Buying a Home Seminar – Sh. Joe Bradford

http://thethinkingmuslim.com/

I. Budgeting
   a. We need to know how to save
   b. Your income should be more than your expenses
      i. Track it every month
      ii. If expenses are more, than you need to cut them down
   c. Buying a home is a major debt
   d. Get rid of subconscious purchases
II. Consumer debt (credit card, car payments, etc.)
   a. Get rid of it if you are in it before applying for a home
   b. Pay down the ones with the highest interest rates first
   c. Accessible savings (IRAs, etc.)
      i. Pay off the debts with it
III. Set a goal
   a. Where do you want to live?
   b. What do you want for your family?
   c. Pin point the areas where you want to live
IV. Overestimate the price for the home
   a. So you can be prepared
V. Put together a list of your holdings
   a. Assets that can be liquidated and can be used to pay down payment and closing costs
      i. Also repairs after you by the home
   b. Ex: 401k
   c. Do it early because it takes time
VI. Talk to your insurance agent beforehand
   a. Find out if there are bundled deals
      i. Car + home
VII. Just because you pre-qualify for a large amount does not mean you can afford it or that you should use it all
VIII. All monthly payments for the house should not be more than 28% of your gross income monthly
   a. Mortgage, insurance, property taxes, PMI insurance if low down payment
   b. Try to stay within less than what you can afford when you purchase a home because all of your expenses in life add up
IX. Closing costs
   a. Origination, escrow fees, prepaid home insurance, legal fees, inspection fees
   b. 2-5% of your purchase price of the home
X. Work with a competent realtor
   a. Ask for a track record
   b. They need to be able to negotiate for you
      i. And advocate for you
XI. Down payment
   a. Safest: 20% or more
XII. Seller financing
   a. You do finance directly with the seller and don't go through the lender company
   b. Very rare
XIII. Lower the purchase price of the home, the lower the down payment you have to make
XIV. Buying is not for everyone
   a. Do research on renting vs. buying calculator and see if it's better to rent in your area or not
   b. Not everyone can afford it
XV. Steps to purchase a home
   a. Have to apply
   b. Need to put down earnest money
      i. Money put down to show that you earnestly want to purchase the property

            1. And that you are serious
        ii. Usually $1-2k
        iii. Will be used as part of the closing cost
    c. Provide personal documentation
        i. Bank statements, pay stubs, W-2s, tax returns, other income info
    d. Appraisal and inspection
        i. Either you or the seller pays for it
    e. Insurance
    f. Submit all of your documentation
    g. Wait for the under writer who decides whether your purchase will be funded or not
        i. They may give you conditions to close
            1. Ask for more things to verify your income
    h. Documents
        i. Official documents to buy a home are issued
    i. Signing
        i. By going to a title company
    j. Funding and recording
        i. Money you put down and the lender will be given to the owner and the latter will give the title
        ii. Title is going to be recorded in the buyer's or the lender's name
            1. Some states or lien while others title
                a. Lien – the title is in the buyer's name and the lender company has a lien on the house until the mortgage is paid off
                b. Title – the title is under the lender's name and is transferred to the buyer after the house is paid off

XVI. Funding mortgages (three methods)
    a. Seller/owner financing
        i. Also called co-ops
        ii. We're not borrowing funds but paying for the home directly to the seller
        iii. Another form of it is: a group of friends put in money in a pool together and purchase a home and then one pays it off and then the second one does same and the cycle continues until everyone has a house
        iv. This is completely halal
        v. Ameen Housing does this
    b. Conventional financing
        i. You asked to pay a fixed or adjustable rate
            1. Never do adjustable rates because this was part of what led to the market crash
        ii. You put down your down payment and for the rest you go to an escrow
            1. Escrow is an independent third party
                a. Also called a title company
                b. They will verify all of the documentation
                c. They will verify all of the funds
                d. They will keep above in safe keeping
                    i. Your down payment and the lender's lent money
                    ii. They will hold it in trust until all of the conditions are met and they've verified and reviewed everything
                        1. Then the money goes from the escrow to the seller and the title is transferred to the buyer/lender from the seller
                            a. Then the buyer pays back the person he/she borrowed the funds from (mortgage lender)
                e. They are there to preserve the rights of all the parties involved and force them to take responsibility
    c. Islamic financing
        i. They were created because

