Think of Your Home as an Investment

WHY IS YOUR HOUSE INVESTMENT IMPORTANT?

Think of your home or potential purchase of a home as an investment. In most cases, this is the largest single investment that a family will make. As with any investment, you must keep in mind how much value you will be getting out of the purchase. It is important to focus on the future of the home purchase, which centers around the resale value of the home, especially if you do not plan on living there long-term.

Do your best to predict the most realistic time frame of how long you will own this house. The shorter the amount of time you spend in the home before selling, the less equity you build up in your house, especially without a large down payment. Most of your monthly mortgage payments in the early years go to interest and not against the principal.

Living in your home longer allows you to build more equity and lets the property increase in value. If you are buying an older house, you will need to do some remodeling to keep the house up to date to maintain the value of the house. Make sure any changes you make to the house improves the value of your investment.

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Renovations and Energy Efficiency Improvements

HOW DO I BENEFIT?

The Internal Revenue Service provides tax credits for certain home renovations. When you buy new windows, new doors, new heating and cooling units, and anything which makes use of green energy, you may be increasing your federal income tax deductions.

Solar, geo-thermal and wind improvements all typically fall into the "green" category. Just be sure to keep your receipts as you will need them when you file your tax return.

Tax credits are also available for purchases of energy efficient appliances. Look for the EnergyStar seal on your new appliances. Many new refrigerators, freezers, washer, dryers and dishwashers are eligible for federal tax credits in the year in which they are purchased.

The government website: www.EnergyStar.gov, is a good resource for homeowners. You can check to see if the appliances you purchased are eligible for tax credits.

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Refinancing Calculator

CAN I BENEFIT FROM REFINANCING?

Many homeowners have refinanced their homes in the last couple of years and have realized significant savings on their mortgages. Refinancing your mortgage replaces your existing mortgage with an entirely new mortgage with different terms and conditions.

Typically, a homeowner will explore refinancing to take advantage of lower interest rates or to get out of an Adjustable-Rate Mortgage. A homeowner may also look into refinancing if they expect interest rates to rise or if their credit score has improved significantly.

Refinancing is only worth while if you plan to remain in your home long enough to recoup the refinancing costs. Refinancing can lower your monthly payments for the life of the mortgage.

You can calculate how long you have to remain in your house to make back the refinancing fees as follows:

1. Subtract your new lower mortgage payment from the old mortgage payment to get the monthly savings.
2. Divide the total amount you paid in refinancing fees by the monthly savings.
3. The result is the number of months you have to stay in your home to break even, or make back what you spent to refinance.

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Reasons for Refinancing Your House

HOW CAN I BENEFIT FROM REFINANCING?

When you refinance, you pay off your existing mortgage and create a new one. There are several reasons to consider refinancing including:

Lowering Your Interest Rate

The interest rate on your mortgage determines the amount of your monthly payments - lower interest rates typically mean lower payments. Changes in market conditions in the last couple of years have led to lower interest rates. A lower interest rate may allow you to build equity in your home faster.

Adjusting the Length of Your Mortgage

Decrease the Term of Your Mortgage: Shorter term mortgages, such as 15 or 20 years instead of 30 years, generally have lower interest rates. Additionally, you pay off your loan sooner which further reduces your total interest cost.

Increase the Term of Your Mortgage: A longer term mortgage can reduce the amount of your monthly payments. However, this will also increase the length of time you make mortgage payments and increase the total amount of interest you pay.

Changing from an Adjustable-Rate Mortgage

Changing from an Adjustable-Rate Mortgage to a Fixed-Rate Mortgage: If you have an Adjustable-Rate Mortgage (ARM) your monthly payments change as the interest rates change. You may want to switch to a Fixed-Rate Mortgage which has a steady interest rate and monthly payments.

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Real Estate Taxes

WHAT ARE THEY AND HOW DO I BENEFIT?

A major benefit of owning a house is that the IRS allows homeowners to deduct real estate taxes in the year in which they are paid. Real Estate taxes are typically paid twice annually. However, homeowners who escrow taxes and insurance with their home loans will pay 1/12 of their annual bill monthly.

For homeowners who escrow, mortgage lenders make it simple to itemize real estate property taxes paid. In late January, you'll receive a 1098 Form which lists mortgage interest paid in the prior year, along with a form detailing the amount paid into escrow and the amount disbursed from escrow to your local taxing authority. You may claim the amount disbursed for real estate taxes on your federal income tax returns.

If your home does not have a mortgage, or if you don't escrow, keep track of your paid real estate tax bills and claim that amount on your federal tax returns.

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Mortgage Tips for Home Buyers

WHAT ARE THEY AND HOW DO I BENEFIT?

Be Prepared to Document your Finances

Buyers should be prepared for extra review by lenders when underwriting mortgages due to new mortgage regulations that took effect in January 2014. Borrowers should be prepared to show bank statements, tax returns, W-2s, investment accounts and documentation of any assets they own.

Lock in a Rate

Mortgage rates are expected to rise in the future. A rate lock is usually good for 30, 45 or 60 days, although that time period can vary among lenders.

Pay Careful Attention to Credit

The best mortgage rates often go to borrowers with credit scores of 720 or higher. While those with a lower credit score can still likely qualify for a loan, they may end up paying higher rates or higher closing costs.

