

# Finding Your Dream Home 101!

Once you know how much money you can borrow and have an estimate of your closing costs, you'll know the price range you can afford. You might already have your "dream home" in mind. Perhaps you want to settle down in a particular neighborhood, or maybe you just need more space for your growing family.

Even if you know exactly what you're looking for, the house hunting process can be overwhelming for some. It takes time. Here are some good house hunting tips:

- Take pictures inside and outside the home.
- Bring a spouse, family member, or friend.
- Make sure the house fits into your budget.
- Ask about utility and maintenance costs.
- Think of commuting time and costs.
- Compare what you'd like to have against what you really need.
- Consider your monthly budget—can you afford the renovations and maintenance that you'll need to do?
- Compare what you'd like to have against what you really need.
- Don't make a "spur-of-the-moment" decision.

What else can you do to make the house hunting process easier?

- *List your needs.* Know the difference between your wants and your needs and keep track of the homes you see that come closest to meeting your needs.
- *Concentrate on a few neighborhoods.* Decide what's most important to you about the neighborhood you want. This can greatly narrow down your search.
- *Work with your a real estate agent.* They'll have many more listings than you can find on your own.
- *Compare homes.* Make sure you know what you would get and what you would miss in each house before you make a decision.

## Establish Your Criteria

Before you start house hunting, decide on what you really need. Then list the features that would be nice to have. Once you have a clear idea of what you need as well as what you would like in a house, finding that house will be much easier.

Be realistic. Looking for a home takes time, so focus on what's important to you. After looking at lots of homes, the line between "I need a garage" and "I want a garage" can get very blurry.

Many people focus more on what they'd like to have instead of focusing on what they actually need—that can mean they pass up a home that meets their needs in hopes of finding one that meets their wants.

Ultimately, you should be able to find a home that is a blend of your needs and wants.

To help keep your priorities in order, make a wish list and a must-have list, and take them with you whenever you look at a house. Share them with your real estate agent as well; he or she can search for homes based on your list.

## Compare Homes

Before you make a decision, you should compare your wants and needs. Also look at the short-term and long-term costs associated with each house you're considering. Are the appliances in good condition? What about the back yard? What are commuting costs?

## Making An Offer

Once you've found the right home, you'll need to make an educated offer. Knowing a home's real value can help you make a fair offer. A home's value is determined by:

- *Sale price history.* You can get the home's past sale prices through county courthouses and recorder's offices, many of which have this public information also available online. You can also check with your real estate agent. See if the value has risen or fallen over time.
- *Home characteristics.* The number of bedrooms and bathrooms, square footage, and other characteristics greatly affect the value. In many cases, the seller and their agent provide this information to all prospective buyers. You can also get this information from the tax assessor's office.
- *Similar home prices.* Ask your real estate agent for sale prices of comparable homes in the same neighborhood.

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# How to Protect Your Home's Equity!

Historically, the primary way Americans have accumulated wealth has been by building home equity. Home equity is the money left over when you subtract all your home loans from the market value of your property. Building wealth through home equity has been an effective process because it happens in the secret recesses of our lender's bank vault where we can't get at it. New lending programs and services have made home equity much more liquid, with the result that people are drawing on the equity in their homes, and spending it, with as much abandon as if it were a bonus check.

