

CAN YOU AFFORD TO BUY A HOME?

Purchasing a home is one of the most important and rewarding decisions a person will make, which also means it is one of the most stressful! With all of the steps, money and people involved, it is easy to be overwhelmed.

Rule of thumb: You can typically afford a home that costs about 2 1/2 times your yearly income. Some other factors that will help determine how much you can afford: How much money do you need for other bills? Such as utilities, medical insurance, doctors, groceries, car payments, insurance, school debt, etc.

Down Payment: The typical minimum down payment is 3.5% (FHA financing) of the total loan amount. Some special financing programs have lower, if not zero, down payment requirements. Down payments can also be from funds given to you by family or friends. If you choose to have money gifted by family or friends, please discuss this with your lender ahead of time.

How much will you need for closing costs and other payments?

There are several costs - along with the down payment - that will arise such as earnest money, inspection fee, appraisal fee, and insurance binder. The typical closing costs are approximately 2.5% to 3% of loan amount. There are certain closing costs that can be worked into your offer as a seller expense which will allow you to bring in less money at close. If you'd like to go this route, this must be discussed ahead of time with your lender and Realtor so an established amount is verified prior to writing your purchase agreement offer.

Qualifying for a loan: Do not confuse loan qualification with loan approval. Even before you begin looking for a home, meet with a lender to determine how much you qualify for. Keep in mind that pre-qualifying with a lender does not bind you to that lender. Do not sign any paperwork that would obligate you to a lender at this point.

Important to remember: Don't take on any new debt once you obtain your pre-approval. This means, don't go out and purchase a new car, apply for a new credit card, etc. if you're planning to buy a house within the next year.

Additional Costs to Consider:

Earnest Money: This is money that is given to the listing brokerage firm once an offer is made on the property. The amount can range from 1.5% to 2.5 % of the purchase price. The earnest money, if the offer is accepted, goes toward your down payment. This check is cashed and held in a Broker's Trust Account until the closing date.

Homeowner's Insurance: Once you find an insurer, you will need to pay the premium. Once you pay this, you will receive a binder from your insurance agent that you will need to bring to

closing. The cost depends on the policy you purchase. It can vary from \$500.00 to \$2,500.00 for a yearly premium.

Home Inspection Expense: Once you've made an offer on a home, you will need to have a property inspection. Depending on how in-depth of an inspection you need, you could pay from \$350.00 to \$500.00.

Underwriting Fee: Most lenders charge an underwriting fee to process your loan application. This typically is around \$250.00 and is paid at closing.

Appraisal Fee: This typically costs \$500.00.

Plat Drawing/Survey: Some lenders may require a drawing of the home's location, the lot lines, as well as any easements and rights-of-way. Plat drawings are less expensive, and less accurate. Expect to pay around \$60.00 for a plat drawing. For a more accurate description, you should have the property surveyed. This could cost \$300.00 to \$1000.00.

Mortgage Insurance, Private Mortgage Insurance (PMI): This is the insurance required on some conventional loans if your down payment is less than 20% of the home's value. For a \$100,000 loan, the amount can range from \$500.00 to \$1000.00 annually. The larger the loan, the larger the insurance premium. This amount can vary depending on the loan product - consult with your lender on this fee.

Title Insurance: This will protect the lender in the event the legal title of the property isn't clear. Some events that could result in an unclear or cloud on the title would be if a spouse wasn't living in the property at the time of sale, then later decides they want to claim it, or if the property was left to another party in a will and title was not transferred, or if by human error a property was recorded incorrectly, or any other numerous, miscellaneous situations.

Escrow: Your lender may require you to escrow monthly payments for things such as insurance and property taxes. The amount of these expenses will be included in your monthly mortgage payments.

Mortgage Registration Tax: This tax is from the state, county and city. All Minnesota mortgage borrowers must pay \$2.20 per \$1000.00 of the mortgage.

Settlement or Closing Fee: This fee is paid to the title company conducting the closing and usually costs the buyer around \$795.00. (Breakdown of fees: \$195.00 closing fee, \$500.00 title preparation fee, and \$100.00 disbursement admin fee.)

Credit Report: Lenders will order a credit report for all persons applying for the mortgage loan. This report typically costs \$30.00.

Recording Fees: These fees cover document recording costs. They typically range from \$90.00 to \$100.00. If there is a well on the property an additional \$46.00 will be charged.

Ready to Buy a Home? Contact Acuity Group to Get Started in the Right Direction!