How To Buy A Home In Today's Market

Some buyers today have had their desire to buy dampened because they think they can't. In fact, today's market offers a unique opportunity to save by buying now.

First of all, properties are available now below the average market price, with selections through all price ranges for starter homes, buy-up houses, executive properties and luxury estates. Today is a good time to start on the path to your dream home.

Also, lenders are offering attractive rates and innovative financing, such as buy-downs and various adjustable loans. That means your same income can qualify for more home today.

Buyers who act now not only take advantage of today's market, they also can begin to benefit from the Big Four wealth builders of homeownership.

Four Wealth Builders

Leverage. Leverage means using borrowed money (OPM: "Other People's Money") to control a property and receive its benefits. Here's how leverage works. Say you've acquired a $100,000 house with only a 10% down payment ($10,000). Suppose the property appreciates 10% in the first year and the house is worth $110,000. You've "earned" $10,000 on your investment of $10,000—a profit of 100% in a year. (Financing cost would, of course, lower the net yield.) That's leverage—a big return by using borrowed money.

If home prices rise only 3% a year in the next decade, the home you bought this year for $100,000 would be worth $134,392 in ten years. With $10,000 down, you'd realize a 344% profit. If prices rise 5% a year, you'd profit 629%, at 8% a year, you'd profit 159% due to your leverage purchase.

Tax Breaks. You'll also realize savings from the tax advantages of homeownership. A homeowner's taxable income is reduced by tax deductions (for interest payments, points and real estate taxes where applicable. Later, any gain you realize at sale gets special treatment. No federal tax is payable on gains of up to $500,000 in the case of jointly filed returns and $250,000 for other returns provided the qualification tests are met: during the five-year period leading up to the sale date you must have both owned the property for at least two years and the property must have been your principal residence for a total of at least two years. State income tax rules may or may not follow the federal rules, so state taxes may apply to all the gain--call us.

Savings. Mortgage principal payments go into your own pocket, not someone else's. You're saving and building equity as you pay for a home that's appreciating in value. (The amount of appreciation depends on inflation, the local economy and whatever home improvements you make.) But there are fewer appreciation windfalls in today's market. You must buy wisely. Not all properties in all locations will give you the top-dollar investment return you want. Using a mortgage professional from the beginning will put you ahead of other hopeful home buyers.

Owner Pride. The fourth pillar of home owning involves, of course, many things besides keeping a roof over your head. You acquire, along with a structure, the responsibility for maintenance and repair. Most homeowners find the benefits of owning far outweigh the upkeep efforts—and many homeowners enjoy the work. You also put down roots and become more involved in the community. In short, you own an investment that builds intangible riches while you lock in your housing costs and avoid unpredictable rent hikes.

How You Can Buy

Be Realistic. Set your sights realistically; don't expect to move directly into your dream home in the most expensive part of town. Get a toe in the homeownership door by buying a modest place—in a good location. Improve your home as you can afford to; and/or let your equity build to help you buy the dream house in the dream location later.

Closing Cost Help. If you haven't been able to save for a down payment and closing costs, consider:

● Negotiating a gift, loan or shared-equity arrangement with parents or other people looking for a good investment.

● Selling something of value—with the realization that you'll be able to replace it later.

● Penalty-free early withdrawal of up to $10,000 on an IRA for a down payment.

● Financing the closing costs, if your lender agrees or getting help from the seller.

● Using a tax refund.

● Borrowing on your life insurance or securities.

Pre-Qualify. "Pre-qualify" yourself as a borrower by calculating what price home you can afford. Generally (depending on lender and type of financing) lenders consider your total basic monthly affordable housing cost—including mortgage principal and interest payments, real estate taxes and insurance payment. Your affordability is based on 25% to 28% of your gross monthly income. Or, with additional long-term debts included, the ratio is 33% to 36%. Remember: some lenders extend these limits, based on their assessment of your financial situation and the loan plan you select. As a pre-qualified buyer, you'll have an advantage over other buyers who aren't.

How Uncle Sam Puts Money in the Pockets of Home Buyers

John and Jane have a combined income of $50,000 a year. They purchased a home for $150,000, putting 10% down and financing the remaining $135,000 with a 30-year, 8% mortgage. Their monthly principal and interest payments amount to $991 a month. Here's how the value of tax deductions will save them cash in their first year and years to come, based on 1998 tax rates (figures are for illustration only. Your figures may differ.)

	As Renters	As Buyers
Income	$50,000	$50,000
Itemized deductions		
State income tax (assuming 6% rate)	2,250	1,660
Contributions & others	400	400
Interest payments, 1st year		10,760
Points (3)		4,050
Real estate taxes		1,800
Total Itemized Deductions	2,650	18,670
Deduction used (standard or itemized)	7,100	18,670
Exemptions (2)	5,400	5,400
Taxable income	37,500	25,930
Federal income taxes	5,630	3,890

Tax Saving: Federal	$1,740
State	590
Total Tax Savings First Year	$2,330
First Year Monthly	$ 194
Annual (after 1st year)	$1,514