 “The Nuts & Bolts of Real Estate!”

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Housing Affordability.

Congress, state legislatures, and local governments have been working to increase the affordability of housing for all people. In the year 2000, it was estimated that 67.5% of all households in the United States were homeowners. Not everyone wants to own a home, but for those who do, how can someone afford one?

One of the first steps when someone wants to buy a property is to determine how much they can afford in a house payment. Once that is determined the next question is where would that house be located. Sure, once you determine that you can afford a $100,000 for a home (for an example) then you determine in what neighborhood(s) would a $100,000 home be located.

In the event you determine that you can afford more of less than that, it also determines where you would live. Each person chooses where he or she will live, but it is determined by what they can afford. Housing affordability is more than just being able to make the house payment. Housing affordability dictates where people live.

What factors are involved in determining how much of a house payment one can make? The first thing to look at is the interest rate. Lets assume that you can get a 6.5% interest rate on a loan of $95,000. Your Principal and Interest payment (not including taxes, insurance, or any mortgage insurance premium) would be about $597. If you had a 7.5% interest rate, your payment goes up another $63 to $660 a month. If you secured a 8.5% interest rate, your payment would be $725- a full $128 more a month that the 6.5% interest rate! What does this mean? If interest rates go up you can AFFORD less of a house because you can make LESS of a payment on the property.

When interest rates decrease people can “afford” more of a house. When interest rates increase people “afford” less of a house.

The interest rate that one can receive can change based on the credit that a person has. If you have poor credit you are considered to be more of a risk to the lender who has the money to lend, and thus they charge you a higher interest rate. When you are charged a higher interest rate, you can “afford” less of a house. Individuals with very good credit can receive the best possible interest rates on loans and therefore can “afford” more of a house.

Ones credit can be affected by how much potential debt one may have, by the payment history one has made, and even if the individual has been extended credit in the past. Taking a look to see what your credit looks like can be very beneficial. If you are contemplating purchasing a home, you might want to find out what your credit looks like before you begin to make the purchase. Most lenders are willing to take a look at your credit for you and then explain to you any problems they might see and ways to correct it.

Lets say that there is a problem on your credit report. Some items can be corrected with a letter of explination, but others require you to wait for some time to pass to establish a longer “track record” of your good payment history.

There are lots of benefits to home ownership, next time lets discuss them.

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