REAL ESTATE *NEWS*

Build up a nest egg for after-purchase expenses

By Doug Funke
staff writer

This is a continuing series of buying and selling real estate.

You decide that you want to live the great American dream of home ownership. Before embarking on the quest, know that there's more to buying than coming up with the monthly payment.

Deposit money, down payment, mortgage application fees, points, and closing costs including the escrow account can quickly add up to a mind-boggling sum.

An example.

Louise and Chris find a starter home in Livonia. They make an offer of $70,000 and include a check for $2,100 as earnest money to show the seller they're serious about the bid.

The seller accepts, so Chris and Louise apply for a mortgage. Application and processing fees vary among institutions. First Federal of Michigan, for instance, charges a non-refundable application fee of $250 and a reservation/commitment fee of $300 when ownership transfers at closing.

The couple wins approval for a 30-year fixed mortgage at 9/5 percent with a cash down payment of 20 percent. The down payment in this case is $14,000, which includes the earnest money.

MANY MORTGAGES today come with points, essentially lending fees, payable at closing. A point equals one percent of the mortgage. First Federal of Michigan charges 2 points on the mortgage terms selected by Louise and Chris. That amounts to $1,120.

Because the couple is making a down payment of less than 30 percent, First Federal of Michigan requires an escrow account at closing to ensure payment of property taxes and homeowners insurance.

Thirteen months of taxes for a house worth $70,000 in the Livonia school district is $2,091. Add another $300 for a homeowners policy to round out the escrow account.

So here's what Chris and Louise will pay in a few short weeks from the time they make an offer through closing:

- Earnest money when extending purchase offer — $2,100.
- Application fee for mortgage — $250.
- Balance of down payment for mortgage — $11,900.
- Points with mortgage — $1,120.
- Escrow account — $2,391.
- Loan reservation commitment fee — $300.

That's a shade more than $18,000 and doesn't include extras like a home inspection, strongly advised for buyers. Figure on a couple of hundred dollars for that.

Exact application/closing fees will vary and points can be avoided for a higher mortgage rate. But now you get an idea of what you need up front to buy a house.

But that's still not all.

YOU HAVE utility connection fees. Michigan Bell charges $42 — payable in advance if you've never been a customer. Detroit Edison requires an advance deposit of $25 to $100 if you've never done business with it or another electric or gas utility.

To save everyone a lot of time and disappointment, know what you can afford and have the cash to nail down a deal.

"Some know, others kind of learn it from a Realtor, some don't know," said Al Marshall, vice president and manager for business development at First Federal of Michigan.

Many financial institutions will pre-qualify buyers before they start their housing search and even guarantee a mortgage rate for a few weeks — all at no charge.

"The amount of housing dollars shouldn't exceed 28 percent of gross monthly income," Marshall said. That includes principal, interest, taxes and insurance.

ALL INDEBTEDNESS including mortgage, car payments and credit charges shouldn't exceed 36 percent of monthly income, he added.

Another general rule of thumb according to Marshall — buyers should zero in on houses which don't exceed 2¼ times annual household income.

That means Louise and Chris should have household income of at least $31,100 to buy a $70,000 house.

The biggest mistake most first-time buyers make is getting too much advice from well-meaning friends, relatives and co-workers, said Bob Ogg, an agent with The Prudential Great Lakes Realty in Troy.

"It really confuses them," Ogg said. "They're talking to people not in the field. It could be they're talking to parents who haven't been in the market in 30 years. I always recommend they search out a good agent."

Common elements defined in condominium master deed

condo queries
Robert M. Meisner

I am a member of the board of directors. Recently several of our co-owners have had problems not specifically addressed in our bylaws. In one instance, an exhaust fan in the *bathroom was dripping* condensation back into the room. The fan is not vented outside but extends into the attic. The association paid for wrapping the exhaust pipe, but now the question has arisen as to who is responsible for the area between the ceiling and the roof. Also, we have a problem with a smoke alarm that is electrically powered that needs replacement. Who is responsible for this — the association or the co-owner? The co-owner replaced the smoke alarm with a battery-operated smoke alarm and then informed the association. We want to get the *best protection for the complete* building. Should we get the electrical smoke alarm fixed and pay for it?

It is difficult to determine the responsibility for these items without reviewing your master deed documents as condominium documents vary from project to project. In most cases, in a traditional condominium, the area between the ceiling and the roof is a common element for which the association is responsible, but that is not always the case. I can tell you safely that the association should assume responsibility for insuring that the smoke alarms are operating properly to the extent that they affect the entire building. They should not rely on a co-owner to maintain these smoke alarms to the extent that it is within the purview of the responsibility of the association.

I am wondering if you have any suggestions concerning what senior citizens can do in a social manner at a condominium. The board seems to be somewhat unresponsive to our needs.

One of the benefits of living in a condominium can be the social interaction between the members of the association. Many condominium associations have social committees. In some communities, additional activities are ofen set up for senior citizens. I am even aware of a condominium where there is a condominium chorus comprised of senior citizens. Frequently the community facility or other condominium building is used for card playing or other recreational activities. I would recommend that each condominium establish a social committee and consider whether specifically organized activities for senior citizens is appropriate depending on the composition of the condominium.

Robert M. Meisner is a Birmingham attorney specializing in condominiums, real estate and corporate law. You are invited to submit topics about condominiums that you would like to see discussed in this column by writing Robert M. Meisner at 30200 Telegraph Road, Suite 467, Birmingham 48010. This column provides general information and should not be construed as legal opinion.