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**Action**

colorado state university extension service

# How to buy a house— finding one you can afford

Betty Jo White 1/

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This Service in Action sheet can be used in conjunction with SA sheet 9.909, *How to buy a house—what can I afford?* This sheet has three columns so that housing alternatives can be worked out and compared. Complete an entire column for each house that is under serious consideration for purchase.

The details may seem time-consuming; however, the exercise is designed to help avoid buying "too much" house, yet help buy as much as the family can afford. This objective financial comparison may be as important as judging a house to see which best meets the family's needs and wants. (See Service in Action sheet 9.907.)

## Downpayment, Settlement and Move-in Costs

	House #1	House #2	House #3
1. House price (enter not just the asking/listed price, but the probable contract/sale price, assuming that the house will appraise at or above sale price):	\$ _____	\$ _____	\$ _____
2. Minimum downpayment required is _____ % or	\$ _____	\$ _____	\$ _____
3. What furniture (equipment items) are included in the house price and at what total value?			
Kitchen appliances	_____	_____	_____
Laundry appliances	_____	_____	_____
Window treatments	_____	_____	_____
Other _____	_____	_____	_____
Total value:	\$ _____	\$ _____	\$ _____
4. Estimated settlement costs (The real estate agent and/or mortgage loan officer can give these estimates. Not all items will be a part of every house sale transaction.)			
Title search/examination	\$ _____	\$ _____	\$ _____
Abstracting or title insurance premium	_____	_____	_____
Attorney's fees	_____	_____	_____
Preparation of documents	_____	_____	_____
Recording fees	_____	_____	_____
Documentary fee/transfer tax	_____	_____	_____
Notary fee	_____	_____	_____
Certificate of taxes due or paid	_____	_____	_____
Costs related to mortgage loan:			
Property survey	_____	_____	_____
Appraisal fee	_____	_____	_____
Credit report	_____	_____	_____
Loan service or origination fee	_____	_____	_____
Loan assumption fee	_____	_____	_____
Private mortgage insurance premium	_____	_____	_____
Realty tax service	_____	_____	_____
Escrow fees:			
Tax reserve	_____	_____	_____
Insurance reserve	_____	_____	_____
Prepaid interest (date of closing to first payment)	_____	_____	_____
Proration or adjustment of prepaid items: (+ or -)	_____	_____	_____
Property taxes	_____	_____	_____
Homeowners' insurance	_____	_____	_____
Utilities	_____	_____	_____
TOTAL ESTIMATED SETTLEMENT/CLOSING COSTS:	\$ _____	\$ _____	\$ _____

1/ Betty Jo White, CSU assistant professor, housing (9/1/76)

5. Estimated expenses necessary before or during move-in:

A. Outright additional furnishing/equipment purchases—list only those for which cash will be paid or the amount of downpayment to be made if buying these on installment contracts \_\_\_\_\_

House #1	House #2	House #3
\$ _____	\$ _____	\$ _____
_____	_____	_____
_____	_____	_____
_____	_____	_____

B. Utility deposit/connections/tap fees, etc.

Cable TV \_\_\_\_\_

Electricity \_\_\_\_\_

Gas \_\_\_\_\_

Telephone \_\_\_\_\_

Others—list \_\_\_\_\_

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

C. Moving costs (professional mover or self) \_\_\_\_\_

D. Repairs/decorating/adjustments that must be made prior to move-in—list \_\_\_\_\_

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

E. Initial homeowners' association fee, shares in utility districts, etc. \_\_\_\_\_

F. Other pre-move-in costs anticipated \_\_\_\_\_

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

TOTAL ESTIMATED MOVE-IN EXPENSES:

\$ _____	\$ _____	\$ _____
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6. The total initial costs before occupancy—add minimum downpayment (#2), estimated settlement costs (#4), and estimated move-in expenses (#5):

\$ _____	\$ _____	\$ _____
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7. Compare the total cash outlay before occupancy to the total financial reserves available (computed in SA sheet 9.909). Can the minimum downpayment, or perhaps even more be made? Will it be necessary to borrow to pay initial costs?

