Lesson 10

Buying a Home

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For Nationals, there are programs available to assist in buying homes. For additional information please refer to Abu Dhabi Government Website.

For expatriates, it is possible to own real estate in Abu Dhabi but one should consult an expert legal firm before undertaking any purchase. Financing, as well as advice, is available from many banks.

A house is a major purchase and requires thinking through all of the details of purchase from the initial desire to buy to your satisfaction after the purchase. There are seven distinct steps in planning any major purchase:

7	Evaluating the decision
6	Making the decision
5	Negotiating
4	Comparison shopping
3	Fitting your budget
2	Preshopping research
1	Prioritizing wants

Purchasing a home involves a great deal of research. It is advisable to find a reputable real estate expert to assist you in analyzing your wants, conducting research, and organize your comparison shopping.

Setting a budget is a high priority. This budget process includes evaluating your income and expenses so that you can determine how much you can afford. It also takes into account the financing that is available through a mortgage. Preplanning is critical. Of important step is to arrange with a banker to prequalify for a mortgage loan in advance. This improves your negotiation position with the seller significantly and simplifies the comparison shopping process because you will know what you can afford.

The costs incurred in purchasing a house include significant upfront costs that a buyer must have in hand because they are due at the time of closing of the purchase:

1. Closing costs: Various administrative costs.
2. Down Payment: Portion of the purchase price that is not borrowed. This is usually at least 20% of the price of the home, and can be more.
3. Points (or Interest Points): Fee usually equal to 1 percent of the total mortgage loan amount.
4. Attorney fees.

5. Title transfer, search and insurance.
6. Miscellaneous fees: Home inspection, appraisal fee, etc.

After the home is purchased there are monthly costs that must be considered in your budget. These include:

1. Mortgage Principal
2. Mortgage Profit (Interest)
3. Taxes (if any, depending upon location)
4. Insurance (covered later)

A timeline for the process is depicted below:

You should plan on taking about 6 months to buy a home from the time you begin your efforts until you actually move in.

6 months before moving in	**Get you finances in order** 1. Ensure that your credit bureau file is accurate and request any updates or corrections as necessary. 2. Estimate all your expected monthly housing costs. 3. Adjust your budget to fit the costs expected.
3 to 5 months before moving in	**Prequalify for a mortgage** 1. Shop for the best rates. 2. Estimate affordability using front- and back-end ratios. 3. Consult several lenders and mortgage brokers.
2 to 4 months before moving in	Search for a home online and in person
2 months before moving in	**Agree to terms with a seller** 1. Negotiate a price with the seller and give the seller earnest money. 2. Have your lawyer go over the purchase contract with you. 3. Sign the purchase contract with the seller. 4. Have the home inspected by someone you hire.
1 to 2 months before moving in	**Obtain a mortgage loan. Decide on the best type of mortgage loan for you** 1. Formally apply for a mortgage from the desired lender. 2. Consider locking-in an interest rate if rates are likely to go up before the closing. 3. Arrange for a lawyer to help you go over the contract and the good-faith estimate of closing costs.
2 to 4 weeks before moving in	**Preparing for the closing** 1. Make moving arrangements. 2. Activate all utilities. 3. Initiate the change of address process.
The big day	**Attend the closing** 1. Correct any errors in the contract or uniform settlemet statement. 2. Sign your name. Write the big checks. 3. Celebrate!

As you can see, this is a lengthy process so plan on it taking at least six months at a minimum.

Selecting a lender is a personal decision and it is suggested than you gather information and evaluate at least three different financial institutions. While the process and criteria vary from financial institution to institution, information that is representative of competitive mortgage offerings can be found at Abu Dhabi Finance.

The basic structure of a mortgage is based upon the discounting concept discussed earlier. Generally, the buyer makes a down payment, usually 20% or more of the purchase price. The purchase price less the down payment is called the principle or amount owed. The term in years for the mortgage is usually either 15 or 30 years. A fixed monthly payment is computed based upon the interest rate and the term in years. The loan is then amortized such that each month the payment is the same or fixed, but it consists of an increasing amount of principle as the amount borrowed declines, and a decreasing amount of interest since the interest is computed on a smaller and smaller principle balance.

For example if one were to borrow AED 500,000 for a 30 year mortgage, at a 7% profit rate the monthly fixed payment would be AED 3,326.51 per month for 360 months (12 x 30). As you can see below, the total interest paid would be approximately AED, 700,000. The principle owed would decline each period until it was zero.

Mortgage
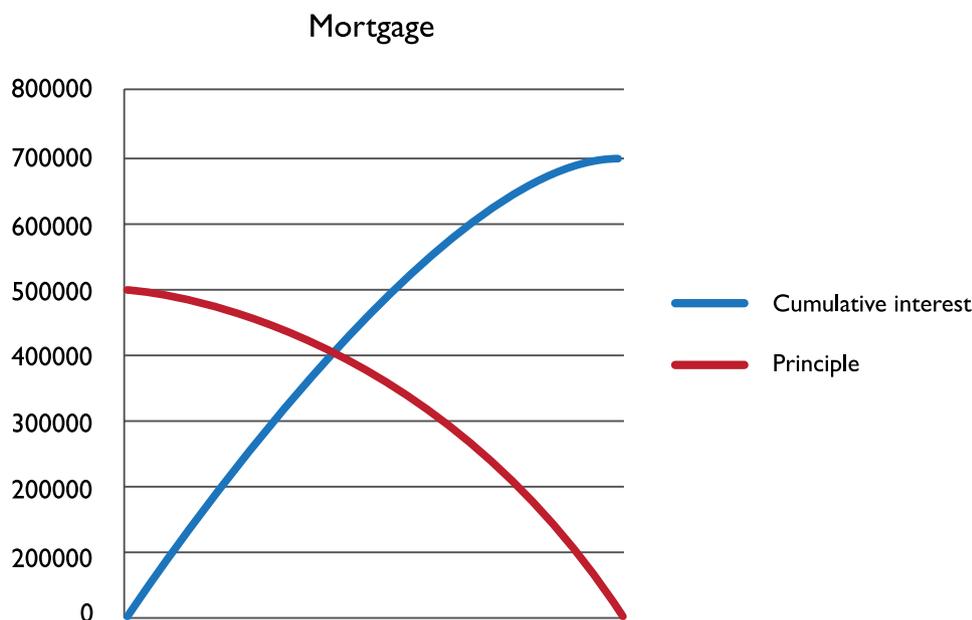
A useful monthly payment calculator in Excel form is included here.

In conclusion, your home should be the most significant investment you make. Therefore planning, budgeting, and analysis are critical. Be sure to consult with real estate and finance professionals throughout the process.