HOW MUCH HOME CAN I AFFORD?

HOUSING

Housing yourself and your family is your biggest single expense.

2021 was a record-breaking year; housing expenses increased nearly 20% in just one year. Millions of people struggle to come up with rent or mortgage payments each month. Making the right housing decision is very important, even overwhelming. You don't have to go it alone. Your closest HUD-approved housing counseling agency is a call or click away.
In the Tampa Bay area, The Housing and Education Alliance can help with every step of the process. www.hea.org

RENTING vs. BUYING

Owning a home is the American Dream. It's a great way to create wealth and pass it on to your family, but there are many factors to consider.

The first step is to decide whether now is the right time to for you to buy a home or if it's best to rent for a while. In today's housing market, both rent and mortgage costs are high. There are benefits and drawbacks to each. Renting makes moving easier and requires less of a down payment. Purchasing a home allows you to build equity and your mortgage rate is locked in, while rental costs may rise. When you rent, your landlord pays for any home repairs (except damage done by tenants). When you buy, maintenance and repair costs are all yours.

Once you have chosen neighborhoods that make sense for you, you should compare rental prices with mortgage prices based on your income, your expenses, and whether you have saved an ample down payment.

RENTING

If you decide to rent, you need to find the right location, then determine how much monthly rent you can afford. Create a realistic and workable monthly budget that includes utilities plus all your other monthly expenses before you go house hunting. If your ultimate goal is to own a home, remember to factor in saving for your down payment when calculating how much you can comfortably spend on rent.

Zillow provides this handy Rent Calculator to help you make sound rental decisions.
https://www.zillow.com/rent-affordability-calculator/

Your lease is a binding contractual agreement between you and your landlord that includes a monthly rent amount and the length of the rental agreement as well as the names of all persons who will be living in the house. Landlords almost always require a Security Deposit that will be refunded to you at the end of your lease. Inspect your rental thoroughly and take pictures to document the state of the property at the beginning of the lease. You will be held responsible for any damage you do to the property and your landlord is allowed by law to keep money from your Security Deposit for repairs when you end your lease.

Be sure that you understand all the provisions of your lease. Sometimes there is a limit to the number of cars allowed. Some leases limit the number of guests you may have, the ages of your guests, and and how long they are allowed to stay. Many landlords require tenants to cover the cost of lawn, pool, trash removal and other property maintenance. Pets may be prohibited or a Pet Deposit (typically not refundable) may be added to your move-in cost.

Renting may be a necessary step for a couple of years before making a home purchase. Remember to stick to your budget to save for a down payment for your first home!

FIRST-TIME HOME BUYING

Being a first-time home buyer is both exciting and scary. According to the US Department of Housing and Urban Development (HUD), the average home price rose to more than $350,000 in 2021. The National Association of Realtors warns that available homes often disappear off the market in weeks or just days. In this market, it's easy to make a mistake that could affect your finances negatively for years. It's important to educate yourself and be prepared.

A key step on the road to home ownership is understanding the mortgage process. You may need help finding the right loan or figuring out how much house you can afford. You probably have questions about the documents you'll need, your credit score, and how much down payment you will need. It can seem overwhelming, but it doesn't have to be.

Taking a HUD-approved Homebuyers Course is an ideal way to begin preparing for home ownership. Consulting with a housing counselor gives you the knowledge you need to make smart moves.

Sylvia Alvarez, CEO of the Housing and Education Alliance, encourages hopeful home buyers to visit their website, www.hea.org, to get a full picture of the organization's resources. HEA continually updates the information on their site to reflect housing market trends, mortgage rates, and other useful information. Sylvia especially urges first time homebuyers to use their national-award winning HUD homebuying course HomeTRACK Online. In addition to taking you step-by-step through the homebuying process, the course can help you qualify for substantial down payment assistance – up to $30,000 or more!! "If you follow the steps in the HomeTRACK course," Sylvia promises, "You will have success buying your first home."

Follow and Like the Housing and Education Alliance on Facebook [LINK HERE] to get the most up to date information on housing.

ONE STEP AT A TIME

There are some basic steps that the experts agree are crucial to making a sound home purchasing decision.

The Dept of Housing and Urban Development says it starts with being smart about money.