Downpayment affordable \_\_\_\_\_

Mortgage loan amount \_\_\_\_\_

Amount necessary to borrow for initial costs \_\_\_\_\_

\$ _____	\$ _____	\$ _____
\$ _____	\$ _____	\$ _____
\$ _____	\$ _____	\$ _____

## Total Monthly Housing Costs

1. Estimate the monthly mortgage (PITI) payment based on a loan amount of \$ \_\_\_\_\_, a loan repayment term of \_\_\_\_\_ years, and an interest rate of \_\_\_\_\_% (as quoted by either the real estate agent and/or mortgage loan officer); the monthly payment will be:

Principal and interest \_\_\_\_\_

Property taxes (1/12 of annual tax) \_\_\_\_\_

Homeowners' insurance (1/12 of annual premium) \_\_\_\_\_

TOTAL MONTHLY PITI PAYMENT: \_\_\_\_\_

\$ _____	\$ _____	\$ _____
_____	_____	_____
\$ _____	\$ _____	\$ _____

2. Estimate the additional monthly expenses associated with this house. Sources for this information will include the real estate agent, mortgage loan officer, utility companies, moving companies, insurance agents, municipal government offices, furniture and equipment dealers, local (remodeling) contractors, and the former owner. The latter's expenses may not prove to be the same as those of the new owner, however, due to differing lifestyles.

A. Average monthly utility costs

Heating/air conditioning \_\_\_\_\_

Electricity \_\_\_\_\_

Water/sewer \_\_\_\_\_

Telephone basic rate \_\_\_\_\_

Other \_\_\_\_\_

\$ _____	\$ _____	\$ _____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

B. Average monthly house service costs

Cable TV \_\_\_\_\_

Trash removal \_\_\_\_\_

Yard care \_\_\_\_\_

Other \_\_\_\_\_

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

C. Estimated monthly installment payments on furnishings and equipment

_____	\$ _____	\$ _____	\$ _____
_____	_____	_____	_____
_____	_____	_____	_____

D. Estimated monthly repair/maintenance costs and reserves (allow at least 1% of sale price per year, plus include home improvement loan repayment if major repairs/improvements are to be financed within the first few years)

_____	_____	_____
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E. Housing-caused increases in monthly expenses

Transportation (second car, gas)  
Maintenance equipment  
Water softener  
Homeowners' association fees  
Other \_\_\_\_\_

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

F. Monthly (re)payment on loan for initial costs

TOTAL ESTIMATED ADDITIONAL MONTHLY HOUSING EXPENSE:

_____	\$ _____	\$ _____	\$ _____
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3. The total monthly housing cost—add total monthly PITI payment (#1) and total additional monthly expenses (#2):

_____	\$ _____	\$ _____	\$ _____
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Compare this amount to your present total monthly housing costs and/or 25% of the family's net monthly income. How much higher or lower is it?

_____	\$ _____	\$ _____	\$ _____
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### The "Bottom Line"

You now have an objective estimate of both the pre-occupancy and monthly occupancy costs for the homes you have evaluated. If the picture is bleak, not only in terms of adequate cash reserves to pay all initial costs, but also in terms of total monthly net income to pay total monthly housing costs, you will want to (re)consider some of the following alternatives or devise others:

- \_\_\_\_\_ Find a less expensive house.
  - \_\_\_\_\_ Lower price due to different location, smaller size, or age or condition.
  - \_\_\_\_\_ Lower initial costs (shop for lower closing costs, reconsider what must be done before move-in, etc.).
- \_\_\_\_\_ Assume an owner's existing mortgage loan carrying a lower than currently available interest rate, gaining some savings in closing costs, plus a lower monthly payment, if you can meet the downpayment requirements for such a loan.
- \_\_\_\_\_ Reduce monthly *nonhousing* costs if possible.
- \_\_\_\_\_ Increase net monthly income if possible.
- \_\_\_\_\_ Wait to buy a house until you are financially ready.
- \_\_\_\_\_ Other: \_\_\_\_\_

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