

real estate report



YOUR GUIDE TO BUYING REAL ESTATE

Which Is Better? More Down or Less

Although many experts will say it's wise for income earning folks to have a large mortgage because of the low rates and tax deduction, it's not right for everyone. Here are some things to think about:

Mortgage Insurance

Mortgage insurance (MI) is a monthly fee that the borrower pays if the first trust loan exceeds 80 percent of the purchase price. Since a lower down payment results in a statistically higher risk to the lender, MI insures a portion of the loan to reduce the risk to the lender. Thanks to creative lenders, however, a borrower can still put as little as no money down and avoid MI by taking out two loans. Ask your loan officer about loan packages with no MI, sometimes called "piggy-back" financing.

Monthly Payment "Comfort Level"

This is a very important issue. If you have good credit and income, most lenders will qualify you for a larger loan amount than you would want. The first thing you should do is assess your personal spending and saving habits and try to come up with the maximum mortgage payment that would fit into your budget.

Taxes

Understand the benefits of mortgage interest and real estate tax deduction. Since you will own the home, you will be able to deduct all the

interest and taxes you pay on the home. Consult a tax expert on these issues, but it's important to get an idea of how much of a tax break you will receive if you own the home. This will help you decide your mortgage amount.

Opportunity Costs

Analyze the "opportunity cost" of a large down payment. In other words, if you put down 20 percent, or \$44,000, what are you giving up? Is the \$44,000 earning a good rate of return? Do you have to sell securities and pay capital gains taxes to liquidate the money? Get an idea of how much it will cost you to put down \$44,000.

Other Debts

Take into consideration other debt you may have. For example, if you are carrying substantial credit card debt, it would probably be better to pay the cards off instead of putting down a large down payment.

Consideration of these factors will start you in the right direction of determining what mortgage balance you should carry.



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