Pay Off Your Debt
Surprised?? This is not the fun part, but paying down your credit cards and car loans means you won't have high payments and crushing interest. Remember, the less debt you carry, the better your credit score will be. The Urban Institute says the average Credit Score for first time home buyers is 716. Your higher credit score will qualify you for better mortgage rates. So, before you even think about buying your first home, make sure you're debt-free. It's also considered wise to have a 3-6 month emergency fund in savings.

Watch Spending and Savings
Once you are free of debt, make a commitment to stay debt-free. To prioritize spending, it's helpful for families to discuss the difference between Needs and Wants. Economists agree that a Need is something thought to be a necessity, essential items required for life. A Want is something unnecessary but desired, items which increase the quality of living. By minimizing spending, you can set a savings goal and stick to it.

Negotiate
If you are digging out of debt, communicate with companies or banks you owe money. It's always better to try and work out a deal before problems get bigger and harder to solve. It can be intimidating, but be honest in your conversations. Keep your emotions in check – it's just business. Keep good records so that you can refer to your paperwork in case of a dispute.

Elevate Your Credit Score – Know the 4 C's
It's important to know your credit score and understand what it means to banks and credit card companies. The importance of good credit is a fact of life. Banks and credit card companies make lending decisions based on your credit score.

The Four C's of Credit break down the way a bank looks at your credit. By understanding these four concepts, you will be better prepared to speak to a lender about purchasing a home:
CAPACITY: Are you able to pay back the loan? This is why they ask you for proof of income.
CHARACTER: How well do you pay your debts now? This is why they look at your credit report.
COLLATERAL: Is the house you want to buy worth what you are willing to pay for it? The value of the home determines how much they are going to loan you to buy it. This is why they do an appraisal.
CAPITAL – Where is your down payment coming from? How much money have you saved up to make the house payment if an emergency happens? This is why they want a copy of your bank statements.

Although it's hard, you must be prepared to examine your spending habits and even to change how you spend your money. Little decisions you make every day will impact your credit, and ultimately, your future housing opportunities.

Estimate How Much House You Can Afford
So, once you have taken an honest look at your financial picture, and formulated a realistic budget that accounts for <u>all</u> of your expenses, you can find out if you're ready to buy a new home now, or what preparation you need to get to that point. A simple rule is that your entire housing costs (including HOA fees, taxes and homeowners insurance) should be no more than 25% of your monthly take-home pay.

While there are benefits to a 15-year mortgage, most first-time homebuyers on a strict budget have to take a 30-year mortgage in order to qualify. Many need down payment assistance. The truth is that each person's situation is different depending on their income, debts and assets. It is still a useful exercise to do some rough estimating.

HUD uses this as an example: Let's say you bring home $6000 a month. If you multiply that by 25%, you can estimate that your maximum monthly house payment should not exceed $1500. That means if you have a 30-year mortgage with a 3.25% fixed interest rate, a 1.14% property tax rate and a homeowners insurance policy that costs $1,200 per year, there are many home options you could consider:

$150,000 home with a 5% down payment ($7,500) has a monthly payment of $956

$195,000 home with a 10% down payment ($19,500) has a monthly payment of $1172

$225,000 home with a 15% down payment ($33,750) has a monthly payment of $1186

$253,000 home with a 20% down payment ($33,750) has a monthly payment of $1221

This gives you a rough estimate of what kind of house you can afford. Of course, taxes and insurance rates vary based on location and can change from year to year. Also, you can see from the examples given that the amount of your down payment is a very big factor in your homebuying options.

So, before you fall in love with a house, do the Math! Once you are house hunting in earnest, your counselor or lender can help you calculate more precisely exactly how much house you can afford. The FHA provides this handy calculator: www.Calculator.net/house-affordability-calculator.html

The best way to get your questions answered and estimate how much house you can afford is to work with a housing counselor after you have taken a homebuyer course such as HomeTRACK. Most of your questions will be answered there. Then a housing counselor can look at your personal situation, income, debts and credit to arrive at the amount you could qualify for.

Save for your Down Payment
Since the amount of down payment is a huge factor in what house you can afford, you have to make a serious commitment to saving for it. A 10–20% down payment is considered typical, although there are mortgage options that require less. The bigger your down payment, the more house you can afford.

