Denice's
Homeowner News

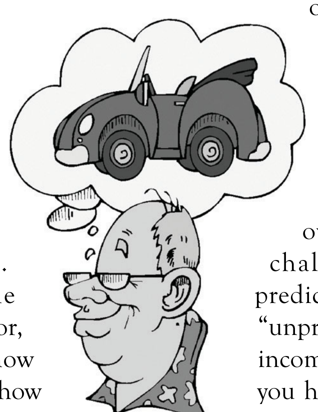
Courtesy of Denice S. Anderson ∽ Watson Realty Corp. ∽ (904) 607-5091 May 2005

Don't Do This Before Applying for Mortgage

Buying a home is certainly an exciting event, but nothing will dampen the excitement faster than getting turned down for a mortgage. Sometimes it's the easily avoidable actions on the buyer's part that cause this to happen. Planning on applying for a mortgage soon? Here's what <u>not</u> to do:

Buy a Car

Yes, it would look great in the driveway of your soon-to-be new home. Unfortunately, the additional debt won't look great on your mortgage application. When calculating the amount you can qualify for, the lender will look at how much debt you have versus how much income you make. A general rule of thumb is that your total monthly payments (including mortgage, credit cards, car loans, etc.) should be no more than 36 percent of your monthly income. Purchasing a big-ticket item and financing it will negatively impact this percentage (called the "debt-to-income ratio" in lender lingo) and decrease your chance of getting the loan you desire. Even paying cash for the car (boat, furniture, etc.) may not be the solution, as the lender will also take in to consideration your cash reserves when approving your loan. It's best to be patient—buy the house first, then splurge on other stuff.



Change Jobs

Getting a new job just before you buy a home will not always create a problem, but in certain instances it can. Suppose you are either a salaried employee or an hourly employee who works forty hours a week with no overtime. If you change employers while staying in the same line of work, you should be okay. But if you change to a completely different career, the lender will not be too happy. People whose income depends on commissions, bonuses or overtime have another challenge. Lenders like predictability and will take the "unpredictable" portion of your income into consideration only if you have a two-year track record of receiving it. Changing employers breaks that two-year continuum, and places your loan approval in question. Especially problematic is if you are thinking about abandoning the corporate world and becoming self-employed. Without a two-year track record you will almost certainly be turned down for a loan with a reasonable interest rate and down payment. Therefore, if at all possible, stay at your current job until after you get the keys to your new home.

Shuffle Money Around

Wishing to better prepare for the home purchase, some people get an urge to

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Friends don't let friends sell or buy a home alone. They refer them to a good REALTOR. And a good REALTOR provides guidance, local knowledge and a caring attitude to make sure that your friend's real estate transaction goes as smoothly as possible. Know of someone planning to buy or sell a home soon? Refer them to the one agent that you know will handle your friend's transaction with care, expertise and utmost professionalism. It's what friends do!

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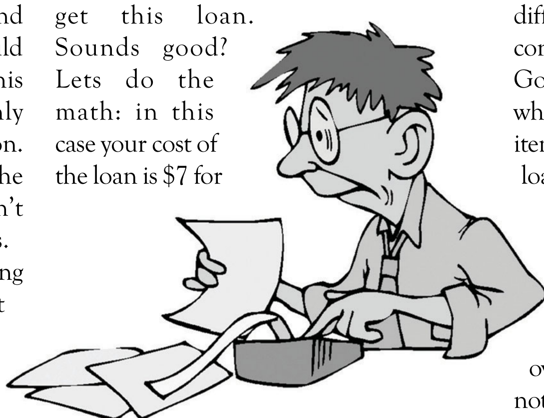
The Mystery of APR Revealed

You see it on TV, you hear it on the radio, and it creeps up in newspaper ads and finds its way into your loan documents: the mysterious APR. Whether you are financing a car, a flat-screen TV or a home, it quietly follows you around like a shadow. What does it want? It's somehow always different from the interest rate you are quoted. You are told that it does not affect your monthly payments. Is it trying to confuse you and make your life more complicated? Should you just ignore it? Please don't. This often misunderstood number is only trying to help you make the right decision. Its purpose in life is to tell you what the true cost of every loan is so that you don't get slammed with hidden loan charges.

