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Buyers Guide

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what are the risks?

Overall, homeownership is a good investment for most people, but there are risks. If you understand the benefits and risks of homeownership, you can make the best decision about when to buy a home.

So what are the risks of homeownership?

- **Monthly housing expenses can increase.**
  Your monthly mortgage payment may be larger than your rent. These higher monthly payments may be offset by a tax benefit (in a few instances only) at the end of the year. Talk to a tax professional to understand your particular situation.
- **You become your own landlord.**
  If an appliance breaks, you will have to pay for its repair or replacement. You are also responsible for the maintenance and upkeep of your home and your property. The fact of the matter is, you can expect to budget for monthly updates on your home. Again, this increases you monthly outgoings.
- **You must sell your house to move.**
  Depending on the local real estate market, you might not be able to sell your home quickly. You should also factor in the likely expense of hiring a real estate professional. Fees can be negotiated and vary according to agent.
- **Property values can depreciate.**
  You can lose value in your home for a number of reasons, such as a recession, the condition of your home not being kept up, or a drop in a neighbourhood's home values. If your home loses value and you have to sell it for less than you owe, you will be required to repay the full mortgage.

myths about home ownership

Lenders evaluate mortgage applications a lot differently today than they did even 10 years ago. And even more has changed in the last 20 years. What used to close the door to homeownership may not be a factor today.

Here are some common homeownership myths:

Myth: You need great credit to become a homeowner.
Fact: You may still be able to buy a home with less-than-perfect credit. And remember, you can improve your credit over time.

Myth: You need to put 10% / 20% or a sizable deposit down to buy a home.
Fact: There are many types of mortgage products and programs that allow low and no down payments. But remember to factor in other costs such as transfer fees, property taxes, moving expenses, and repairs.

Myth: Lenders share your personal financial information with other companies.
Fact: By law, banks and other financial institutions are restricted in their uses and disclosures of information about you. In some situations, you may choose to restrict the disclosure of your information if you don't want it to be shared.

Myth: If you're late on your monthly mortgage payments, you'll lose your house.
Fact: If you have a financial hardship, like the death of your spouse or a medical emergency and fall behind, it's possible to keep your home and get back on track if you contact your lender early.

Myth: You can't get a mortgage if you've changed jobs several times in the last few years.
Fact: Not true. You can change jobs several times and still get a loan to buy a home. Lenders understand that people change jobs. The important thing is to show that you've had a stable income.

credit and home ownership

If you're thinking about buying a home, you should also be thinking about your credit. The first step in the home buying process is understanding your credit.

When you apply for a mortgage, lenders will review your credit report. Your credit report is a history of how you've managed your finances: it's a record of money you've borrowed and your history of paying it back.

Your credit report is a record of all your credit transactions whenever and wherever you've used credit to purchase goods and services. Your credit will have a big influence on whether or not you can get a mortgage, the terms of that loan, and the interest rate. If you have good credit, you may have a much wider range of mortgage offers with lower rates.

So how do you better understand credit?

- Be aware of how important your credit history is to the process.
  Establish good credit and protect your credit.
- Look at your credit report and credit scores.
- Make sure you correct any mistakes on your credit report right away

Key elements which you need to be aware of and in control of, with regards to your credit ratings are:

1. Credit Reports and History
2. Credit Scores
3. Establishing your credit

credit reports and history

Your credit report should accurately represent your credit history. From the moment you first apply for a loan or a credit card, you likely have a credit history.

Credit-related transactions appear on your credit report, including your current debts, paid debts, and payment histories.

Your credit report includes:

- **A list of debts and a history of how you've paid them.**
  This can include credit cards, car loans, and student loans.
- **Any bills referred to a collection agency.**
  This can include phone and medical bills.
- **Public record information.**
  This can include tax liens and bankruptcies.
- **Inquiries made about your creditworthiness.**
  An inquiry is made when you apply for credit. Your credit report can also show if you were given credit based on the inquiry.

Adverse or derogatory credit information in your credit report is required to be deleted after 7 years (bankruptcy-related information is required to be deleted after 10 years). Your credit report is continuously updated, which is why you should always know what it looks like. In recent years, some unscrupulous creditors have not reported positive credit information on a timely basis. You want to make sure positive information is reflected accurately, so check your credit often.

To find out more, take the time to make an appointment with your bank or potential lender. An investigative meeting may save you a lot of time and heartache in the long run.

credit scores

When you apply for a mortgage, your credit score is evaluated. Your credit score may also be a factor used to determine the mortgage interest rate.

Your credit score is based on several types of information contained in your credit report:

- **Your payment history.**
  Late payments will decrease your credit score.
- **The amount of debt you owe.**
  If your credit cards are at their limits, this can lower your credit score - even if the amount you owe isn't large. Similarly, consolidating your debts onto one card can also lower your score.
- **How long you've used credit.**
  Your credit history is important. If you show a pattern of managing your credit wisely, keeping credit card balances low, and paying your bills on time, your credit score will be positively affected.
- **How often you apply for new credit and take on new debt.**
  If you've applied for several credit cards at the same time, your credit score can go down.
- **The types of credit you currently use.**
  This includes credit cards, retail accounts, instalment loans, finance company accounts, and mortgages.

