essentials of a fair agreement for both buyer and seller.
- **Watch out for forms with the printed name of the realty brokerage in the contract**—Read these forms especially carefully because they may be very pro-agent. Some of these contracts obligate the parties to use brokerage-affiliated services such as for mortgages, homeowners insurance, termite and/or professional inspections, legal, title insurance and escrow services. Look for hidden fees in these brokerage-prepared

agreements, such as a fee to the broker for "document preparation" in addition to the sales commission!

Step 7: Get a home inspection

Make your offer contingent on a home inspection. An inspection will tell you about the condition of the home, and can help you avoid buying a home that needs major repairs. The home inspector does not estimate the value of the house. However, the inspector will:

- Evaluate the physical condition: the structure, construction and mechanical systems.
- Identify items that should be repaired or replaced.
- Estimate the remaining useful life of the major systems (such as electrical, plumbing, heating, air conditioning), equipment, structure and finishes.

There are **ten questions to ask your inspector** (details on HUD website):

1. What does your inspection cover?
2. How long have you been practicing in the home inspection profession and how many inspections have you completed?
3. Are you specifically experienced in residential inspection?
4. Do you offer to do repairs or improvements based on the inspection?
5. How long will the inspection take?
6. How much will it cost?
7. What type of inspection report do you provide and how long will it take to receive the report?
8. Will I be able to attend the inspection?
9. Do you maintain membership in a professional home inspector association?
10. Do you participate in continuing education programs to keep your expertise up to date?

Step 8: Shop for homeowners insurance

Lenders require that you have homeowners insurance. Be sure to shop around to potentially save hundreds of dollars a year. Remember, flood and

earthquake damage are usually not standard on homeowners policies

(www.floodsmart.gov). Find out 12 ways you can lower your insurance costs at

http://www.pueblo.gsa.gov/cic_text/housing/12ways/12ways.htm.

Step 9: Sign papers

You're finally ready to go to "settlement" or "closing." Be sure to read everything and review the many helpful HUD links & checklist before you sign on the dotted line!

Then, congratulations are in order! Now, you have the privilege of taking care of your castle!

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Home Buying Wish & Checklist **Home/Vehicle/Possessions Series**

From last week's article on buying your first home, the Department of Housing and Urban Development (HUD) offered 9 home buying steps:

Step 1: Figure out how much you can afford

Step 2: Know your rights

Step 3: Shop for a loan

Step 4: Learn about home buying programs

Step 5: Shop for a home

Step 6: Make an offer

Step 7: Get a home inspection

Step 8: Shop for homeowners insurance

Step 9: Sign papers

As part of those steps, you basically need to plan and save. Consider every possible obstacle to plan for—such as high costs, credit, insufficient funds, long-term affordability. Get a copy of your full credit report, not just the score from all three major agencies—Experian, Equifax, TransUnion. See if you have any errors in each report and get them corrected ASAP.

Pre-qualify for a mortgage to see how your home fits your budget. Compare loans with required down, contract rate and annual

percentage rate (APR), conditions for locking in an interest rate, application and origination fees, term of loan, loan and closing costs rollover into loan. Check out government and local housing agency programs for first-time & low-moderate income buyers. Select a real estate agent and start home shopping.

This is where we get to step 5: Shop for a home—where HUD's **Wish List and Checklist** will help you get started and stay focused. Yet, I believe the basics of their Wish List really belongs with step 1—Figure out how much you can afford. **A few considerations on that Wish List are:**

1. What part of town (or country) do you want to live in?
2. What price range would you consider? No less than but no more than
3. Are schools a factor and, if so, what do you need to take into consideration (e.g., want specific school system, want kids to be able to walk to school, etc.)?
4. Do you want an older home or a newer home (less than 5 years old)?
5. What kind of houses would you be willing to see?
6. One story 2 story split foyer bi-level tri-level townhouse or condo mobile home
7. What style house appeals to you most? contemporary traditional southwestern colonial no preference
8. How much renovation would you be willing to do? A lot A little None!
9. Do you have to be close to public transportation? yes no
10. Do you have any physical needs that must be met, such as wheelchair access? Yes No

11. Do you have any animals that will require special facilities? Yes No. If so, what?

The wish list goes on with what you want and can afford—the lot, must have/like to have, yard, fencing, garage, patio/deck, pool, outdoor spa, extra parking, other buildings (barn, shed, etc.), special view; then the interior—number of bedrooms, bathrooms, square footage, features such as A/C, carpet, tile/hardwood floors, kitchen, separate dining room, formal living room, family room, great room, separate den or library, basement, separate laundry room, fireplace, workshop, no interior steps, “In-law” apartment, indoor spa, lots of windows, community association and amenities

