

How to buy your “American Dream” (home) the right way

By Tim C. Lee

For many consumers, buying a home will be the largest purchase they will make in their lifetime. It is very important that buyers do their due diligence and become very knowledgeable of the process before buying a home.

Some people like to compare renting to buying by saying, “If I am paying this much in rent, I can definitely afford a house.” That statement is untrue for several reasons. When renting, the tenant is not liable for the property insurance, property taxes, repairs and maintenance, etc. These items are the responsibility of the landlord and/or the property owner. When buying a home you are 100 percent liable for these expenses.

Before buying a home, you want to make sure you have an emergency fund saved. I recommend starting off with a premature emergency fund equal to \$500, with an ultimate goal to build it up to cover three to six months of your living expenses.

Once you are ready to buy a home, you want to choose a lender and obtain a pre-approval letter from them. This letter will detail how much the lender is willing to let you borrow towards your home purchase, the interest rate, and the terms of the loan. I recommend you keep your mortgage payment about 25 percent or less of your monthly take home pay.

Next, hire you an experienced and reputable real estate agent. Their job is to find the home that is just right for you, negotiate the selling price, and answer all questions you will have throughout the home buying process.

When searching for your home location, you want to consider several factors, such as; the attitude of the neighbors, attractiveness of

the neighborhood, crime rate of the area, potential growth of the property value, quality of education at the public schools, and your travel time to work.



Once you find a home that you are interested in, have your real estate agent make an offer to the seller. You will also need to request an appraisal and a home inspection be performed on the property.

After you and the seller have agreed on a selling price of the home, immediately notify your lender with this information. They will supply you with a Good Faith Estimate. This document will detail the loan amount, interest rate, terms of the loan, and an itemized list of all closing costs.

Some lenders will require you to pay private mortgage insurance (PMI). This insurance protects the lender in the event you default on the loan. The price for this insurance is usually one percent of the loan amount. You can avoid this added expense by either putting enough money down or by buying the home below appraisal cost, so you will have at least 20 percent of equity in the home at closing time.

In regards to the terms of the loan, only do a 15-year, fixed-rate mortgage; never the typical and highly suggested, 30-year mortgage. Trust me, it will save you

thousands of dollars, and you will have the comfort of knowing that you paid for a home 15 years sooner. In other words, act like only 15-year mortgages exist. Only buy a home that you can afford to pay off in 15 years.

For example, if you were to buy a \$125,000 home with a 30-year term at a 3.50 percent interest rate, the overall interest paid at the end of the term would be \$77,071.60. On a 15-year term for the same price home with a

3.25 percent interest rate (15-year mortgage interest rates are usually .25 percent lower than a 30-year), the overall interest paid at the end of the term would be only \$33,101.20. That is saving you \$43,970.40. Doing a 15-year mortgage versus a 30-year mortgage only makes good, financial sense.

Owning a home is said to be the “American Dream” for everyone. If not done correctly and with patience, your “American Dream” could become a “Nightmare” for you.

Tim C. Lee is the CEO and Founder of TCL Financial & Tax Services and the host of “The TCL Show” that airs every Monday from 6:00 p.m. to 7:00 p.m. CST on WMPR 90.1 FM in Jackson, MS. This is a show that is about “You, Life, and Money”. E-mail Tim at timclee@TCLFinancialTaxServices.com.