Home Financing Knowledge Essential To Modern Buyer

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The purchase or construction of a home is likely to be the largest single financial transaction most of us will ever make. Typically, we will spend an amount equal to four or five times our annual income, including taxes, and enter into a state of indebtedness for a period of twenty or thirty years, sometimes longer. Without proper knowledge of home financing procedures, it is the easiest thing in the world for the unwary buyer to enter into a deal which will overtax his resources and energies for a large part of his working life — and needlessly so.

Absolutely the first step in planning to buy or build a new home is to determine how much you can afford to spend. This decision should be based upon your present and anticipated assets, income and expenses. Many economists recommend that the purchase (or construction) price not exceed 2 1/2 times your annual income. Thus, a family earning $10,000 per year could purchase a $25,000 house.

Another guideline frequently recommended is to limit your monthly mortgage payments to one-fifth of your gross monthly income. Thus, a family earning $333 per month ($10,000 per year) could afford monthly payments of $66 which would pay for a $35,000, 30-year mortgage at seven per cent.

Crucial Stage
This is the crucial stage of the game, as it is all too easy to convince yourself that you can pay more than you really can. Remember, 30 years is a very long time. Once you have decided upon an amount you can spend, you may obtain an idea of the size of home this amount will buy from your architect, realtor, home builder or mortgage company.

Currently, houses in Lafayette of acceptable standards construction, cost from approximately $10.00 per square foot for a builder house with very plain materials and all stock details, to as much as $20.00 or $30.00 per square foot and more, depending upon the number of custom design features and the quality of materials, construction and appointments. The day of the $10.00 per-square-foot house is over with a very few exceptions.

At this point, it would be well to point out that all mortgage loans are based on the lender's appraisal of the value of the house and lot. It is not based on the asking price, or on your own opinion of the value. This is a most important point, because the two figures are almost always the same. You, the owner, must make up the difference.

The three most common types of home loans are Conventional (there are several types of "conventional" loans, FHA and VA. FHA and VA loans are insured against loss, to a varying extent, by the Federal Government. The interest rates of FHA and VA loans are lower than those charged by conventional loans, and the amount loaned (as a percentage of appraised value) will be higher.

Interest Rate
The current interest rate for conventional home loans in La-