1. Some scholars said the conventional process is not permissible and had problems with it, such as:
    a. The escrow
        i. This is an entity that is selling something that it does not own and never takes liability or assumes risk
    b. Riba

ii. The scholars went into Islamic law to find a contract which is permissible. They came up with three types which currently exist in the United States
    1. Murabaha
        a. Cost plus sale contract
        b. Islamic finance company buys the property and resells it to the buyer with profit
            i. They buy the property under their name and assume risk and then resell it to the buyer
            ii. To diminish the risk of the buyer backing out, they do one of two things. One is permissible, the other is not
                1. *Permissible*: they write an option to the seller of the original property that they have the right to return the property within certain amount of time with no questions asked
                2. *Not permissible*: they make the buyer sign an affidavit (document) which is legally binding promising that the buyer will purchase the home
                    a. So they've written a contract to sell you before they've sold you the property
                        i. It is just as problematic as the issue of conventional mortgage
        c. The actual time that the Islamic company is assuming risk is about 30 seconds or so, which is usually at the time of signing
            i. Some scholars have issue with this while others find it fine
    2. Ijarah
        a. Leasing
        b. Rent to own
        c. Open lease
            i. You lease and at the very end the home has to be transferred to you
                1. You either pay for the depreciated value or you pay a lump sum or just transferred to you at that time
        d. In the United States, they do it differently and there are extra financial structures in place. This is why this could be more expensive
            i. They purchase the home through borrowing funds from a trust that they create and then lease it to you
        e. Best to stay away from these in the United States
    3. Musharakah
        a. Diminishing partnership
        b. Two partners buy something and one has 20% while the other has 80% of the payment
            i. 20% usually the down payment
        c. Then they create a trust/partnership/corporation which purchases the home for both
            i. Then the buyer slowly buys the Islamic finance company out
        d. But classic Islamic law dictates that the partners share equally in the appreciation, the profit, and expenses
            i. It's not permissible for one to throw all of the load and fees onto the other partner because then he is unjustly taking more than his due
        e. So ask the Islamic finance company selling this type if they are going to share in the costs, expenses, insurance, etc.

            i. If not, then they are doing something not Islamic because this is not a partnership
    iii. Sh. Joe says that the Murabaha is probably the safest
        1. But it's restricted and not available everywhere
        2. Could also be more expensive
    iv. All of the companies, Islamic or conventional, do something at the end which diminishes the whole aspect of partnership
        1. They sell the mortgage to Fanne Mae or Freddy Mac
            a. Secondary market
            b. You sign a document for it
            c. Government organizations that function as corporations but get money from the government
                i. They have an implicit guarantee from the government that if they fail, the government will help them out
            d. These companies give funding to the lender, who in turn gives funding to the buyer, then the lender sells that mortgage back to the secondary market so that they [Fanne Mae/Freddy Mac] can continue the lending process
        2. All finance companies do this
        3. So when you go to an Islamic finance company ask them who they are going to sell the mortgage to
            a. If it is a wholly owned subsidiary of their own company that services all of their mortgages, then this is much better because if they sell it someone with a bad record, then you could get stuck with lots of extra fees and charges

XVII. Portfolio loan
  a. Locally available in areas
  b. They invest in the individual
  c. A form of conventional loan but they don't sell it to secondary market
  d. Try this first if you must go conventional due to dire need or do not qualify for Islamic finance

XVIII. Final advice
  a. Make istikharah
  b. Make shura with people whom you trust and used products you want to use
  c. Ask yourself three questions
    i. Does this make financial sense for me?
    ii. Is it going to provide stability for my family?
    iii. Am I willing to stand before Allah on the day of judgement for buying this home?