

HOME BUYING AND FINANCES - MAKING THE RIGHT DECISIONS

For many people, the most important financial decisions often involve buying, selling or refinancing a home. Before making any decisions, it's important to seek the advice of trained professionals. While your financial institution can let you know how much you can afford, a REALTOR® has the training and in-depth knowledge of the local housing market to guide you through either the purchase or sale of your home.

How much can you afford?

Almost everyone who buys a home borrows some of the money to pay for it. The easiest way to determine how much money you will be able to borrow as a mortgage loan is to consult with one or two lending institutions. These lenders will apply standard tests, based on your family's current income and debts, in order to decide the amount of money they will lend to you.

Once you have a clear idea of how much you are able to afford you will want to seek the assistance of a trained professional. A REALTOR® has an intimate knowledge of the local housing market and, through access to the computerized Multiple Listing Service® (MLS®), can help you by providing a personalized list of homes for sale that meet your needs and wants in your price range. A REALTOR® is also aware of the many options available for financing the purchase or sale of a home, and has the latest information on mortgages.

Thinking of refinancing?

There are three basic factors to consider before deciding whether to refinance: the interest rate, of course, how long you plan to stay in your house, and what you want to accomplish by refinancing. A standard rule of thumb is to re-finance if the current mortgage rate is at least 1.5 to 2.5 percentage points below your existing rate because you need an adequate rate reduction to compensate for the expense of re-financing. Costs associated with re-financing include penalty fees charged by the lender, fees for appraisal, and other related services.

Another major factor tied to the interest rate is how long you plan to live in your home. Figure how long it would take to recoup the re-financing costs through the monthly savings from the lower interest rate. Divide the annual payment savings into the total refinancing costs to determine the break-even point. If this point is at least a few years before you think you will move, you could be in a good position to refinance.

Finally, it is important to determine your financial goals. There are a host of reasons why a homeowner may choose to refinance. Some, especially those nearing retirement age, may want to pay off the mortgage earlier and usually choose to re-finance to a shorter-term mortgage. Owners who are strapped for cash may want to reduce monthly payments. Many homeowners with variable-rate mortgages choose to refinance when rates are low, mainly for the security and peace of mind. Each owner's case is unique and it is a matter that should be discussed thoroughly with a financial advisor.