It all began when loans started getting complicated—in addition to the interest rate, lenders started charging various fees that weren't always clearly explained. Our government decided that something had to be done to help borrowers make educated decisions, so it began requiring lenders to disclose the total cost of the loan with one simple number. This number was termed the "APR," or Annual Percentage Rate. It had to reflect not only the interest rate the lender charged, but all other lender fees as well. How? Here is an example:

Let's suppose you decide to purchase a ring that costs $100. Store A offers to finance it for you: 1-year loan, no payments until the end of the loan term, and the interest rate is 10%. At the end of the one-year term you would pay them back the $100 you borrowed, plus $10 for the interest. In this case the total cost of the loan is $10, so your APR is 10%. Store B on the other hand offers a seemingly better deal: same 1-year loan term, also no payments for one year, and the interest rate is only 7%. All you have to do is pay a $5 application fee to get this loan. Sounds good? Lets do the math: in this case your cost of the loan is $7 for



the interest plus $5 for the loan fee, which comes to $12 total. This represents 12% of the $100 you borrowed, so the APR in this case is 12%. Looking only at the loan rate (10% at Store A vs. 7% at Store B) one would easily pick Store B. Only when you take into consideration the total cost of each loan does it become obvious that Store A offers a better deal. See how useful APR can be?

Now I have some bad news. Mortgages are not nearly as simple and straightforward as the example above. They have a lot more fees involved, and mortgages are amortized differently. To be sure, APR is still a good starting point when comparing home loans, but you should take a few more details into consideration. First, not all lenders include the same loan fees in their calculations. It is possible that two loans have identical interest rates and identical fees, but the APRs are different because the lenders used different formulas for calculating them. The confusion is easily solved by asking for a Good Faith Estimate from your lender, which in addition to showing the APR will itemize all of the costs associated with the loan. The second thing to consider is the loan term. A 30-year mortgage and a 15-year mortgage may have the same rate, but the APR will usually be higher for the 15-year mortgage because the loan fees are spread out over a shorter period of time. This does not mean that one mortgage is necessarily better than the other; it simply means that you should compare apples to apples, 30-year loans to 30-year loans and 15-year loans to 15-year loans. Finally, keep in mind that the APR does not take into consideration things like balloon payments, how long the rate can be locked for, or interest rate adjustments (in the case of adjustable rate mortgages). Any of these factors can skew the APR, so in order to get the complete picture about a particular loan digging deeper into the details is advised.

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consolidate their money into one account. Although that may sound like a good idea, it can unnecessarily complicate the mortgage approval process. One of the things lenders are particularly strict about is the source of your down payment money, so you will be asked to provide copies of your bank statements for the past few months. If there are any unusually large deposits or withdrawals, you will probably be required to provide an explanation and "paper trail" for each. It's best to avoid this hassle and leave all of your money where it is, until you talk to your loan officer. ***(continued ➔)***

Maximizing Kitchen Storage on a Minimal Budget

No matter how big a kitchen is, it never seems big enough. The number one complaint is the lack of storage space. But, you don't have to break the bank to solve this problem. Here are a few economical ideas for adding storage space and simplifying your life:

✓ Rollout shelves are a growing trend in kitchen storage and for good reason. All too often things can get "lost" in the dark depths of cabinets, and much of the hard to reach space is wasted. A drawer-like shelf allows you to utilize your cabinets more efficiently and more conveniently. Oh, and they are not very hard to install.

✓ A spice rack installed on the inside of a cabinet door at eye level is a simple way to organize your spices and keep them from cluttering up your cupboards. Or store your spice containers horizontally in a shallow drawer near the stove. This keeps them easily accessible and they are not taking up valuable countertop or shelf space.

✓ If you have a big enough kitchen, adding a center island can be a great way to add more storage space. Not enough room for it? Consider replacing your kitchen table with the more versatile island—the top can serve as the eating area or work area, and the bottom, of course, for storage.

✓ Baking sheets, cutting boards, pizza pans, or anything thin or shallow is best stored vertically. Install vertical dividers in a lower cupboard for convenience and easy access.

