Getting Started

Before you begin the home buying process, work through these essential considerations:

What are your objectives? Your objectives are the overall goals you are trying to achieve. They might include:

- Accommodating family members, whether in number, disability access or other practicalities of daily living.
- Right-sizing the square footage and cost of your living space to your budget and lifestyle.
- Lifestyle preferences, such as proximity to shopping or entertainment.
- Income –related factors, such as commuting distance or accommodating a home-based business.

Start by prioritizing your needs.

Size & style – What are the practical daily needs of your household, and what type of house can support those needs? Do you need plenty of play space for children? An oversized garage for recreational vehicles? Outdoor entertainment space? One-story living for aging in place? Make a short list of your must-haves so you can quickly zero in on the houses most likely to suit your needs.

Location – The commute to work, schools, neighborhood culture, zoning and access to services and stores that are important to your household.

Monthly housing budget – Typically, no more than a third of your gross income. The monthly budget includes the mortgage, insurance, property taxes, fees, utilities, heating and cooling expenses, and a fund for repair, replacement and maintenance. Condominiums and gated communities also require monthly homeowners' association fees to cover maintenance of common areas.

Current market trends – Are there plenty of good houses currently on the market so you can take your time looking and talk a home owner down on the price? Those are the characteristics typical of a 'buyer's market.' But when house values are steadily increasing, mortgage rates are reasonable and plenty of people are buying, sellers can hold firm and home prices rise. This is considered to be a "seller's market." National trends may or may not have a direct effect on the market conditions for the neighborhoods you are considering. Track the home-sale trends in the area to detect the factors relevant for your home purchasing process.

What Can You Afford?

The first thing you need to decide is how much you can afford. Determining this early in the buying process will save you a lot of time and frustration. You will know what is in your price range and what is not.

Establish Your Financial Foundation

Get your credit report – Federal law empowers you to get at least one free credit report annually from each of the three major credit reporting bureaus. (www.transunion.com; www.experian.com; www.equifax.com). Scour the reports for errors and immediately get them corrected. It can take several months for even the best-documented corrections to ripple through the system. If your credit score is below 720, consider talking with a financial advisor to see how you can boost it. That might involve paying down your credit cards, boosting your income, or taking other action.
Save the down payment – Historically, buying a house has required at least 10% down. That threshold was briefly relaxed in the mid-2000's housing bubble, with disastrous results. Lenders have returned to the time-honored conservative guidelines. The bigger your down payment, the better the terms of the mortgage. If you are counting on a gift or loan from your parents, those funds should be deposited in your savings account months before you apply for a mortgage. Lenders frown on last-minute deposits. You'll also need to have several thousand dollars on hand for closing costs, moving expenses, and for the inevitable surprises that crop up in the first few months of homeownership.
Get pre-approved for a mortgage – Once you have your credit scores in the best shape possible, and with your down payment securely settled in your savings account, gather your earnings statements and get pre-approved for a mortgage. Not only will this give you a reality check on exactly how much house you can afford, but the pre-approval also gives you a strong platform for negotiating the best price. Sellers want to know you are serious. The pre-approval proves that you are.
What's the difference between pre-qualification and pre-approval?
Pre-qualification is a "guesstimate" of what a buyer might qualify for prior to actually submitting a mortgage application. Based on the unverified financial information you provide, the lender uses a quick calculation to arrive at a loan amount. *Pre-approval* means that the lender has verified your financial information and has actually committed money in your name for a specific loan type and amount.