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The MORTGAGE Factor: Getting back to the basics

2-MINUTE 411 WITH JIM FITE

Watch the video at YouTube.com/judgefite

Remembering what the Judge said

All things wise and true always have a way of coming back around to each generation. Here are a few KEY things that my dad taught me that I have passed on to my children. This wisdom has helped me through several rough real estate landscapes in my career:

Remember your responsibility – Purchasing a home is a privilege and needs to be regarded as such, be

Real Estate 411 – FACTS

The MORTGAGE Factor: Getting back to the basics

QUICK FACT #1:

What our parents told us was true

At the height of the housing boom, many borrowers had to stretch to afford a house. In some cases agreeing to spend half their monthly earnings on their home and getting into the mortgage with 100% financing. We all know how that turned out. Now, reducing monthly payments to 31 percent is the goal that many financial advisors say is optimal and the amount that is being targeted in the new housing plan to help people who are in mortgage “trouble”. But is that a reasonable goal? And where did that number come from? Its roots may go back more than a century to company towns, where employers would collect a week’s wages for a month’s rent. In the 1920s, as homeownership became an option for more middle-class families, lenders adopted a similar standard: spend a quarter of a month’s income on housing. And during the New Deal, governmental housing agencies also adopted that as a reasonable amount to spend on a mortgage. Though the number has inched up through the years, that general rule of thumb has stuck. I remember my dad advising me early in my college years that my housing costs could not exceed 25% of my pay....thanks dad, I should have listened to you!

QUICK FACT #2:

The 28/36 Rule

Several financial planners agree that a figure around 30 percent is not a bad place to start. That usually leaves enough to pay for life’s many other costs. Given that the current economic crisis has turned a lot of financial assumptions on their head, it is probably wise to rethink how much of your income should go toward servicing the large debt that is truly homeownership. Several financial advisers recommend reverting to an old standard known as the **28/36 rule**. Using that rule, households should spend no more than 28 percent of their gross income on housing costs — including mortgage payments, property taxes and insurance — and less than 36 percent on all debt. The total includes obligations like car payments, student loans, credit cards and medical debt.

QUICK FACT #3:

Now is the right time to revisit some of the lessons our parents and grandparents learned long ago.

HOW MUCH CAN I AFFORD? Your housing budget depends on your situation and priorities. One exercise I remember from school involves simple math and planning. Write down all of your expenses. Break them down into expenses that are fixed (utilities, groceries, auto expenses, insurance, etc.) and variable (everything else). Now, look at the variable costs...what am I willing to give up that could be reallocated toward housing? Another exercise is to start by establishing savings goals, and then working backward. Set aside 10 to 15 percent of your salary, preferably in tax-deferred accounts, and then work with what’s left over for living expenses and housing costs.

DO THE MATH Before you start hitting open houses, sketch out a rough budget based on the 28 percent rule of thumb, using a simple mortgage calculator.

DOWN PAYMENT Currently, many consumers have no choice but to make a sizable down payment (unless you are going FHA). If you do not, or cannot, it will cost you dearly in the form of a higher interest rate or fees.

TAXES Consider the tax savings associated with buying a home, but do not use it as an excuse to buy more than you can afford. Property taxes and mortgage interest are generally tax-deductible, but only if you itemize your deductions. Itemizing makes sense when your individual deductions exceed the standard deduction, which is \$11,400 for married people filing jointly in 2009.

RESERVES Ideally, homeowners should have six months of net pay in the bank. But if you halve that figure and save three months of your take-home pay that generally translates into eight months of payments. That does not account for food and other necessities, but it does provide some cushion.

prepared and honor your responsibility to the lender, the neighbors and the community.

Don't buy more than you can afford – Live within your means, don't think you have to have your dream home today, grow towards it by buying right today.

Rule of Thumb: buy right going into your mortgage loan by choosing the best type of loan for your situation, purchasing a home priced right for your paycheck, and make a down payment.

Understand the market – know your options, understand your local market today so that you can make a better, more educated decision.

Use a Realtor for buying and selling real estate. They are trained professionals that are looking out for your best interest throughout the transaction.

