

Business-Wise Home Buying



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The advantages of home ownership are well known. Ownership permits a family to adapt a house to its needs. A house is usually the largest and often the most lucrative investment most families make. This is likely to continue as inflation becomes a way of life. The income tax deductions for property taxes and interest charges on borrowed money are advantageous.

Two considerations which should be made when a family selects a house are:

- Meeting the needs of the family today and in the future, and
- Making a financial investment such that if and when the house is sold the investment can be recaptured.

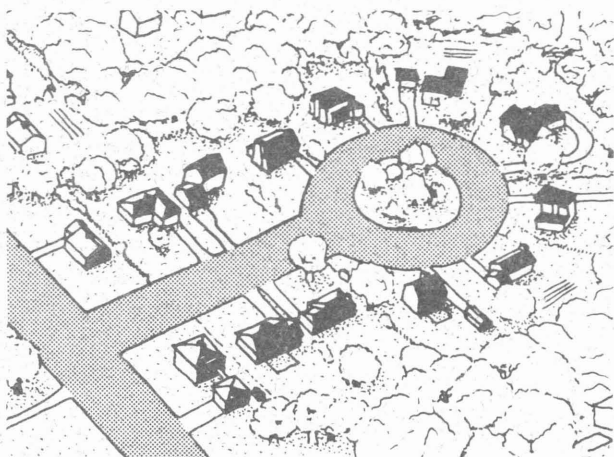
Family Needs

When considering the family's needs, note whether the house provides space for group activities as well as for individual privacy. Rooms which serve dual purposes are ideal.

Review traffic patterns. Note whether the floor plan is such that little space is wasted. Kitchens and bathrooms are critical areas to evaluate. With increasing utility rates, many families are looking into energy saving features such as insulation, heating and cooling equipment and double paned windows.

The location of the house in regard to work, school, shopping and other needed services is important. A neighborhood maintained in a manner that meets the family's standards will contribute to the enjoyment and value of the

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A cul-de-sac street with an adequate turnaround area keeps traffic under control for about 12 families.

house. Many families prefer to live in a neighborhood where they have some interests in common with other residents.

Think twice before considering a house that is in a declining neighborhood. It may meet your needs now, but its resale capability may be questionable. Also, check into zoning; you will want the neighborhood to be zoned for residential use only.

Each family is unique, and only you can decide what is best for you. It is often beneficial, before looking at houses, to list what you really need and want. This will prevent you from getting carried away with a particular feature, while neglecting to consider others which may be more important to the family.

New Versus Old

The advantages of a new versus an older house should be weighed. A new house is likely to be more functional and to appreciate more in value than an older one. On the other hand, the initial cost is usually higher and landscaping will be needed. An older house will generally provide more space for the dollar, yet may require repairs and improvements.

Inquire about warranty programs available in many areas of Texas for new and older houses. If you buy an older house, avoid over-improving it; it will be difficult to recapture all your investment.

As a rule, a house should be owned 2 to 3 years before it can be sold for an amount that will return the down payment, the settlement costs in buying and selling, plus the amount to reduce the debt.

Services of a Broker

Many families, especially those moving into a new area, secure the services of a real estate broker. The major service a broker provides is to bring buyer and seller together, with an agreement that is acceptable to both. The broker's fee is paid by the seller. Ask friends or associates to recommend a broker they have had good experience with.

When you go to the broker, tell him exactly what you are looking for, something about your life style and perhaps the ages and number of family members.

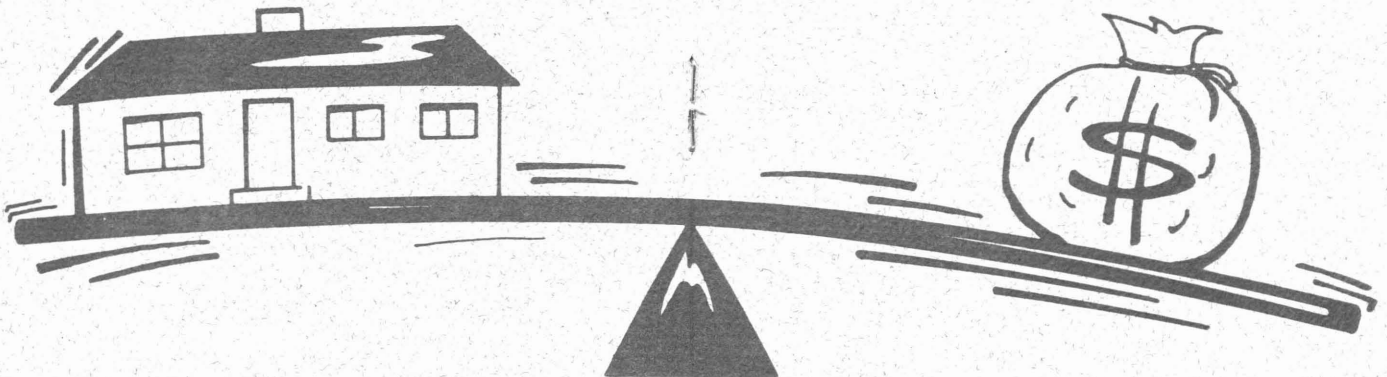
Tell him how much you can afford for a down payment and monthly payments. Remember, the monthly payment will include the principal due on the note and the interest, as well as an amount set aside each month in an escrow account for taxes and insurance.

