Best Practices for Getting a Mortgage

Before signing on the dotted line, consider how long do you plan to be in this home? It costs around 8% of the sales price when you when you sell it. As an example, if your house sells for $300,000, it will cost you $24,000. This generally includes realtor fees, inspections, repairs and most everything else. With a 3% rate of inflation, you will have to live tin the home just under 3 years before you break even when you sell. If you won't at least break even on the investment, you may want to consider renting. If you have a family but don't want to live in an apartment and really want a back yard, consider leasing a home if you can't live there at least 3 years.

Dale Vermillion, author of Navigating the Mortgage Maze, shared 5 things to consider on Moneywise Radio with Rob West and Steve Moore.

TWO THINGS TO AVOID:

1. Not doing a budget in advance of buying the home, sitting down to decide what you can afford without a lender deciding for you.
2. Not having a reserve savings AFTER the home is purchased to cover any kind of family emergency, whether that's a job loss or income change. Don't allow a realtor to raise the amount you are willing and able to pay. The best down payment is at least 20% of the home value to avoid Private Mortgage Insurance (PMI), which only serves the lender.

TAXES

1. Consult a tax advisor and get an analysis to understand whether real estate taxes and interest will change your tax situation, perhaps taking more than the standard tax deduction.

THE BIG PICTURE

1. When most people buy a home, it becomes the biggest purchase in their life. Be careful that this doesn't overshadow long-term savings and giving decisions and keep a long-term perspective. Plan to spend no more than 25% of your gross pay or 35% of your net (take home pay) towards all housing related expenses.
2. Do not purchase the most expensive home in your neighborhood.
3. If you have not started a family yet, plan your finances with only one wage earner. Should one spouse lose a job or decide to stay at home with children, this will provide a margin of financial stability for your family.
4. Pay off all other debts before purchasing a home. This includes student loans.

GETTING A MORTGAGE

1. When buying a home, a rate "buy-down" means paying a little more in closing costs to lower the interest rate, to save more in the long run. If you will stay in the house at least as long as it takes to make up the extra costs at closing, everything after that will be a benefit to you. This is a lender credit.
2. When you negotiate on a home, you can ask the seller to pay some of the closing costs for you to purchase the home. They may say yes or no, but it is good to explore.

BENEFITS OF HOME OWNERSHIP

1. Rent are rising quickly. Home ownership locks in the costs of having a place to live.
2. Try to have your first home paid for in full before buying a 2nd home for rental property.
3. After the home is completely paid off, plan to spend 6% of the current value of the property every year for taxes, insurance, utilities, repairs and everything that goes in a home such as furniture and appliance repairs/replacement.

Rob West with Steve Moore and Dale Vermillion, "Mortgage Traps with Dale Vermillion", MoneyWise Radio, February 14, 2020, https://moneywise.org/episodes/mortgage-traps-with-dale-vermillion