Also, unless you have a 20% down payment, you will be required to pay for private mortgage insurance (PMI). PMI protects your mortgage company in case you can't make your payments. You could pay 1% or more of your total loan every year for your PMI. It doesn't sound like much, but it really adds to your monthly mortgage payment. Consider that your total loan is $150,000. 1% of that is $1500, or a PMI payment of $125 per month on top of your mortgage.

Are You Eligible for Down Payment Assistance (DPA)?
There are a number of federal, state and local programs to help first time homebuyers with a down payment. Some of these programs are income based, others are based on development efforts in specific areas or neighborhoods.

Tampa Mayor Jane Castor recently announced the City of Tampa's *Dare to Own the Dream Program*. There are many factors that determine eligibility for the program, including your income level and the location of the property within Tampa city limits. The program also stipulates that you must take a Homebuying Course Like the Housing and Education Alliance's HomeTRACK. It is a very desirable program, certainly worth looking into – offering up to $40,000 DPA in some Tampa neighborhoods. "Dare to Own the Dream" (DARE) | City of Tampa

Another example is a State of Florida program that is not as generous, but could be an opportunity. Down Payment Assistance Programs (floridahousing.org)

Determining your eligibility for Down Payment and Closing Cost assistance is a very complicated calculation based on regional costs and income levels. Your best bet is to take a HUD certified course and then you can speak to a counselor who will help you explore your options and determine what assistance you are eligible for.

Shopping for Your New Home – This is the last step
Finally, the fun part! You've got an idea of what you will be able to spend, but there are still many choices to make, and a lot of factors to consider. This is a good time to carefully weigh your Needs vs. Wants when deciding where to look and what type of home is best for you and your family.

Research Neighborhoods for Best Fit

Price is not always the most important factor in buying your home. A survey conducted by the National Association of Realtors found that, a home's condition (20%) and size (18%) matter more to prospective buyers than the quality of neighborhood (6%) and distance from a school (2%). Still, it's wise to factor neighborhood quality and location into your decision.

To find a neighborhood that is a good fit for you and your family, research crime rates and school ratings. Look up home prices to make sure they are rising, not declining. Check out the neighborhood businesses; are they thriving or are there empty store fronts? Drive the commute to work a couple of times to see if it's manageable. Drop in to the neighborhood at different times and days of the week (week days vs, weekends) to get a feel for lighting, noise and traffic levels. Are the neighbors out and about, comfortably secure to be outdoors? No matter how nice the house, or how good the deal, the most important thing is to end up living in a neighborhood where you and your family feel comfortable and safe.

Once you've found some nice neighborhoods, start attending open houses in the area. Even if the open house is not a perfect fit for you, you can learn a lot from the experience. When you do finally find a house you love, you'll be able to make an accurate comparison to homes in that neighborhood.

Enlist the Help of a Buyer's Agent

First-time home buyers are most likely to find their home online or with the help of a real estate agent. Do both for the best results. Find homes you like online and send them to your real estate agent. That gives them an idea of what you're looking for and helps them find good prospects in the neighborhoods you've chosen.

Realtors have valuable expertise that can give you a competitive edge finding great deals on homes, sometimes even before they are officially listed on the market. But, if you see a house you like and call the number on the For Sale sign, you will be talking with an agent who is primarily representing the seller. It is not a good idea to work with the selling realtor.

To protect yourself along the way, it's very important for you to choose a Buyer's Agent - a real estate agent working on your behalf ONLY. Some realtors specialize in working with buyers, and understand how to represent your best interest in the home purchase. Make sure you interview several realtors. Ask your friends for referrals. A home purchase is a huge decision. Work with your real estate professional to ensure that buying your first home will provide you and your family a comfortable living space plus a solid investment.

Think Long Term and Be Patient

Among the tips offered by the experts is to find the most affordable house in the best neighborhood. A home at a good price in a good neighborhood will typically grow in value. Even if the more affordable home right now doesn't check all your boxes, you can steadily make upgrades as you can afford them – wood flooring, granite countertops, landscaping - increasing your home's value without adding to your debt.

In today's hot real estate market some buyers find they have to make multiple offers before one is accepted. Be patient and your Buyer's Agent will help guide you. You may have to make multiple offers to get the home that was meant to be for you.

It may take a little longer to find that perfect home, but your efforts will pay off in the long run.