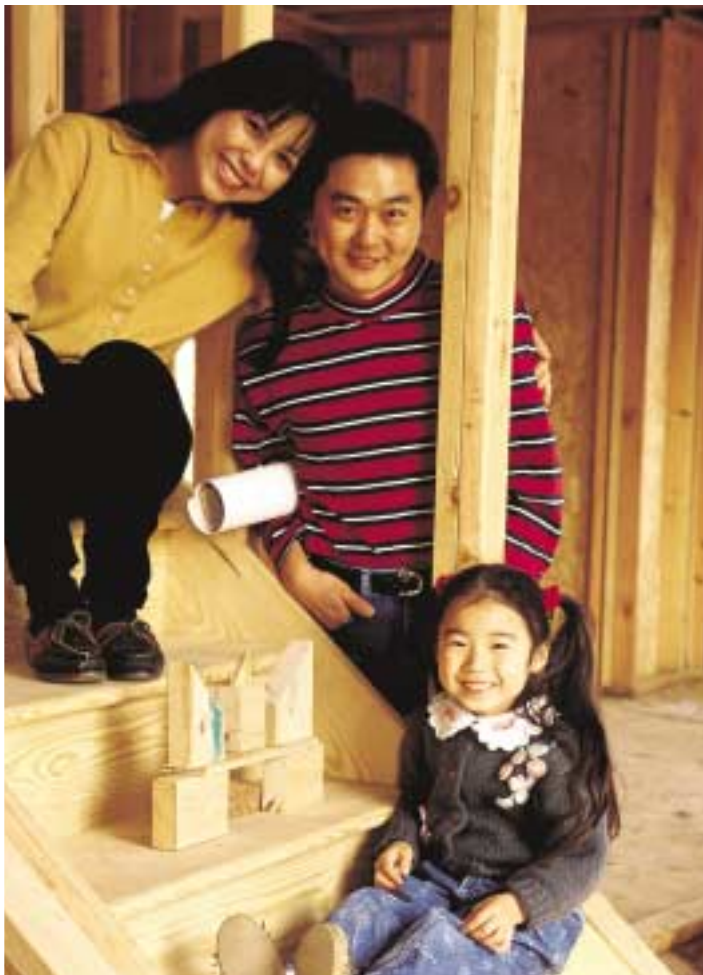


Fundamentals of PERSONAL FINANCE



Making
informed
financial
choices

Your
Path to
Home
Ownership



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Your Path to Home Ownership



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All About Mortgages

Buying a home is an anxiety-producing process. It's also one of life's great adventures. The better prepared you are at the outset, the more fun and the less frustration you'll encounter along the way to becoming a homeowner.



Use this booklet to guide you through the maze of questions and procedures involved in buying a home. The information on these pages will help you determine whether you should buy, what to buy, how to be a smart buyer, and more.

*It takes time to recoup the costs
of buying and owning a home.*



A booklet such as this covers the basics of home buying. More questions will crop up as you move through the process. But the good news is you can count on the staff at your credit union to provide you with more information. They can provide advice particularly suited to you and your individual financial circumstances.

But first, educate yourself about the general steps involved in buying a home. Learn as much as you can about what lies ahead. Then you'll know the right questions to ask later, and you'll feel more at ease throughout the home-buying process. By reading this booklet, you'll be off to a good start in your journey toward becoming a homeowner.

Should You Buy or Rent?



When asking yourself the above question, place the emphasis on the second word. Both renting and buying have pluses and minuses. In the end, it comes down to what makes the most sense for

you.

Of course, to be a candidate for home buying, you need adequate income and savings, and your credit history must be in good shape. We'll get into this in more detail later in the "Can You Afford to Buy?" section.

Another issue on the financial side is that home ownership allows you to build equity, or the financial stake you have in your home. Equity grows as your home's value increases due to market changes and as you pay down the mortgage. Making home improvements further boosts your equity. As a homeowner, you'll have something to show for your money. Renters, on the other hand, end up with nothing

but a fistful of canceled rent checks.

But to answer the rent-vs.-buy question, you must weigh many other factors, both financial and personal, such as:

- **What are your plans for the near future?** If you intend to stay put for the next few years, you might think about buying a house. On the other hand, if you're expecting a job transfer or you think you'll want to move to a new city in a couple of years, you'd be better off renting for now. That's because it takes time to recoup the costs of buying and owning a home. Beyond your down payment, you also pay mortgage application fees, closing costs, and other upfront expenses. Plus you'll face upkeep and repair costs. And you'll need to pay a real-estate agent a commission to sell your home, unless you want to take on the job of selling it yourself. To recover these expenses when you sell, you need to have been in your home long

Home Ownership and Tax Breaks



ay you're paying \$10,000 a year in mortgage interest and property taxes, which are tax deductible, and that you're in a 28% tax bracket. You might assume you're saving \$2,800 in income taxes. Not really, because you would have gotten a standard deduction anyway, homeowner or not.

When you itemize deductions, which you have to do to deduct for mortgage interest and property taxes, you forego the standard deduction. In 2002, the standard deduction for a married cou-

ple filing jointly was \$7,850. That translates into a \$2,198 tax break if you're in the 28% tax bracket ($0.28 \times \$7,850$). Thus, as a homeowner, you come out \$602 ahead in taxes ($\$2,800 - \$2,198$), not \$2,800.

In other words, you gain tax benefits from home ownership only if your itemized deductions total higher than the standard deduction you would have gotten anyway. But even if you don't get tax advantages, you still might want to buy a house. Many reasons drive your decision, not tax breaks alone.