Watch your Spending

Make sure you aren't tempted to make large purchases on credit before closing on the home loan. Debt obligations, such as credit cards and student loans, will be carefully scrutinized. Borrowers are advised to keep their monthly debt obligations, including mortgage and property taxes to below 43 percent of their income.

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Mortgage Interest Tax Breaks

WHAT ARE THEY AND HOW DO I BENEFIT?

Mortgage Interest

Under current tax law, mortgage interest paid to a lender is tax deductible. For some homeowners it provides the largest federal income tax break of all. In the early years of a mortgage, most of the monthly house payment goes toward interest. All of the interest is deductible unless your loan is for more than $1 million. For these large loans the IRS will limit your interest deductions.

Home Equity Loans

Monthly interest payments on home equity loans and home equity lines of credit are tax deductible for most of the homeowners who carry them on their homes, with a few restrictions.

Points

Discount points paid at closing are considered a prepaid mortgage interest. Therefore, the IRS lets you deduct points in the year in which you paid them. However, mortgage insurance paid is no longer deductible.

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Mortgage Approval Process

HOW MUCH HOUSE I CAN AFFORD?

There are two ways to find out whether your mortgage can be approved without actually submitting a complete home loan application to a lender. The first method is known as a pre-qualification and the second is known as a pre-approval. Although the terms sound alike, they are quite different.

Pre-Qualification

Pre-qualifications are preliminary approvals based on information provided by a borrower to a lender verbally, by phone or in person and not verified with official documentation.

Pre-Approval

The pre-approval is based on review and verification of W-2s, pay stubs, tax returns, credit reports and other considerations. Due to these extra verifications, pre-approvals are a far more powerful tool in home price negotiations. Pre-approvals inform the seller that you can afford to purchase their home, and that you have met with a lender who has agreed to finance your purchase.

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Location, Location, Location

WHY IS HOME LOCATION AN IMPORTANT ISSUE?

There are a variety of issues which you must consider regarding the location of your home. It is important to find out everything relevant to the location of a home prior to purchasing. You should also look forward as your family evolves to determine if the location meets your future needs.

Which school district does the home fall in and which schools will your children attend is a key issue for most families. Are there new schools on the drawing board which will change the schools your children will attend? Will your children be able to walk to school or ride a school bus?

What features does the neighborhood offer to its residences? Is there a neighborhood pool, tennis courts and/or park facilities? Living close to the park maybe great for the children, but there maybe significant affects on traffic patterns. Is the neighborhood a gated community or does it have other provisions for security?

Issues that affect the future value of the property are always important considerations. Is the neighborhood completely built out or are there remaining lots? Are there new neighborhoods planned which are adjacent to your neighborhood? Is there easy access to grocery stores, discount stores, restaurants and retail shops? Are major businesses moving to the area which will bring an influx of employees? These are all things to consider!

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Homestead Exemption

WHAT IS IT AND HOW DO I BENEFIT?

The Homestead Law is a United States Federal law that allows an individual to register a portion of his/her real and personal property as "homestead," thereby making that portion of the individual's estate off-limits to most creditors. The idea behind the Homestead Law is the preservation of the family farm, home or other assets in the face of severe economic conditions.

A homestead exemption is a form of property tax relief for those who use their home as their primary residence. These exemptions reduce the assessed value of the home on which the property tax bills are based. Homestead exemptions are typically equal to a percentage of assessed value and are limited to a set dollar amount.

State laws vary substantially with respect to Homestead Law. For most states you can find information on their respective Homestead Law by doing a web search using "Homestead Law" and state name.

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Homeowners Insurance

WHAT DO I NEED TO KNOW ABOUT HOMEOWNERS INSURANCE?

When applying for a mortgage you will have to get homeowners insurance, which is officially known as Hazard Insurance, on your home. Mortgage lenders want to make sure your home can be rebuilt to its same specifications in the event of a catastrophe. A lender will not approve your loan until such a policy is in place.

You have the right to shop for your homeowners insurance. The premiums quoted will vary by insurer based on several factors including: age of your home, construction type, proximity to fire and police departments and the amount of the deductible.

You should review your insurance policy annually and add in purchases and improvements made to your home. Make sure your insurance coverage is adequate. It should accurately reflect your home's current value and condition.

Do a risk assessment and ask your agent for ways to lower your costs. Take steps to improve your home security and safety to qualify for better discounts.

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Make Sure Your Finances Are in Order

DO YOU KNOW ALL THE COSTS ASSOCIATED WITH YOUR HOME?

The housing crisis came about because people bought homes that they could not afford. Being able to pay the mortgage is only part of the equation. There are expenses associated with the mortgage such as private mortgage insurance, annual property taxes, hazard insurance and homeowners association fees, which all add up quickly.

There are also a number of costs associated with living in the home which will affect the family's budget including: energy, water, heating and cooling, trash collection, internet and television connections. In addition, there will be periodic maintenance fees, especially if the home is somewhat older.

Having a good credit score is also very important as it will help determine the rate you pay on your mortgage. A better credit score can save you significant dollars over the course of the mortgage. Your credit score is sensitive to credit card purchases, opening and closing credit cards and other loans. For this reason, do not buy anything major on credit (i.e. automobiles, appliances or electronics) once you have filed your loan application.

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