

## Five Key Steps to Home Ownership

### Georgia CPAs Give Tips for Buying a Home

For many, purchasing a home is one of the most significant investments of their lives. So if you are in the market for a home, be sure that thorough research and an understanding of your financial situation – rather than emotion – drive your decisions. The following step-by-step advice from the Georgia Society of Certified Public Accountants will help to prepare you for the road to homeownership.

#### 1) DETERMINE WHAT YOU CAN AFFORD.

Objectively assess your financial situation, considering your current income and assets, as well as your current debt level. In determining how much you can afford, you need to consider the down payment and closing costs and your ability to meet monthly mortgage payments and other expenses, such as maintenance. Lenders are generally looking for a down payment of 5 percent to 20 percent of the purchase price and proof of your ability to repay the mortgage.

As a general guideline, your monthly mortgage payment, including principal, interest, real estate taxes, and homeowners insurance, should not exceed 28 percent of your gross monthly income. Your total monthly debt (mortgage, car, student loan, credit card, and other payments) should not exceed 36 percent of your gross income. While you may be able to secure a mortgage even if you don't meet these criteria, by doing so you may be putting yourself under a financial hardship.

Keep in mind that you don't have to wait until you find a house to apply for a loan. In fact, it's a good idea to get pre-approved before you start looking. Pre-approval means you have met with a lender, your credit history has been reviewed, and the loan officer believes you can qualify for a given amount. Although a pre-approval is not a final loan commitment, it demonstrates your borrowing power.

#### 2) SHOP CAREFULLY AND GET THE RIGHT HELP.

It's best to work with a professional realtor who can guide you through the home search process. Start by checking out potential neighborhoods, keeping in mind the old real estate adage: location, location, and location. You should also consider the quality of local schools and municipal services, commuting times and availability of public transportation, and the area's proximity to houses of worship, shopping, entertainment, and cultural activities.

To weigh features of the home itself, consider such factors as size, number of bedrooms and baths, design (ranch, colonial, contemporary), and amenities such as a fireplace or pool. Separate your "must haves" from the "nice to haves." Would you trade a gourmet kitchen for a bright, airy sunroom?

#### 3) MAKE AN OFFER AND NEGOTIATE.

Once you've found your dream home, it's time to make an offer. Your realtor will help you submit a contract that includes your offer price, as well as any contingencies, such as requiring a satisfactory home inspection.

The seller may accept your offer, reject it, or make a counter-offer. Often negotiations go back and forth several times before a deal is made. Avoid losing sight of what you can afford or offering more than what the house is really worth.

#### 4) CHOOSE A MORTGAGE.

There are many types of mortgages available from many types of lenders, but most fall into two basic categories – fixed rate and adjustable rate. With a fixed-rate mortgage, the interest rate stays the same for the term of the mortgage, which is typically 30 years, but may be less. An adjustable rate mortgage (ARM) typically comes with a lower initial rate than a fixed rate mortgage. The downside is that your rate and payment can move either up or down based on a financial index, as often as once or twice a year. The advantage of an ARM is that you may be able to afford a more expensive home because your initial interest rate is lower.

#### 5) PREPARE FOR THE CLOSING AND BEYOND.

At the closing, or settlement, the paperwork finalizing the transaction is completed and signed, and the property's title is transferred from the seller to the buyer. On average, you can expect to pay 2 percent to 5

percent of the house's selling price for closing costs. Keep in mind, too, that lenders also often require you to obtain homeowners insurance.

Once the closing is complete, you're free to move into your home. But CPAs remind you that there's more to owning a home than personal satisfaction. You'll realize economic benefits as well, including the opportunity to build equity and take advantage of valuable tax benefits.

Copyright 2006, The American Institute of Certified Public Accountants