

KIPLINGER'S
FAMILY BUY-
ING GUIDE

How to Buy a House

(This is the third of a special series of articles based on the new book, "Kiplinger's Family Buying Guide," by the staff of "Changing Times." Copyright 1959 by the Kiplinger Washington Editors, Inc. Published by Prentice-Hall, Inc., Englewood Cliffs, N.J. Watch for another article in this series in an early issue of Family Weekly.)



BUYING A HOUSE? Then you should know the answers to perplexing questions that are sure to pop up. If you don't, you'll wind up frustrated and bewildered—and worse yet, in debt over your head.

First, you must answer: "How much can I afford?" Then, you must decide: "How should I shop for my house?"—size, neighborhood, style, etc. And finally, when you've found your dream house and decided you can manage it on your budget: "How do I pay for it?"

The common rules of thumb such as, "pay no more than two-and-a-half times your annual income" and, "spend up to one week's pay a month" often won't work when you're trying to calculate how much house you can afford. They neglect such important factors as family size, income stability and savings.

If you have an expanding family, for instance, you'll need a larger house than a couple with no children. And if your children are nearing college age, you don't want to tie up so much future income in home payments that you can't afford to educate them.

Your true buying capacity depends upon your future income, not what you're earning when you're shopping for the house. If you're retiring in five years, for example, you'd be foolish to buy a house costing two-and-a-half times your present income. But if you're a young man with definite prospects, it's sensible to bet on a rising income.

Savings—available cash—can change your house-buying picture, too. If you can make a large down payment, you can buy a better house than your neighbor with the same income, but no savings. In fact, you should be able to buy a better house and still pay less per month than he does.

One of the most accurate methods for determining how much of your income is available for a house is to reduce your nonhousing expenses to a monthly average and subtract this figure from your monthly income (after payroll deductions).

Here are nonhousing items which you should include in estimates (calculate your annual outlay for each item and divide by 12 to arrive at an average monthly figure): food and clothing, utilities and fuel, life insurance and savings, recreation (including vacation), installment payments, transportation (includ-

ing car expenses), gifts, contributions and charities, taxes not withheld from pay and miscellaneous expenses.

You can see that your house-buying ability, then, is determined by two factors:

- Cash available for down payment.
- The amount you can borrow through a mortgage loan.

The accompanying chart, based on FHA data, shows how the cost of operating and maintaining a house adds to your total housing expense.

NOW THAT you know how much you can afford, it's time to think of finding the house you want for that money. That means an organized house-hunt.

There are several ways to learn what's available. Be sure to shop the newspaper ads—Saturday and Sunday are ordinarily the heaviest ad days. Then, visit real-estate agents, ask your friends and, finally, keep your eyes open for "For Sale" notices.

When you set out to follow up your leads, keep in mind that you're looking for a house of a certain minimum size and that you won't compromise, that you won't settle for an inferior location and that the price has to be right. For a bottom figure, say you won't look at anything selling for less than one-and-a-half times your income.

If you make \$6,000, that means you'll begin looking at houses priced at \$9,000, knowing you can easily afford that. For a top figure, say that you'll stop looking at houses with a price tag larger than three times your income, or \$18,000, in our hypothetical case.

You should have tools when you're house-shopping. Get a street map before you step into the car. Locate each house you plan to inspect during the day and mark its location with a number. Use the same map all the time and you'll have a permanent record of all the houses you have seen—an invaluable document when you're backtracking.

And don't forget a tape measure (a 50-footer is usually best). If the builder doesn't supply a floor plan, you can make your own. Take the outside dimensions and those of the principal rooms. When you get home, transfer them to graph paper with 1/8-inch squares,

allowing two squares to represent a foot.

A camera will come in handy. Snap a picture of each house and make it a part of your record of that particular house. And always bring a flashlight. There are dark nooks and crannies in every house that certainly bear investigation.

Once you've found the house you want, the next problem is to pay for it. Unless yours is an unusual case, you'll have to borrow part of the purchase price, which means raising a mortgage. Actually, a mortgage is just a loan contract. The agreement sets forth the rate of interest and the amount you pay back at certain prescribed intervals. There are six main sources of mortgage loans—savings and loan associations, insurance companies, commercial banks, mutual savings banks, mortgage firms and individual mortgagees (you're the mortgagor).

Almost all of these are limited in how much they can allow you to borrow and how long you can take to pay it back. National banks, for instance, can lend up to 66 2/3 percent of the appraised value of the house, for 20 years. Loan-to-value ratios for state commercial banks vary from 50 percent to 80 percent, maximum terms running all the way from 6 months to 20 years. Twenty-one states have no legal limits in either respect. Federally chartered savings and loan associations can lend up to 80 percent of value for as long as 25 years.

With FHA and Veterans Administration loans, which add Government support to security (your personal credit and the house itself), lenders can safely lend much more. A VA loan may go all the way up to 100 percent of the purchase price, for as long as 30 years. FHA loans sometimes run for 25 years.

THE COST of loans varies, too. Interest rates on FHA and VA loans are controlled and can't exceed a legal limit, but the rate for "conventionals," as the other loans are often called, fluctuates with the market and varies with the lender. It tends to be higher than Government-backed loans.

Often lenders won't make FHA or VA loans, despite their small risk. When they can make safe loans at, say, 5 percent, they're disin-