## Using Equity Wisely

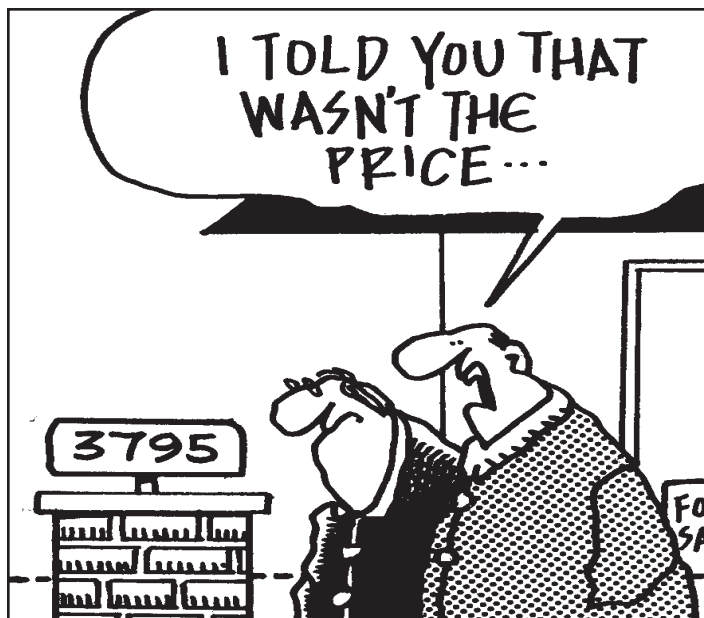
- Borrow the minimum amount you need
- Leave a cushion of at least twenty percent in the home
- Commit to paying yourself back
- Have a budget in place that covers all your expenses plus loan payments
- Plan to remain in your home long term
- Use home equity to increase your wealth, not to dig a bigger hole

## Short-Term vs. Long-Term Debt: Don't Drive Yourself Into Debt

Let's say you take out \$35,000 in a home equity line of credit (HELOC) and use it to buy an SUV. Your home equity line of credit allows you a monthly payment of just \$124 per month as compared to a regular car loan, which could cost around \$700 per month.

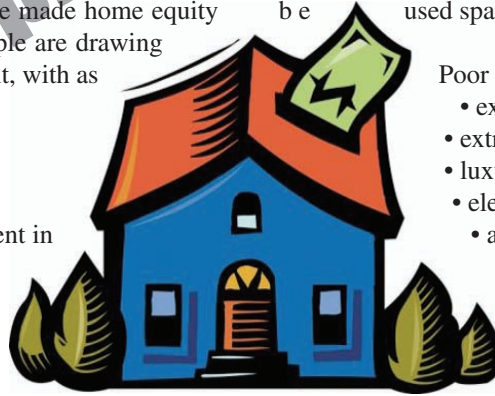
However, a HELOC typically either must be paid off after ten years, or it converts to a regular amortizing mortgage payment. You start paying for your car ten years after you've bought it. Where is the SUV? It's rusting in a junkyard, and you still owe \$35,000 on it! This is an example of trading short-term debt for long-term debt.

The payments on long-term debt are lower, because the bank gets to take your interest payments for a longer period. But the cost is



much, much higher.

There are good reasons to protect and preserve your equity. Home equity should not be used as a tool to spend beyond your means. Remember that this money is borrowed and has to be paid back someday. Like any other debt, a home equity loan should be used sparingly.



Poor uses for home equity loans include:

- expensive vacations
- extravagant gifts
- luxuries
- electronics
- automobiles

## The Equity Trap

And it gets worse. Because you are draining the equity from your home, you put your home at risk. If you default on your car payment, a repo man will show up and take your SUV. If you default on your home equity loan, the bank forecloses on your home. And if the housing market slumps, if your appraisal is inaccurate, or if your total liability is more than the value of your house (some lenders will let you borrow up to 125% of your home's value), you could find yourself owing money when you sell your house.

## What Home Equity is Good For

There are good uses for home equity loans. One of the best ways to use a home equity loan or line of credit is for improvements that will add value to your home. Used this way, it's practically an investment. You may recover some, if not all, of your investment when you sell the house. But remember that your enjoyment should be the first consideration. You might also lose ten or fifteen percent of your investment, even on premium remodels, like kitchens and bathrooms.

Some people also borrow from their equity to pay for college tuition, to consolidate debt, or to cover medical expenses. When facing these kinds of financial pressures, explore all other avenues of relief first. Have your child apply for financial aid. Remember that once you consolidate your debt, it's very easy to run it up again. Your efforts will avail you nothing if you don't find a way to live within your means.

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