Be sure to make adequate allowance for utility costs. In some areas utility costs may exceed monthly payments.

Legal Aspects

When you find a house you wish to purchase, a sales contract should be presented to the seller. The following items should be spelled out in the sales contract:

- The amount of money being offered for the house. It may be equal to or less than the asking price.
- A legal description of the property.
- A request for clear title to the property via title insurance which protects against defects not disclosed in public records. Public records are examined to determine whether there may be an unpaid lien on the property. If the property is not encumbered, the seller has a clear title which can be transferred to the buyer.
- An abstract or a history of the property may be provided in lieu of a title insurance policy in some areas of Texas.
- A warranty deed which gives transfer of title from the seller to the buyer is provided by the seller.
- A listing of personal property which is to remain in the house.



Buying a home is usually the most important investment a family makes.

- A financial plan with the right to cancel the offer if financing at a specified interest rate cannot be secured by a designated time.
- A provision for return of earnest money should the sale not be completed through no fault of your own.

If the seller accepts the offer as outlined, a contract exists. You are then obligated to purchase the house according to the terms of the existing contract.

Financing

You or your broker may arrange financing for the purchase of the house through a savings and loan institution or bank.* While the purchase price of new construction is usually more than that of a comparable older home, buyers can purchase a new house with a smaller down payment. Most buyers can secure a loan for 80 to 95 percent of the appraised value of the house.

The buyer of an existing or older house may assume the seller's loan. The interest rate is likely to be less and the closing costs lower in an assumption. The disadvantage of assuming a loan is that the equity (which is the difference between the purchase price and the balance of the seller's debts) may be so much that the buyer cannot afford to pay the difference. The seller may agree to carry a second lien or mortgage that has the same interest rate, yet a shorter term than the first mortgage. This lien may be for the amount of the difference between the equity and that which the buyer can afford to pay down.

Government insured loans, such as FHA or VA require a smaller down payment and provide a longer mortgage term, yet the seller must pay discount points to a lender who makes such loans. Often the seller passes on this additional cost to the buyer in the form of an increase in the asking price of the house.

* A table of monthly payments is on page 8.

The Farmers' Home Administration makes direct loans to families in rural areas up to 10,000 population and in selected towns of up to 20,000 population that are rural in nature. Loans are made to families and individuals who are unable to meet requirements for loans from private and government insured lenders.

When considering a loan from a lending institution, ask what the interest will be, the length of the mortgage term, discount points which must be paid to the lending institution when the loan is made (one point equals one percent of a loan) and if and what the prepayment charge is.

Some lenders may permit you to pay off your mortgage any time with no penalties while others charge up to 4 percent of the balance of the note. You will want to know the fee for mortgage and hazard insurance on the property which the lender will probably require you to have before making the loan.

Also, you will want to know the amount of property taxes to be paid at the time of closing. While many of the closing costs may be negotiated between buyer and seller, in most areas tradition determines which costs are paid by each.

By being business-wise in the selection and purchase of a house, you will provide for your family's well-being today and in the future.

References

- Wise Home Buying*, U. S. Department of Housing and Urban Development, November 1972.
- Homebuilders Guide, There's No Place Like Home . . .*, Consumer Information from the Ohio Commerce Department.
- Know How*, Home Owners Warranty Corporation, 1975.
- A Homebuyer's Guide to Settlement Costs*, U. S. Department of Housing and Urban Development, 1975.
- Be Careful When . . . Buying a Home*, prepared by lawyers of Texas.
- To the Home-Buying Veteran*, Veterans Administration, Washington, D. C., 1973.

TABLE OF MONTHLY PAYMENTS

Length and Amount of Loan	Interest Rates		
	11%	11½%	12%
25 years			
\$25,000	\$245.03	\$254.12	\$263.31
30,000	294.04	304.95	315.97
35,000	343.04	355.77	368.63
40,000	392.05	406.59	421.29
50,000	490.06	508.24	526.62
60,000	588.07	609.89	631.94
70,000	686.08	711.53	737.26
30 years			
25,000	238.09	247.58	257.16
30,000	285.70	297.09	308.59
35,000	333.32	346.61	360.02
40,000	380.93	396.12	411.45
50,000	476.17	495.15	514.31
60,000	571.40	594.18	617.17
70,000	666.63	693.21	720.03
35 years			
25,000	234.24	244.03	253.89
30,000	281.09	292.84	304.67
35,000	327.95	341.64	355.45
40,000	374.79	390.45	406.22
50,000	468.48	488.06	507.78
60,000	562.18	585.67	609.33
70,000	655.88	683.28	710.89

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