

First Time Buyer, Why Buy A Home?

The pro's and con's to owning a home!

This is a letter designed to help you decide whether or not to buy a home. It helps you consider the positives, as well as the negatives of buying a home for the first time. I hope this letter is as helpful to you as it has been to my other clients in the past. This is only one of a series of letters designed to help educate my clients who are buying their first home.

John and Jane Jones are thinking of buying a home. They've been renting an apartment since they were married five years ago. And now, with a baby on the way, they believe the time is right to start planning for the future.

But their minds aren't completely made up. After all, buying a home is a big step, maybe the biggest of their lives. Along with the rewards of being homeowners come tremendous responsibilities. Are they ready to take the plunge?

Sam Smith is also pondering the question. As a single man, Sam travels a lot on business. Owning a townhouse or a condominium could be a wise investment, but it would also tie him down. Is this the right move?

Betty Brown is a divorced mother of two young children. After finally getting her finances in order, she's considering moving out of her rental unit and into a single-family home. She's noticed two "For Sale" signs go up just down the block from her. With a lot of hard work and careful budgeting, Betty has been able to build a pretty healthy savings account. And now she wonders: Should she use the money for a down payment on a house?

Betty, Sam, John and Jane all would like to know: When is the right time to say good-bye to the landlord and buy a home?

It's a question that all prospective homebuyers should ask themselves before making the commitment. And unfortunately, no single answer fits all. Every situation is different, and every situation requires serious attention.

According to the National Association of Realtors, first-time homebuyers say the Number One reason for buying a home is that they're "tired of paying rent." Second on the list are the tax advantages that come with homeownership. And as the third reason, renters say they want a larger home to live in.

What enters people's minds most frequently is, when they're paying rent they're not making any kind of investment in their future. A lot of people also consider the fact that they can take a tax deduction on their mortgage interest as well as their real estate property taxes.

Indeed, from a financial point of view, owning a home appears to be a huge advantage. Why would anybody want to put money into the pockets of their landlord instead of into the equity of their own home?

Yet sometimes it seems that we don't have a choice, owning a home is the single most important thing in the world. Our parents, our neighbours, and our teachers; everybody has filled our heads with the idea since we were young: "Someday, you'll own a home of your own." But sometimes we have to ask ourselves: "Is owning a home the Canadian Dream or the Canadian Duty?"

Like anything else in life, making an informed decision calls for some sound and sensible planning. Buying a home can be an emotional experience. So before you go off ordering new carpeting or inspecting wallpaper samples, take a few minutes to consider some important facts about homeownership.

Why do people decide to buy a home?

Typically, it's the frustration of watching the monthly rent check go up in smoke that pushes renters into the home buying market. You can't get ahead paying rent, And beyond the agreement of a rental lease, there's no way to hold down rising rents. By contrast, mortgage payments generally remain stable from year to year.

Whether married or single, homeowners can gain tax incentives that renters do not. A sizable portion of your mortgage

interest and property tax may be deducted if you own a home. And the longer you own a home, the more equity you establish in your property. Essentially, owning a home becomes an investment, a valuable asset for future opportunities.

Another major motive among first-time buyers as well as repeat buyers is the need for more space, both inside and outside. Growing families need larger yards, a recreation room, more bedrooms or another bathroom, and generally, rental units are smaller and more confining.

Usually there are more homes for sale, than there are for rent, giving home buyers more options to choose from when searching for a place to live. With a greater selection of homes come a greater variety of home styles, sizes and features. By comparison, renters often feel they must make sacrifices and "take what they can get" when shopping for a place to live.

Homeownership is a universal symbol of financial integrity that can improve a person's credit rating.

Buying a home also brings a sense of security. For instance, people don't have to worry about a landlord selling the property or doubling the rent. Home ownership gives people more control. No more noisy neighbours in the apartment above, No more sharing garage space. As a homeowner, you can paint your living room hot pink, replace your kitchen sink with a lighted water fountain, install a hot tub in your master bedroom; whatever you want, without asking permission from your landlord. Your home is your own.

There's a certain satisfaction that ownership brings, a pride, that renters don't enjoy. Homeowners can take pleasure in the way they landscape their yard or decorate their family room. They can add an outside deck or remove that tacky orange shag rug without having to answer to anyone.

Along with pride of ownership comes a sense of prestige. Like owning a new car, owning a home gives you a feeling of accomplishment, of success, of having "made it." Fulfilling your dream boosts your self-worth and makes it a little easier to get up for work every morning.

What are the drawbacks of owning a home?

Condos, townhouses and similar "turn-key ownership" are relatively easy to maintain. But the unhandy owners of a detached single-family home might find themselves with their hands full soon after moving day. Maintaining a home inevitably involves repairs, some simple and some complicated. A certain measure of skill is needed for even the most routine projects, such as changing a furnace filter, replacing worn washers in a faucet, or unclogging a garbage disposal. And if you own a home with a yard, you can expect outside chores to last all year round, depending on the climate; from cutting the lawn and cleaning the gutters, to raking leaves and shovelling snow.