✓ Organize according to frequency of use. Keep frequently used things within an easy reach and near areas where you use them. Seldom used stuff can be stored on top shelves, or even in another room (empty chest or armoire in the living room maybe?).

✓ Use Tupperware-style stackable containers for dry goods. The original packaging is usually too bulky and takes up too much space.

✓ Install a pull-out storage tray behind the false drawer in front of your sink. Sure, it's narrow and can't hold a lot of stuff, but it can keep frequently used utensils from cluttering up your countertop.

✓ Get rid of some stuff. Just like you go through your closets once a year and sell or donate clothes you no longer need, "unloading" unneeded kitchen things will free up space for more useful stuff.

Fail to Get Pre-Approved

I bet you have heard this before, but darn it, it's important so I'll say it again: don't get pre-<u>qualified</u>, get pre-<u>approved</u>. Yes, it sounds similar. No, it's not the same. I am sure you will agree that finding out how much house you can afford <u>before</u> starting your house search is a good idea. Now, you can find out "kind of, sort of," or you can find out for sure. Getting pre-<u>qualified</u> is finding out "kind of, sort of." The lender will ask you a few questions, then give you a quick estimate right over the phone. Unfortunately, this estimate does not mean much since there are a number of factors that can affect your loan terms, and a quick pre-qualification will probably not reveal all of these factors. Getting pre-<u>approved</u> however is something different. You will have to fill out a loan application, answer a bunch of questions, provide proof of your income and down payment money, and have your credit thoroughly checked. You may even have to pay a small fee up front to cover the cost of your credit report. All of this will enable your lender to give you a written limited-time commitment to approve your loan once you find a suitable property. With this piece of paper you will know for sure what you can qualify for, so that you and your agent can start house hunting with confidence.

Q: What is title insurance and why do I need it?

A: Abraham Lincoln lost his home twice due to problems with the title. The purpose of title insurance is to help you avoid the same fate. Simply put, it insures you and your lender against errors or potential problems with the ownership documents of your home. For example, if someone was to claim to be the rightful owner of your home, the title insurance protects you against possible loss or damages.

Two types of title insurance are available. The lender's policy protects only the lender from title defects, liens or judgments. The owner's policy protects the buyer against the same problems, and can be expanded to cover additional title risks, such as unrecorded liens. A lender's policy is required in order to obtain a mortgage. An owner's policy is not, but since it's only slightly more expensive than the lender policy, buying it is certainly not a bad idea as it gives you added peace of mind.

Have a tough real estate question? Your calls and e-mails are always welcome:

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ARCHITECTURE CORNER: HISTORIC AMERICAN HOMES

THE WHITE HOUSE

Quite possibly the world's most famous residence, the White House has a fascinating history that spans over 200 years. Construction began in 1792 under the careful supervision of President George Washington and chief architect James Hoban. Although the initial plan called for a building nearly five times its size, the project was scaled down due to labor and material shortages. In 1800 it was completed and ready for its first occupants—President and Mrs. John Adams. Although the White House was President George Washington's idea, and he oversaw most of its construction, he never lived in it.

The White House was burned by the British during the War of 1812. After the war it was restored, and its charred walls painted white. However, it wasn't until 1901 that it became officially known as the "White House" when President Theodore Roosevelt coined the term. Up until that point it was known as the "President's Palace," the "President's House," or the "Executive Mansion."

Like today's Americans, our past Presidents liked to make home improvements so the White House has changed over the years. In between 1824 and 1829 both the north and south porticos were completed giving the White House its present look. In 1833 President Jackson had running water introduced, and in 1835 central heating. The first telephone was installed in 1879 for President Rutherford B. Hayes. Electricity came in 1891 when Benjamin Harrison was President, although he and Mrs. Harrison were leery of flipping light switches out of fear of getting electrocuted.

The most extensive renovations took place during the time President Truman was in office when almost everything except the exterior walls was completely renovated. Today the President's home has 132 rooms, 35 bathrooms, 28 fireplaces and 3 elevators. Its world-famous address is 1600 Pennsylvania Avenue, Washington, DC 20500, and it is the only private residence of a head of state that is open to the public free of charge.