

How To: Finance Your New Home

How Much Do I Have to Save to Buy A Home?

The first thing to understand about buying a house is that you don't have to have all the cash saved up in order to make your purchase.

By John Adams

The good news is that there are lots of folks out there who are very interested in lending you as much as 95% of the purchase price of your home, at very favorable interest rates. Furthermore, they are willing to spread out the payments over a long period of time so that you can afford the house you want.

Just to cover the basics, let's elaborate on the points in the last paragraph:

If you have a steady job and a reasonable credit history, there is a good chance that you can find a home lender who will lend you most of the purchase price of your new house. Home loans are also called "mortgages," which comes from a Latin phrase meaning "pledge unto death." While lenders don't take your promise to pay quite that seriously, they DO expect to get repaid on time. Just to make sure you remember, lenders take an ownership interest in your house until the loan is paid in full.

Home loans typically are offered in amounts of 80%, 90% - 95% of the price you are paying for the house. You are expected to pay the remaining amount in cash from your own savings. As you might imagine, the lower percentage loans are somewhat easier to qualify for.

The reason the lender is willing to lend you up to 95% of the value of your house is that history has shown real estate to be such an excellent investment. Lenders expect that your home will be worth more in the future than it is today - so their investment in your home is considered safe.

That's also why the interest rate you can obtain on a home loan is one of the best around. Consider that America's largest and strongest corporations borrow at what is called the "prime rate," and that today you can borrow a home loan - fixed at the same rate for many years - at substantially less than the prime rate. Lenders have found that home loans tend to be excellent investments, and you benefit every month when you make your loan payment.

Finally, home loans are available to be repaid over terms of usually 15 or 30 years. The shorter term loan offers a slightly lowered interest rate, so if you can afford the higher monthly payments, you'll save in interest costs by choosing the 15 year loan. At today's interest rates, a 15 year loan costs about 27% more than a 30 year loan in terms of your monthly payment. But the amazing thing is that lenders are even

willing to offer a fixed rate loan for that time period. It's better financing than you can get on just about any other investment.

Ask for advice. Successful REALTORS® are happy to help you find the right financing for your new home. Consult your REALTOR® about financing strategies.