When touring homes, the **HUD Checklist** will help you answer the most important question of all: Can you and your family be happy living in this home? Remember to be realistic. HUD suggests you make several copies of this checklist and fill one out for each home you tour. You will mark *good*, *average*, *poor*. Then look over your Wish list ratings for easy comparison. Here’s a sample of features to rate (go to website link to download pdf forms for both Wish List & Checklist):

Home Buying Checklist

THE HOME	NEIGHBORHOOD	SCHOOLS	CONVENIENCE TO:
Square footage Number of bedrooms Number of baths Practicality of floorplan Interior walls condition Closet/storage space Basement Fireplace Cable TV Basement: dampness or odors Exterior appearance, condition Lawn/yard space Fence Patio or deck Garage Energy efficiency Screens, storm windows Roof: age and condition Gutters and downspouts	Appearance/condition of nearby Homes/businesses Traffic Noise Level Safety/Security Age mix of inhabitants Number of children Pet restrictions Parking Zoning regulations Neighborhood restrictions/homes maintained covenants Fire protection Police Snow removal Garbage service	Age/condition Reputation Quality of teachers Achievement test scores Play areas Curriculum Class size Busing distance	Supermarket Schools Work Shopping Child care Hospitals Doctor/dentist Recreation/parks Restaurants/entertainment Church/synagogue Airport Highways Public transportation

Source: Department of Housing & Urban Development, <http://www.hud.gov/buying/index.cfm>.

Although all these features are important when home buying, you will undoubtedly spotlight certain ones depending on your lifestyle preferences. Some may ask, "Is the neighborhood safe?" Others may look to see if the house and neighborhood are maintained. Is there adequate storage space, high quality schools, house location convenient? Is it quiet? Does the floor plan fit my lifestyle?

Is it energy efficient and are community services easily available? What about the appliances and fixtures? What's the average maintenance cost for the home? How high are the local property taxes? Then, you want to check out the typical sale price of homes in the area, how long it's been on the market, and if the price has been recently reduced. Is the seller considering other offers? How about getting an appraiser to determine the market value? How about an

inspector to assess the quality and condition of the yard, house exterior, roof and related features, crawl space or basement, attic, electrical system, plumbing system, heating and cooling systems, kitchen and bathroom, and the home as a whole. It just may be worth the cost to insure you don't get any unfortunate surprises after you move in.

Can you now see why it's so important to plan, save, and use a Wish List and Checklist as you hopefully enjoy your home buying adventure!

Resources

- Bell, W. F. (2001). How to get the best home loan. New York: John Wiley & Sons.
- Cauldwell, R. (2001). Inspecting a house. Newton, CT: Taunton.
- Carlson Dunlap and Associates. (2004). Inspecting a house. Chicago: Dearborn.
- Fields, A., & Fields, D. (2002). Your new house. Boulder, CO: Windsor Peak.
- Friedman, J. P., & Harris, J. C. (2001). Keys to mortgage financing and refinancing. Hauppauge, NY: Barron's.
- Fannie Mae. (1996). A guide to homeownership. Washington, DC: National Housing Impact Division.
- Irwin, R (2004). Home closing checklist. New York: McGraw-Hill.
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- Lank, E., & Amoruso, D. (2001). The homebuyer's kit. Chicago: Dearborn.
- Summers, D. (2003). How to buy your first home. Naperville, IL: Sphinx.
- Tribble, M. (2004). My home workbook. New York: Sterling.
- Weiss, M., & Reyis, R. (2003). The everything homebuying book. Avon, MA: Adams Media.

Useful Internet Sites:

- Consumer Information Center: www.pueblo.gsa.gov
- Cyberhomes: www.cyberhomes.com
- Fannie Mae: www.homepath.com
- Home Advisor: www.homeadvisor.com
- Manufactured Housing Institute: www.manufacturedhousing.org
- Mortgage Bankers Association: www.mbaa.org
- National Association of Realtors: www.realtor.com
- National Association of Home Builders: www.BuilderOnline.com
- U. S. Department of Housing and Urban Development: www.hud.gov

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Summer Car Trips—Prep Pointers **Home/Vehicle/Possessions Series**

Some of the greatest tips and biggest laughs come when I listen to those two guys, Tom & Ray (or more affectionately called Click & Clack) on Car Talk www.cartalk.com! So, while you are on the road this summer traveling Texas and far away places from coast to coast, find out what radio station they are on, and tune in. You won't regret it!