For April we are looking at how MORTGAGE factors into buying real estate, and remembering the 28/36 Rule.

We are spreading the word that "Real Estate is GREAT! at CENTURY 21 Judge Fite Company". There is real estate to be bought and sold in the Dallas/Fort Worth Metroplex and we are doing it! Join us in spreading the word that real estate really is GREAT here in our market.

Each month we will deliver a new Real Estate 411 that will give you INFORMATION you need to know. REAL ESTATE 411 will deliver GOOD NEWS about what is happening here at CENTURY 21 Judge Fite Company and in our local real estate market....

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Real Estate 411 - TIPS

Understanding how a MORTGAGE FACTORS into homeownership.

The first step in buying a home is qualifying and applying for a mortgage. Understanding the mortgage process, the terms and options available, will help make the experience a better one.

QUICK TIP #1: 5 Ways that FHA loans can help you get the home you are looking for

FHA loans are government-backed loans that often have a much lower interest rate than a conventional (traditional) loan. Before you write off these loans as impossible options, keep in mind that millions of people are benefiting from them right now. In fact, FHA has increased its loan amount to upwards of \$250,000 in most areas.

#1: Lower Interest Rates: The main benefit of FHA loans is to provide individuals with a lower interest rate. If the FHA is backing your loan, you are less of a risk to the lender. Therefore, they agree to offer you a slightly lower interest rate. This translates into an interest rate that could save you thousands of dollars over the lifetime of that loan. That is money in your pocket.

#2: Better Qualifications: Many lenders have increased their standards in lending money. If you do not have a credit score over 700, then our best bet to getting a low interest rate home loan is with the FHA loans. You do not have to have as much down to qualify for these loans either (usually 3.5%)

#3: Help Getting Out of a High Interest Loan: Perhaps you have a high interest rate loan. You are paying much more than the current four to six percent loans that are available. FHA loans can help you to get a low rate even on refinances. Definitely, worth looking forward to since it will drastically cut the amount it costs to buy your home.

#4: You Need Help: There are a number of programs available through the FHA to help you to get out of a troublesome home loan. You can stop foreclosures and often stop your overall risk of losing your home by taking advantage of these programs. If you need this help, contact an FHA loan specialist today.

#5: You Are A First Time Home Buyer: For those who have yet to buy a home and are worried about doing so, FHA loans can help. These loans are highly affordable and they are ideal for the first time homebuyer unsure of what to do next.

FHA loans can help millions of people to get into the homes they want and need, or to protect them from losing their investment. Contact a professional today to learn if you qualify.

QUICK TIP #2: Choosing the best mortgage for you and your budget

Whether you're buying a house or refinancing your mortgage, this information can help you decide what type of mortgage is right for you. Some mortgages can be complicated. If you do not understand how they work, you should not sign any mortgage loan agreements until you do. Once you select the type of loan product you will apply for, carefully read any related product disclosures that you receive. If you need additional information, ask your mortgage loan representative for details about the products you are considering.

- Fixed-rate mortgages
- Adjustable-rate mortgages (ARMs)
- Fixed-rate interest-only mortgages
- Adjustable-rate interest-only mortgages

Building Equity. If you make interest-only payments, your payments are not building home equity. This may make it more difficult to refinance your mortgage or to obtain funds from selling or refinancing your home.

QUICK TIP #3: Be prepared and organized

Your mortgage experience will be less of a hassle the more prepared you are. Here is a quick and easy Mortgage Checklist and list of required documents to help you get organized before you start the mortgage process.

The following information is usually required during the loan process.

- Your Social Security number
- Current Pay stubs or if self employed, past two years of Tax returns
- Bank statements for past two months
- Investment account statements for past two months
- Life Insurance policy
- Retirement account statements for past two months
- Make/Model of vehicles you own along with their resale value
- Credit Card account information
- Auto Loan account information
- Personal Loan account information

If you currently own Real Estate:

- Mortgage Account information
- Home Equity Account information (if applicable)
- Home Insurance Policy information

Call or email us today
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estate professionals
get you started on
qualifying for your new
mortgage!

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