



Season 1 Episode 8 – Homebuying: Buying Process

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Speaker 1

It's time for Alabama Money with Cynthia White and Portia Johnson. We'll have financial tips from financial experts from across the state and extension specialists at Auburn University.

Dr. Portia Johnson

Hello and welcome to Alabama Money, where we talk finance, facts, fun and fast. We are your hosts, Cynthia White and Portia Johnson.

Cynthia White

Today we will focus on how to know when you're ready to buy a home.

Dr. Portia Johnson

A lot of people want to purchase and own their own home at some point in their lives. The key is to have an idea of when you're actually ready to take the plunge and purchase that home. There are several things to consider,

like what does your credit score look like? How stable is your employment? Where do you want to live exactly? What is your income versus your debt? The forces. We'll talk about those a little later.

Cynthia White

So let's jump right in. Purchasing a home is indeed a major step. It is often the biggest purchase you will make in your life. You want to be sure that you are truly ready before taking that leap. Portia, what would be the first thing to consider in preparation for buying a home?

Dr. Portia Johnson

Let's start with checking financial capability. First, take a look at the ability to absorb the shock of financial aspects associated with the home. Those financial shocks might include expected things like utilities and bills and unexpected things like when the roof starts falling in, there will be some new bills and additional financial obligations.

Cynthia White

Some of those additional bills or obligations could include a water bill that may not have been your responsibility in a rental. Garbage bills, lawn maintenance, any other maintenance and repairs like, as you stated, the roof falling in plumbing issues. Those things come as those life happens in situations that aren't anticipated and don't come with rentals.

Dr. Portia Johnson

In life does happen. Financial capability also includes being able to handle those associated financial obligations and could still have financial freedom to enjoy your purchases, to enjoy your life, finances and expenses associated with the home. Shouldn't have a home owner so financially strapped that they cannot afford to do other things. There should be a level of comfort to enjoy your home. And enjoy your life. What about setting and meeting financial goals?

Cynthia White

Yes. Prior to making a home purchase, the buyer should consider their ability to track expenses and knowing exactly where their money is going. How to be intentional about those financial choices and being able to maintain overall money management.

Dr. Portia Johnson

Having control over your day to day spending is another important point. Managing your budget. Things like understanding your income and expenses. And making choices about how you spend your money and prioritizing is important. This means you need to understand how your choices will possibly alter your ability to handle the financial obligations in your home.

Cynthia White

Exactly. Then we want to make sure we look at the 4 C's. 4 C's are the capacity, collateral credit and capital.

Dr. Portia Johnson

Can you explain exactly what the forces are and why they're important?

Cynthia White

Well, the capital that's the amount of money that you have available to make that down payment. Then they look at the capacity. That's your ability to make that monthly mortgage payment as well as handle all of your other debt. So you want to make sure that your income and your debt are balancing out where you can maintain. Then they look at the credit history. You know how much you owe after you use credit. And do you actually pay your credit on your bills, on time? The collateral is also taken into consideration. Now, Portia, why would they consider the collateral?

Dr. Portia Johnson

So with the collateral. The bank wants to know the condition and the value. Will it take all of your money for repairs? And if they needed to take it to pay off the loan with its value, be higher than the loan.

Cynthia White

Then there is the credit report. It's always good to pull your credit report in advance. And it's also good to know that everyone is entitled to a free credit report from each of the three credit reporting agencies every 12 months. Now, pulling that credit report gives you an opportunity to look at exactly what's on that credit report and avoid having surprises. Once you get into the process, this is your chance to discover any discrepancies, any errors, and give you an opportunity to go in and dispute those areas and make the necessary corrections before

getting into that process. Now, let's think about the pros and cons of owning versus Rainie. How could that be a factor portion?

Dr. Portia Johnson

The pros and cons of owning a home versus renting is also a factor. Renters have more flexibility in their mobility. They can move a bit more easily than if they're tied to a mortgage. One concern is that there might be some higher expenses with owning a home. You'll have to be responsible for all those repairs and unexpected maintenance, but there is a tax benefit to being a homeowner. And lastly, a con to owning are all the restrictions to what you can and cannot do with the property. You might not be able to paint that wall the color you want. You may not be able to have that dog or cat you want. Or you might be restricted on the type of events or parties or fun things you can do.

Cynthia White

Now, this overall process for purchasing the home can be a little bit complicated. There are steps in the process that a potential buyers should understand in order to know exactly what to expect. First, prepare for that actual home ownership. Make sure that you are aligned with the forces. Collateral credit, capital and capacity. Then determine affordability Look at your income and debt and determine exactly how much house you can afford. This is based off of housing ratios that are established by the lender. Looking at your finances next, get pre-approved. This is not a guarantee and it is different from a pre-qualified location. Then you want to decide what you want in a home. Then the fun part of actually shopping for a home. Then you submit that offer.

Dr. Portia Johnson

Get a professional inspection, apply for a mortgage, obtain the insurance, and any other inspections you need. And then you do the fun part of closing on the home and getting the keys. Don't forget those inspections. Now, that's a lot to consider, but this will give you a pretty good idea of what you're about to commit to and the process that it takes to get there. Once you look at all the things, then you sit down and you determine for yourself if this is indeed the right time or the right choice for you.

Cynthia White

Now, some of this doesn't line up. This does not mean that purchasing a home is impossible. It means that maybe you have discovered an area that may need a little more attention. It's okay to take additional time to improve or correct those areas. Bottom line, this is a major purchase and commitment. It should never be taken lightly, considering the information that we just discussed were put you on the right track.

Dr. Portia Johnson

I'm Portia Johnson.

Cynthia White

And I'm Cynthia White.

Dr. Portia Johnson

And this is Alabama Money, where we talk finance, facts, fun and fast.

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This has been a production of Alabama Extension at Auburn University.