

## MONEY MATTERS

## Homeownership: The American Dream

By Karen Williams

For many Americans, homeownership is the American dream. If owning your own home is your dream too, it can become a reality.

Preparing for homeownership requires setting realistic goals, obtaining sound advice, careful planning, and a clear understanding of the costs involved.

To help you set realistic goals to achieve your home, there are a few questions you should consider:

**1. Are you sure you want to buy a house?** Buying a house can put considerable strain on a family finances. Usually, at least for the first several years, you can expect to pay more for housing as a home buyer than you did as a renter.

Even if your mortgage payments are less than you

paid previously in rent, you must also pay property taxes, homeowners insurance, utilities, and upkeep expenses.

**2. Do you anticipate remaining in the same geographical location for the next couple of years?** Home owners also have less mobility than renters. A home buyer cannot move after simply giving the required notice to the landlord.

If you expect to be transferred to a new job location within the next year or two, this might not be the ideal time to buy a house.

**3. Do you have steady income and stable employment?** If you are employed, your last two years W-2 forms will be needed to help verify your income. If you are self-employed or if your income is based on commissions, you will need to provide two years tax returns.

**4. Have you created a budget so you know how much more you can realistically afford to pay for housing?**

**5. Do you have an established credit record or can you build a nontraditional credit history with records of payments to previous landlords and utility companies? If so, is your credit profile favorable?** Will your credit record show that you have a conservative attitude toward the use of credit?

Lenders are required to obtain a satisfactory two year credit history for all borrowers. If the borrower has had previous credit problems, he/she must provide a detailed letter of explanation for the delinquent payments.

Don't be alarmed by the request for an explanation, just respond with a truthful statement about the circumstances that may have caused the late payments.

**6. Do you have enough money saved up for a down payment and closing costs? If not, can you enlist the aid of relatives or government or nonprofit agencies that might give or loan you money?** It is possible to buy a home with 3 percent down instead of the 5 percent down usually required by lenders.

**7. Have you been "prequalified" by a lender so you know how much you**

**can borrow based on your income and existing debt?** Lenders use two qualifying guidelines to determine what size mortgage you are eligible for. They are as follows:

A. Your monthly housing costs (including mortgage payments, property taxes, insurance) should total no more than 28 percent of your monthly gross (before-tax) income.

B. Your monthly housing costs plus other "long-term" debts should total no more than 36 percent of your monthly gross income.

Example:

•Housing cost = \$800/mo.  
•Debts = \$300/mo.  
•Total debt = \$1100/mo. (divided by \$3200) gross  
•Income = 34 percent, within the 36 percent debt ratio range.

**8. Is your existing debt low enough that it will not limit your ability to qualify for a mortgage? If not, can you pay down your debt before you attempt to buy a house?** If your actual debt exceeds the "36 percent" qualifying debt ratio test, then the amount of mortgage you will qualify for will be reduced.

Example:

| *G.A.I.  | *S.A.D. |
|----------|---------|
| \$20,000 | \$133   |
| \$25,000 | \$167   |
| \$30,000 | \$200   |

\*(G.A.I. stands for Gross Annual Income and S.A.D.

stands for Suggested Allowable Debt.)

**9. Have you looked into the benefits and requirements of the numerous financing options that are now available to low —and moderate —income home buyers?** Adjustable-rate mortgage (ARM) whose interest rate changes over time based on an index.

Convertible ARM is an adjustable - rate mortgage that can be converted to a fixed - rate mortgage under specified conditions.

Fixed-rate mortgage is a mortgage in which the interest rate does not change during the entire term of the loan.

FHA loan is a mortgage that is insured by the Federal Housing Administration. VA is a mortgage that is guaranteed by the Veterans Administration. Conventional mortgage is any mortgage that is not insured or guaranteed by the federal government.

If you can answer yes to all of these questions, you may be well on your way to owning your own home! Owning your own home involves both advantages and responsibility. That is why it is important to take a realistic look at whether homeownership is right for you.

Karen Williams is a Loan Officer at Puget Sound Mortgage & Escrow, Inc. in Poulsbo. If you have questions, you can contact her at 479-2661.

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## GARDENING

## Winter Planting of Trees and Shrubs

By Chris Smith

Have you been thinking about putting in some new fruit trees or transplanting a shrub to a better location? Now is a good time for these jobs.

We can expect about four months of cool, wet weather. While humans might not appreciate such weather, transplanted trees and shrubs thrive in it. With top growth slow or dormant, plant energy is directed toward root growth.

The roots of most trees and shrubs will grow whenever temperatures reach 40 degrees and above, which is most of the winter and early spring. By summer the, winter-planted trees and shrubs should have developed healthy root systems.

Where you plant it makes a big difference in how well a tree or shrub will do. If possible, choose a planting site with good drainage. Root rots and other diseases plague trees and shrubs with "wet feet." If all you have is poorly drained soil, build large mounds of good soil and plant in them.

You can head off many problems by inspecting the root systems of woody plants before setting them out. If you buy a bare root tree or shrub, look for one with an extensive network of small roots.

If you buy a balled and burlapped plant, open the package. That's the only way you can get an idea of the extensiveness of the root system and check for "J" shaped and encircling roots,

which you don't want.

You should make a similar check of the roots of contained grown plants. Most nursery workers are willing to pull a plant from its container for your inspection or guarantee a replacement if you go home with a problem.

Once you're ready to plant, increase your odds for success by following three steps. First dig a hole big enough to accommodate the roots of your tree or shrub. You shouldn't have to bend the roots to make the plant fit.

Next set the plant in the hole and spread its roots evenly. Some gardeners find it easier to set plants when they make a small cone of soil in the hole over which to spread the roots.

Finally, back fill with the same soil you dug from the hole. Filling the hole with compost, peat moss or manure can cause problems. Such materials tend to collect and hold water and they can discourage roots from growing into the native soil. Typically you wind up with a diseased or poorly anchored plant.

When it comes to planting trees and shrubs, don't write off winter. A proper job of it then will give you the best chances of success.

Chris Smith is a Washington State University Cooperative Education Agent stationed in Port Orchard. If you have yard or gardening questions, you can call Cooperative Extension at 876-7157 for help.