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MORTGAGE

Why buy a home?

By Elizabeth Razzi • Bankrate.com

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All debt is not created equal. While financial

advisers almost reflexively urge consumers to avoid carrying credit card balances from month to month and to go easy on boat loans, car loans and other forms of debt, they usually make an exception for a mortgage used to buy your home. A home mortgage is one of the very best uses of credit.

How to buy the right home

1. Buy what you can afford.
2. Be smart with equity.
3. Get a loan that fits your finances.

The fundamental reasoning is simple: While you could save your money and buy clothes, cars and maybe even college tuition outright with cash, very few people could ever hope to save enough to buy a home for cash, especially during their child-rearing years when they have the greatest need. A mortgage allows you to buy a home after having saved only a relatively small amount of its value, and to reap the financial gains as its value grows over the years.

Buy what you can afford

Choosing the right mortgage, however, can be a make-or-break decision for your overall financial picture. Just as the home is the greatest asset for most people, their mortgage payment is usually their biggest monthly bill, so you need to shop carefully for the right one.

Judith Shine, a Certified Financial Planner in Lone Tree, Colo., advises borrowers to look at all types of loans and to choose the one with specific provisions that are most closely tailored to their financial situation.

"A mortgage is an expensive purchase and people don't see it that way. They see it as a commodity, and it's as far away from a commodity as it can be."

For example, she likes to look for adjustable-rate mortgages that give the borrower the opportunity to pay a little bit extra to the have the option of locking in his or her rate at some point. "Not every one has a lock, but we look for it."

What she does not like to see in a mortgage is a lot of built-in risk. "I do not like to see low down payments. That's where you get in trouble. I don't like to see loans that are bumping up against what people are able to afford."

However, as long as the payments are well within the range that a borrower can afford, she's open to all types of loans, even those that have garnered bad reputations in recent years, such as mortgages that allow interest-only payments or adjustable-rate loans that change frequently. The problem was the wrong people got the wrong products, she says.

"It's not risky if you buy the house correctly. When people get 'upside down' (owing more on their mortgage than the house is worth), it's because they paid too much for the house. That's what a lot of people are confusing. Lending money on a house that is not worth the price is risky."

Be smart with equity

Though they're less widely available in a soft housing market, home equity lines of credit are still a valuable tool for homeowners who can get them. Homeowners will need to have a lot of equity in their home and will typically be able to borrow against 70 percent to 80 percent of the home's appraised value.

Home equity lines of credit, second mortgages that allow you to borrow and repay money much like a credit card, are a particularly convenient and relatively inexpensive form of credit. They work much like the revolving line of credit you have with a credit card, with one big exception: If you don't repay the home equity debt, the bank could foreclose on your home. They can't do that with a credit card. And imprudent use of a home equity line of credit can erode the equity you have in your home. Shine warns clients against them.

However, if you manage them carefully, having access to such lines of credit can be a lifesaver. They are a good source of funds for remodeling (which adds back equity to your home) or emergency credit -- at better terms than your credit card. If you tap your equity to pay for vacations or new furniture, however, your home equity line of credit can actually destabilize your overall financial picture, as many people realized in the recent housing bubble and subsequent fallout.

Get a loan that fits your finances

The key to finding a good mortgage or a home equity line of credit, is first to understand your own financial picture thoroughly. Know what you can really afford to pay, and have a realistic estimate of how long you expect to live in that home. If you're certain that a job relocation will cause you to move in five years, for example, there's no need to pay extra for the security of a mortgage with an interest rate that's fixed for 30 years.

Conversely, if you can barely afford the payment during the first year of an adjustable-rate loan, it would be foolish to commit to a payment that is all but certain to grow.

"It's like so many things nowadays," says Shine. "People are busy and they don't pay enough attention to contracts, and this is a contract. Or they'll read it and not understand it."

If you don't understand the terms of any loan, you owe it to yourself to [find a lender](#) or a financial adviser who will take the time to explain them all to you.

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Posted: March 19, 2007

Location of article:

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