

Home Financing Tips

Buying a home, especially a first home, is a big financial and emotional step. If buying a home is important to you, do your financial homework. Investigate your mortgage options. Determine what level of monthly mortgage payment will be affordable and comfortable. Use some discipline to save your down payment. Here are some simple steps to guide you through this process.

Figuring out how much of a house you can afford will largely be dependent on the level of your monthly payments. While there will be property taxes, insurance and upkeep, your monthly payments will probably be the most important part of your decision. The fine line you walk when determining a level of down payment is based on the level of mortgage payments you can afford and how much money you have for the down payment.

Estimating your mortgage payments

Mortgage rates are constantly changing, and there are different types of mortgages available. Here is a chart showing monthly payment levels for different amounts at various interest rates. It is based on using a 30-year fixed mortgage. While payments with a 15-year mortgage will be higher, you will pay off the mortgage sooner and pay much less interest over the life of the mortgage.

Monthly Mortgage Payments at different interest rates (30-year fixed rate mortgage)						
Mortgage amounts	5.5%	6%	6.5%	7%	7.5%	8%
\$50,000	283.89	299.78	316.03	332.65	349.61	366.88
\$75,000	425.84	449.66	474.05	498.98	524.41	550.32
\$100,000	567.79	599.55	632.07	665.30	699.21	733.76
\$150,000	851.68	899.33	948.10	997.95	1,048.82	1,100.65
\$200,000	1,135.58	1,199.10	1,264.14	1,330.60	1,398.43	1,467.53

If you are looking at mortgages of different levels, you can use the chart to estimate or use a mortgage payment calculator on the Internet.

Accumulating a down payment

Most lenders require certain levels of down payments to consider you for a mortgage. It often ranges from 5% to 20-25% of the purchase price. The larger the down payment, the more comfortable they will probably be giving you the mortgage. If you do not have a 20% or higher down payment, you will need to include the cost of Private Mortgage Insurance (PMI) in your monthly expenses. You should also remember that it would be a good idea to have some extra money available after you move into your new home. New carpeting, new furniture or improving the landscaping all take money. Be careful not to stretch yourself too thin.

Here are some strategies for building funds for your down payment.

1. **Save.** As simple as it sounds, most people end up saving for a couple of years to accumulate the amount needed. This may mean less or cheaper entertainment or less frequent dining out. One easy way to save is to enroll in an automatic savings plan at your financial institution. Have a certain amount transferred from your checking account to a dedicated savings account each month. This provides some discipline, and you may be able to use a money market type of account to earn higher interest.
2. **Borrow the down payment from your retirement plan.** Many company-sponsored 401(k) or profit sharing plans have provisions to let you do this. Check the details of your plan. Your Human Resources or Payroll department can help.

3. **Move to lower your monthly living expenses.** Living in a cheaper apartment while you accumulate your down payment can help you reach your goal faster. Cheaper rent may balance off a longer commute to your job. If you are just starting out or are considering changing jobs, you may want to consider an area that has a lower cost of living.
4. **Reduce other high interest-rate debt.** Paying off credit cards will use up some of your savings in the short term, but decreasing your higher rate debt will ultimately help you save more.
5. **Negotiate a second mortgage with the seller.** In order to help sell their home, the seller may be willing to take a second mortgage for part of the purchase price. Be careful if you are considering this and make sure a qualified attorney looks at all the documents.
6. **Sell some of your investments.** Consider the home you're saving for as your most important investment opportunity.
7. **Get a second job and save your earnings.** This new source of savings will help you accumulate the funds you need even faster.
8. **Skip a year's vacation.** Eliminating discretionary expenditures like this to achieve your goal of home ownership may yield greater pleasure in the long run.
9. **Borrow from your parents.** Many parents are willing, or even anxious, to help their children with the purchase of a first home. Be respectful of their generosity.