While the tax advantages of homeownership may be obvious to first-time buyers, the costs of maintaining a home are not as evident. In most cases, expenses for repairs and upkeep of a purchased home are much higher than that of a rental. And in some cases, the unexpected expenses can be overwhelming. Painting and wallpapering, adding new light fixtures, replacing old carpet, upgrading appliances, and on and on; all can be hidden costs to an unsuspecting first-timer. Added to these are the basic costs of ownership; from the fee for trash pick-up or the purchase of a garden hose, to the installation of a fence or an investment in a lawn mower.

Even with a lease, renters can change residences fairly easily. But uprooting yourself and your family when you're locked into a mortgage is not as simple. It's not like giving advance notice to your landlord. You can't walk away from a mortgage. It's a long-term commitment.

Any personal or family crisis (a divorce, a medical emergency) or change in lifestyle (a marriage, a job transfer) could force you to sell your home long before you had anticipated. And if and when you do, the market can dictate the purchase price and length of time to sell. Depending on location and region, you could be forced to accept an offer that's considerably lower than you had bargained for. Or, in a worst-case scenario, you could be unable to sell your home

altogether. For some people, the mobility of renting can be an advantage over owning a home.

Is owning a home, the right choice for everybody?

If after you purchase a home you decide you've made a mistake, it's a BIG mistake. So before you make the leap, think hard about where you'll land.

The time may not be right for everyone. The length of time that a person expects to live in a place might weigh in on a person's decision, for example. Also, there are some people who aren't ready to buy because their budget is not in order, but buying a home is a goal that most people would like to achieve.

For the vast majority of Canadians, the drawbacks of owning a home are easy to overlook when compared with the realities of renting. Remember that renters sacrifice a good share of their privacy and freedom. Think of all the restrictions that the typical renter faces: No laundry, no pets, no garden, no parking, and no storage.

One way to think of it is: Do you want to pay your own mortgage or someone else's? That's essentially what you're doing when you're renting. Buying a home is an emotional decision, filled with excitement and hope, but also fraught with worry and doubt. Keep your needs in mind. Arm yourself with enough information to make an educated choice. And ask advice; from Real Estate Agents, Bank Managers, family and friends.

As illustrated by our fictional characters, Betty, Sam, John and Jane, buying a home can be a life-changing experience. As soon-to-be parents John and Jane decided they were ready to build a future for their expanding family. Sam realized it was time to stop throwing his money away in the rental market. And Betty, after recouping from a divorce, is sure that she and her children will be happier in a home of their own.

Along with all the tangible changes, owning a home can turn you into a different person, a more complete individual. Homeownership establishes roots in a community. It gives you a greater stake in your neighbourhood. When you own a piece of property, it makes you more attentive; and appreciative; of what's going on around you.

Checklist: Weighing the fundamentals of buying a home.

There's no magic formula for deciding how to buy a home. People generally want to live in the nicest house, in the nicest area, and for the best price. But, figuring into that simple equation is a number of key factors. To avoid making a blunder as you take that first step as a homebuyer, ask yourself a few fundamental questions:

- Do I want to live in a city, suburban, or rural home?
- What size home do I need?
- Do I want to commute and if so, how far?
- How long will I live there? Does my career track fit the permanence of owning?
- Do I like the neighbourhood? What is the quality of the schools?
- What are the local amenities; shopping, restaurants, parks, churches, medical, freeway access, airport or train station?
- Are there other expenses that can be anticipated: increase in property taxes, new roof, new appliances?
- Does owning a home fit my lifestyle?

When you can realistically answer each of these questions, then you're ready to begin house hunting.

Credit Letter:

This letter is very important to understanding what goes in to determining interest rates. There are many factors, Please give us a call if you ever have any questions about this letter or any others.

Currently on all conforming loans, Conventional, or High ratio (CMHC), everybody receives the same rate regardless of their credit. Obviously to receive one of these loans your credit must be good, but some people have outstanding credit with no late payments and others may have one now and then. That means there is a higher risk giving a loan to someone whom has a late payment now and then.

WHAT IS A CREDIT SCORE? A credit score measures many, many bits of information. Most are closely guarded secrets held by the credit bureaus. A credit score measures the likelihood of default. It takes into account, how many open accounts you have, and how close you are to maxing out your credit cards/lines of credit, how many and how recent are the 30,60,90 day late payments, how many collections / judgments, and how you handle your available credit. The credit bureaus evaluate the data turn it into a number. These are just a few of the items that determine your credit score.

HOW DOES A CREDIT SCORE DETERMINE MY INTEREST RATE? There are other factors besides the credit score that will determine an interest rate. Such as the amount of down payment, the length of the loan, the debt to income ratio, and the type of loan (i.e. fixed rate, adjustable rate). Then combining all these factors with the current market rates will derive an interest rate.

WHAT PROBLEMS DO YOU HAVE WITH CREDIT SCORING? The problem is if you have derogatory items on your credit report and they are not yours. Two things happen when the bad credit is not yours, one your credit score is low and the other is trying to remove the erroneous information. Trying to remove derogatory credit items can be time consuming. The creditors have 30 days to respond to your request. Once it has been cleared it takes up to another 30 days to change your credit score. Many people don't have 60 plus days to find out whether they qualify for a loan.

For assistance in buying a home please contact:

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