In the meantime, here are some summer time tips before you hit the road. You'll have a lot more fun cruising the scenery rather than risking spending time in an out-of-the-way repair shop somewhere between Kingman and Barstow! Before your summer trip, the Car Care Council and Car Talk offer these prep tips:

- ✓ *Check all fluids: antifreeze, engine oil, power steering, brake and transmission fluids, windshield washer solvent.*
- ✓ *Check entire cooling system: radiator, antifreeze/coolant, belts and hoses, cooling fans, heater core and water pump.*
- ✓ *The transmission: Are you close to the recommended service interval? Is the fluid nice and clean? Any leaks?*

- ✓ *Check hoses and belts: A failing belt can affect the electrical system, air conditioning, power steering, and cooling system (hoses deteriorate from within).*
- ✓ *Check tires: check tread depth, uneven wear needing wheel alignment, tire pressure, and get a real spare.*
- ✓ *Check the front end: check ball joints, tie rod ends and steering components.*
- ✓ *Change the oil: Look for leaks, low & dirty oil.*
- ✓ *Check the air conditioning system: refrigerant level, compressor clutch and belts.*
- ✓ *Check vehicle gas caps; worn spark plugs, dirty air filters; inside/outside lighting; wipers*

You may also want to get a classic 1997 car care book, *Lucille's Car Care: Everything You Need to Know from Under the Hood-By America's Most Trusted Mechanic* by Lucille Treganowan. For those of us with very little car savvy, her book goes a long way in conquering the mystery of car lingo.

Although there are no guarantees for missing out on traveling car emergencies, with these pre-trip checkups, you will lessen the chance of costly and possibly dangerous road dangers. You will be much more comfortable knowing you took the time while at home to insure a more trouble-free traveling adventure.

One final question before you take off—How do you drive? ***Pedal to the Metal?*** The Car Care Council stresses that bad driving habits have a major impact on your car, safety, and the environment. These additional tips will help you minimize that negative impact whenever you get behind the wheel.

- ✓ *Avoid high speeds.* Fuel efficiency decreases significantly driving over 55 miles/hour, accelerating tire deterioration.
- ✓ *Drive smoothly.* It saves gas and lowers emissions. Accelerate slowly; avoid "jackrabbit starts and stops; shift to higher gears at lowest possible speed for standard transmissions; accelerate gently for automatic transmissions. Use overdrive and cruise control at appropriate speeds.
- ✓ *Avoid lengthy idling that wastes gas.* Don't start car until ready to go; keep winter engine warm-ups brief. Turn off the engine when not moving for an extended time period (e.g. in stalled traffic or long line).
- ✓ *Don't rev the engine; it wastes gas.* Revving the engine can overheat and damage catalytic converter; and dump gas on the cylinder walls, increasing engine wear.
- ✓ *Minimize drag.* Drag reduces fuel efficiency. Driving with the windows open, using permanently affixed roof- or rear-mounted racks, and carrying heavy loads increase vehicle drag.
- ✓ *Keep tires properly inflated.* Under inflated tires decrease gas mileage and shorten tire life. Follow tire pressure instructions on driver inside door edge or if located on door post, glove compartment door, or fuel door.

Consult owner's manual, vehicle manufacturer, tire manufacturer, or local tire dealer.

- ✓ *Check pressure in all four tires every two weeks, when tires are cold and sitting for at least 3 hours; use accurate hand-held air pressure gauge (service stations pumps may be inaccurate).*
- ✓ *Have an **Emergency Road Kit** handy at all times.*
- ✓ *Avoid rough roads and potholes to prevent wheel misalignment and reduced fuel efficiency.*
- ✓ *Make fewer trips in your vehicle, consolidate errands, car pool, ride mass transit to reduce emissions and fuel consumption; drive during off-peak hours to lessen time on road and stop-start driving. Have fun riding your bike, inline skate.*

The Council asks us to ***“Remember, paying attention to our vehicle's maintenance can extend the life of the car, improve air quality, reduce negative health impacts due to emission pollutants, and save money.”***

The American Lung Association reports vehicles on the road create more than 25% of all air pollution nationwide. Caring for your car can also reduce car emissions by more than half. Their motto is therefore ***“Tuned Engines Mean Cleaner Air.”*** You can get more information from the ALA by requesting their brochures on air pollution and proper vehicle maintenance, Car Care and Clean Air, and Get a Check-up for Your Car.

As Americans who love their car and the ease of taking a drive whenever the mood strikes, we forget how it impacts our air, environment, and health. I encourage

those of you who love to take day trips or cross country adventures, to consider these important tips as you plan your daily routines and annual vacations. Have Fun!