

Buying a Home

Are You Ready to Buy a Home?

Read each statement and answer whether it is true or false.

		True	False
1.	You should get your mortgage pre-approved before you start looking at houses.	<input type="checkbox"/>	<input type="checkbox"/>
2.	Before you apply for a mortgage, it's best to open up new credit cards to boost your credit rating.	<input type="checkbox"/>	<input type="checkbox"/>
3.	The purchase price of your home should be as close to the mortgage amount that you have been approved for.	<input type="checkbox"/>	<input type="checkbox"/>
4.	Your monthly mortgage payment should not exceed 28% of your monthly pre-tax income. That payment includes principle, interest, taxes, and insurance (PITI).	<input type="checkbox"/>	<input type="checkbox"/>
5.	The terms "buyers' market" and "sellers' market" are determined by the average number of days that area houses are on the market.	<input type="checkbox"/>	<input type="checkbox"/>
6.	An adjustable-rate mortgage (ARM) is a good option if you plan on selling the home in a few years.	<input type="checkbox"/>	<input type="checkbox"/>
7.	Most lenders require a title clearance before the closing.	<input type="checkbox"/>	<input type="checkbox"/>
8.	If you're buying a new home or one that's just a few years old, you can skip getting a home inspection.	<input type="checkbox"/>	<input type="checkbox"/>
9.	Some of your closing costs are tax deductible.	<input type="checkbox"/>	<input type="checkbox"/>
10.	Once you find a house you want to buy, it's okay to contact the seller directly and skip the realtors.	<input type="checkbox"/>	<input type="checkbox"/>

**Complete the quiz first and then check your answers
with the correct answers on the back.**

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Answers

1. TRUE. Knowing how much the bank is willing to lend you will make the home-buying process easier and help you set realistic goals. A realtor is more likely to want to work with you knowing that you're serious and ready to make an offer as soon as you find the home you want. Also, some sellers only allow real estate agents to show their house if someone has a pre-approved letter.
2. FALSE. Applying for new credit cards is probably one of the worst things you can do. It can affect your credit score and your debt-to-income ratio, two of the main things lenders look at. This can result in you paying a higher interest rate, delaying your mortgage or even being completely denied. The best thing for your credit score? Make regular payments on time.
3. FALSE. Just because the bank approves you for a \$300,000 mortgage doesn't mean you can afford it. Remember, you'll also be paying for property insurance, taxes, maintenance, utility bills, and homeowners' association dues (if you have a condo). Many of these expenses will increase every year, so even if you can afford them now, you may not be able to afford them in a few years. Make sure to leave yourself plenty of cushion, especially if you're thinking of expanding your family.
4. TRUE. That's the formula most mortgage lenders will use to determine how much they're going to lend you.
5. TRUE. If homes in your area routinely sell within a week or two, then you're in a seller's market. If they stay on the market for 60 days or more, then you're in a buyer's market. The longer a home stays on the market, the less power the seller has, which gives a buyer more leverage. Check the Average Number of Days on the Market (DOM) in the area you're searching; different neighborhoods in the same area can have drastically different DOM averages.
6. TRUE. If you're certain you're only keeping the home for a few years or that you'll be able to pay off the loan in a few years, an ARM will save you money. Interest rates for ARMs can be a whole percentage point lower than fixed-rate mortgages (FRM).
7. TRUE. Your lender wants to make sure no one else can make a claim on the property. The title company (or title insurance company) will check the property's title history and look for liens or any other obstacles to the sale. Once the title is deemed legally "free and clear," they'll likely offer you insurance, indicating there's been a clear transfer of the home.
8. FALSE. Every house should be inspected. The seller may not tell you everything that's wrong with the house and there may be problems they're unaware of, too. If the inspector does find anything wrong, use it as a bargaining chip. Ask the seller to correct the defects or ask for a lower selling price so you can pay for the repairs yourself. Builders have been known to cut corners on new construction just to get the home on the market as quickly as possible. So if you're buying a new home, double-check the builder's reputation.
9. TRUE. Loan origination and discount "points" are 100% deductible for the year in which you purchase your home. Consult with your tax professional and mortgage lender before you close escrow to get the biggest deduction. Also, some states and towns offer tax incentives for buyers who purchase vacant, foreclosed properties, or properties in specific redevelopment districts. Also, check to see if your municipality offers tax breaks for installing energy-conserving or "green" features, like solar panels, tankless water heaters, and dual-paned windows.
10. FALSE. That's a big no-no! Let the pros do their job. Always have your real estate agent communicate your request or concern to the seller's agent. Likewise, if the seller gets in touch with you directly, tell them to talk to the agent(s). Mastering real estate and legal terminology can be tricky; minor changes to your agreement might create problems with your lender.