Your credit score is only one factor in the credit decision. Mortgage lenders also look at your credit report, employment history, income, how much of your income goes to pay debt, and the value of the home you want to buy.

establishing your credit

Don't have credit? Would you like to improve your credit? Building good credit doesn't have to be difficult, but it does require time and patience. Follow these tips and you're on your way:

- **Pay your bills on time.**
  Credit scores emphasise your most recent payment record. Paying on time raises your credit score. If you've been late, start paying on time!
- **Pay at least the minimum amount required.**
  You can always pay more - and it's a good idea if you can afford it. But you should never pay less than the minimum.
- **Keep your credit card balances low.**
  Don't "max out" your credit cards - that can lower your credit score.
- **Don't apply for too many loans or new accounts.**
  Applying for a lot of credit in a short period of time may concern lenders that you won't manage your debt well. Only apply for credit when you need it.
- **Keep your debt-to-income ratio at 20%.**
  Generally, you should not have credit card or other instalment debt that's more than 20% of your net monthly income.
- **Establish credit if you don't have any.**
  Open a free or low-cost checking or savings account and make regular deposits. Only write checks when you have money to pay for things. And apply for one or two credit cards, use them carefully, and pay them off each month.

mortgages

Mortgage represents a loan on a property/house that has to be paid over a specified period of time. Think of it as your personal guarantee that you'll repay the money you've borrowed to buy your home.

Mortgages come in many different shapes and sizes, each with its own advantages and disadvantages. Make sure you select the mortgage that is right for you, your future plans, and your financial picture.

choosing a mortgage lender

Once you decide on the mortgage you want, do your homework. Different lenders offer different rates, points, and fees. This means that you should shop around and see which lenders are currently running special offers or incentives.

buying your new home - considerations

Looking for a new home is a time-consuming process and it is tempting just to rush into buying the first one you like the look of.

But watch out, as it will not be so easy to take back to the shop if you decide you don't like it after you have moved in. Once you have decided to buy a house and found out how much you can afford, it is worth sitting down and thinking hard about what you want from your new home and what your needs are.

We have made a list of some of the things you should consider when house hunting.

location, location, location

It is important to research an area before viewing homes there, or making an offer on a house there.

If you decide it is not the kind of neighbourhood you would enjoy living in, then save yourself a lot of time and effort by not hunting in the area.

Even if you can get a bigger home for your money in an area which isn't so nice, make sure you really are doing the right thing.

You can always make changes to a house but not to the neighbourhood.

- What is the neighbourhood like? Is it the kind of place you can imagine yourself feeling comfortable in? Who lives there?
- What kind of amenities are there locally? Check out the leisure facilities, activities for kids, shops, public transport and so on.
- What is the level of crime in the neighbourhood?
- What kind of condition are the other houses in your street in? If they are in a state of disrepair, or look as if they are falling into one, it could bring down the value of your property.
- Simply touring the area can give you a good idea of what it is like.

type of home

- Do you want a new or an older house? If you are buying a very old one make sure you have looked into what this can entail.
- Old houses can look lovely but cost a lot to keep up in terms of maintenance and heating bills.
- Newly-built homes can also have drawbacks, such as higher prices than 'secondhand' ones, and the requirement to buy before they are fully built, but advantages include less maintenance and decoration costs, and often complimentary extras thrown in by the builders such as carpets, curtains and fitted kitchens (though you will not necessarily get to choose your own decorations).
- Do you want a stand alone home, semi-detached or complex home, or a flat? If you want a flat, do you want a purpose-built one or a conversion? All have their advantages and disadvantages: consider safety, security, space, privacy, noise, parking and character. How much does each one matter to you?
- How much decorating or improvement do you wish to make to a property?

type of home

Key Tips

Once you have found a property you feel you like, make sure you learn as much as possible about it. Even if it seems perfect at first glance, try to think about it from all angles. And write everything down - the best house-hunters take notes on each property they view which they can compare later.

Make at least 2 visits. View the house in the daylight and at night. Come at rush hour, as you could get a nasty surprise - is the road used as a short-cut by motorists?

General Condition

- Check what fixtures and fittings will be left by the previous owner
- Consider the layout of the house – are there any unusual shaped rooms that it would be difficult to fit furniture or appliances into? Are there are enough power points?
- Don't be put off by the seller's choice of décor – try to imagine the house with your own furniture and style

State of Repair

- **Plumbing:** Are the pipes and the boiler / geyser lagged? How old is the piping? Lead piping will need replacing
- **Plug sockets:** How old are they? What is there state of disrepair?

Structural Problems - Inside

- **Subsidence:** look for cracks in ceilings and walls, doors that stick or don't hang correctly
- **Damp:** You can smell damp, so use your nose. Mould, walls which are damp to the touch, flaking paintwork which is peeling off are also signs of damp. Be wary of new paint which could be hiding problems underneath
- **Condensation problems:** rotting window frames can be a sign of this. If they are very soft to the touch this means they are rotten. Make sure the bathrooms and kitchen are well ventilated

Structural Problems - Outside

- **Subsidence:** look for big cracks in the walls, gates, electric garage doors or an uneven roofline, be sure to ask about the condition of the roof
- **Damp:** examine for missing roof tiles, and check the brickwork and mortar as cracks can let in damp
- **Root damage to foundations:** if there are any big trees nearby this could cause problems

NB: Inspecting the property yourself does NOT avoid the need for a professional survey