

Acquiring Your Castle: A Step-By-Step Guide to Buying a Home

Unbiased Financial Information Provided by Financial Finesse

The most important day in my life wasn't the day I got married, but the day my husband and I bought our first home. Lest you think I'm unfeeling and materialistic, my husband absolutely agrees with me. We always knew we'd get married, but buying a house was a dream that we weren't entirely sure would come true, especially in our hometown of San Francisco - one of the most expensive housing markets in the country.

We owe a big part of our home-buying success to being organized and proactive. Know ahead of time what will need to be done, create a plan, and you'll be crossing the threshold of your new home before you know it.

Good Credit Improves Your Chances of Getting a Loan

Your home-buying plan starts with your credit report. Mortgage lenders rely heavily upon your FICO score, a numerical "grade" that reflects your credit history, to determine if they'll lend you money and at what interest rate. Obviously, your chances of getting a mortgage are better if you:

- Have a history of paying your bills on time and not carrying too much debt.
- Pay down outstanding balances (the lower your debt-to-income ratio, the more attractive you look to lenders).

To prepare for the day when prospective lenders start checking your credit, request a copy of your report from all three bureaus (Equifax, TransUnion and Experian) as early as a year before your home search begins. This way you'll have enough time to correct any mistakes. All three reports should contain the same information, but an error in one could mean trouble for you. If you find a mistake, you'll need to dispute the information with the credit bureau(s).

The Fair and Accurate Credit Transaction Act (FACTA) allows for all consumers to receive a free copy of their credit report from each of the three bureaus every 12 months. Reports can be ordered through www.annualcreditreport.com or by calling 877-322-8228. You will not be able to receive a free [report by contacting the credit bureaus directly](#).

Plan for the Monthly Expense of Homeownership and Avoid Financial Surprises

How much of a mortgage payment could you afford? Long before you buy, start tracking your monthly expenses to see how much breathing room you have. Two months of information is probably enough, as long as you're sure to prorate and include occasional and periodic expenses such as auto insurance, birthday and holiday gifts, taxes, vacations, car repairs, and the like. You should also factor in monthly deposits to a savings account. (Saving is more important than ever when there's no landlord to fix the leaky roof or replace the water heater.)

Buying a home provides some great tax benefits, which can make your mortgage payment more affordable than it might seem at first. There are also costs of homeownership that might catch you by surprise. Things like homeowner's insurance, property taxes, repairs and landscaping can cost thousands per year. Be prepared.

Now that you've considered your budget and the costs of homeownership, use an online mortgage calculator to find out what your monthly payment would be on a particular loan amount at different interest rates or how much of a loan you might qualify for.

Upfront Costs Can Make or Break You

The Down Payment: It's never too early to start saving for the down payment. Typically you'll need at least five percent of the home price, though there are housing agencies and community programs that will accept less, or even no, down payment. Some programs are for first time homebuyers, and some are for those who don't currently own a home but may have in the past.

Private Mortgage Insurance (PMI): If your down payment is less than 20 percent, you may be required to pay for private mortgage insurance, which protects the lender's investment in case you default on the loan. Plan on an annual PMI cost of about one half to one percent of the loan amount. (To calculate your monthly premiums, divide that amount by 12.) You may be able to request cancellation of PMI when your equity in the home reaches 20 percent.

Closing Costs: These fees can run between one and five percent of the home's purchase price, so don't ignore them when calculating how much you need to save. Sometimes you can negotiate for the seller to pay for all or part of the closing costs.

Make sure the money you're saving will be liquid and easily accessible when you're ready to make an offer. In other words, if you know you're going to be shopping around for a home within the coming year, you probably shouldn't be stashing your savings in risky (volatile) investments.

Pre-qualification vs. Pre-approval: Both Show You're a Serious Shopper

If you're really serious about buying, get pre-qualified or pre-approved for a loan before you hit the streets looking for your new home. Pre-qualification means the lender thinks you can obtain a loan for a certain amount based on information you've provided. Pre-approval, on the other hand, is usually a lender's commitment to extend you the loan. Pre-approval is more impressive. It is only given after the lender has verified your income, employment and credit. You'll be seen as a more serious contender than buyers who have not arranged financing. Sellers often accept a pre-approved buyer's offer over a slightly higher bid that isn't pre-approved.

As you speak with lenders, you might find that they're willing to approve you for more than you feel you can comfortably afford. Don't accept a bigger loan than you can handle, or you run the risk of losing your home *and* your good credit.

Identifying "Must Have" Features Makes Finding Your Dream Home Easier

Think about what home features are most important to you so that you and your real estate agent can avoid wasting time looking at properties that don't meet your needs. If you absolutely have to have a garage, there's no point in looking at homes without one.

The Internet makes putting together your home "wish list" and shopping around much easier than it used to be. Now you can learn about neighborhoods, schools (GreatSchools.net) and properties for sale (Realtor.com) without having to leave your home or office. Of course, you'll want to get out there and actually experience the neighborhoods you're considering, but online is a great place to start the research.

The Right Agent Can Make a Big Difference

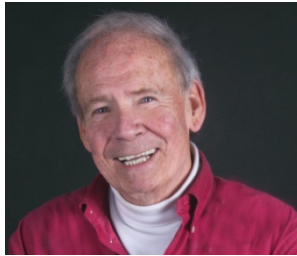
Family, friends and colleagues are usually the best sources for a good agent. Choose one who specializes in the specific towns or neighborhoods you're interested in, since they'll know the area more intimately.

Remember, you're engaging a professional to help you make one of the biggest and most important investments of your life.

Go Shopping!

Now that you know what you can afford, you have your pre-approval letter in hand, and you've determined the essential features your home must have, you can hit the ground running.

When you do find that nearly perfect home (they're rarely *exactly* what you want), you'll prepare a written offer with your agent. Some sellers just want the highest offer, while others, who might be selling their beloved home of 50 years, are motivated to some extent by sentiment. Try to find out why the house is being sold. If you think you can pull at the owners' heartstrings by appealing to them personally, enclose a family photo and a letter describing why you love the house. Then cross your fingers and wait for the news that your offer has been accepted.



Compliments of:

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