PSRA Properties / Equity Colorado Real Estate

<u>What every buyer should know before purchasing</u>

1. Property taxes and qualified interest are deductible on an individual's federal income tax return.
2. Often, a home is the largest asset an individual has and is considered one of the most valuable investments available.
3. A portion of each amortized mortgage payment goes to principal which is an investment.
4. A home is one of the few investments they you can enjoy by living in it.
5. A REALTOR® can usually show you any home whether it is listed with a company, a builder, or even a For Sale by Owner home.
6. Working through a REALTOR® to purchase a For Sale by Owner home can be very advantageous because someone is looking out for your best interest.
7. Your Real Estate professional can provide you with a list of items you'll need to complete your loan application so you'll be prepared.
8. A homeowner can exclude up to $500,000 of capital gain tax if married and filing jointly or up to $250,000 if single or filing separately. The home must have been the taxpayer's principal residence for the previous two years.
9. Beginning with May 07, 1997, there is no longer a requirement to purchase another home more expensive that the one sold. Homeowners are free to buy up or down with no tax consequences assuming their gain is less than the allowable amounts.
10. Ask the Real Estate professional if they are familiar with the neighborhoods where you want to live.
11. Ask the Real Estate professional whom he/she is representing in the transaction.
12. Ask the Real Estate professional what he/she will do to keep you informed.

13. Your Real Estate professional should provide you with the highest level of service and advice.

Pre-qualifications & Pre-Approval

Many buyers apply for a loan and obtain approval before they find the home they want to buy. Why?

Pre-qualifying will help you in the following ways:

1. Generally, interest rates are locked in for a set period of time. You will know in advance exactly what your payments will be on offers you choose to make.
2. You won't waste time considering homes you cannot afford.

Pre-approval will help you in the following ways:

1. A seller may choose to make concessions if they know that your financing is secured. You are like a cash buyer, and this may make your offer more competitive.
2. You can select the best loan package without being under pressure.

How Much Home Can You Afford?

There are three key factors to consider:

1. The down payment
2. Your ability to qualify for a mortgage
3. The closing costs associated with your transaction

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1. **Down Payment Requirements:**

Most loans today require a down payment of between 3.5% and 5.0% depending on the type and terms of the loan. If you are able to come up with a 20-25% down payment, you may be eligible to take advantage of special fast-track programs and possibly eliminate mortgage insurance.

2. **Qualifying For The Mortgage:**

Most lenders require that your monthly payment range between 25-28% of your gross monthly income. Your mortgage payment to the lender includes the following items:

- The principal on the loan (P)
- The interest on the loan (I)
- Property taxes (T),
- The homeowner's insurance (I).

Your total monthly PITI and all debts (from installments to revolving charge accounts) should range between 33-38% of your gross monthly income. These key factors determine your ability to secure a home loan: Credit Report, Assets, Income, and Property Value.

3. **Closing Costs:**

You will be required to pay fees for loan processing and other closing costs. These fees must be paid in full at the final settlement, unless you are able to include them in your financing. Typically, total closing costs will range between 2-5% of your mortgage loan.

How much can you afford?

Use the following chart to determine your monthly principal and interest payments at various interest rates for either a 15 or 30 year term.

INTEREST RATE FACTORS PER $1,000					
Interest Rates	Term 15 Years	Term 30 Years	Interest Rate	Term 15 Years	Term 30 Years

4	7.40	4.77	8	9.56	7.34
4 ¼	7.52	4.92	8 ¼	9.70	7.51
4 ½	7.65	5.07	8 ½	9.85	7.69
4 ¾	7.78	5.22	8 ¾	9.99	7.87
5	7.91	5.37	9	10.14	8.05
5 ¼	8.04	5.52	9 ¼	10.29	8.23
5 ½	8.17	5.68	9 ½	10.44	8.41
5 ¾	8.30	5.84	9 ¾	10.59	8.59
6	8.44	6.00	10	10.75	8.77
6 ¼	8.57	6.16	10 ¼	10.90	8.96
6 ½	8.71	6.32	10 ½	11.05	9.15
6 ¾	8.85	6.48	10 ¾	11.21	9.33
7	8.99	6.65	11	11.36	9.52
7 ¼	9.13	6.82	11 ¼	11.52	9.71

1. Find the appropriate interest rate from the chart above.
2. Look across the column to the appropriate term to determine your interest rate factor.
3. Multiply the interest rate factor by your loan amount in $1,000's

An Example

Interest Rate = 6 ½
Desired term = 15 years
Interest rate factor per $1,000 = 8.71
Mortgage = $200,000
Monthly Principal & Interest =
$1,742 (8.71 x 200)

An Example

Add your monthly insurance premium and your property tax to your principal and interest to determine your total monthly payment.

I am providing this information as a guide. I strongly recommend that you contact our mortgage specialist.