

Step 1: Make Sure You are Prepared for Homeownership

You have to have money for a down payment, closing costs, monthly payments and more

By Emmet Pierce



Step 1: Knowing what you can afford. Photo: iStock

Before shopping for a home, put your financial house in order. Lenders will want to know the percentage of the purchase price that you can cover with your down payment. This is your loan-to-value ratio or LTV. Lenders believe that the larger your down payment, the less likely you will be to default on your loan.

Traditional fixed-rate home loans typically must be repaid over 15 or 30 years. Lenders prefer down payments of 20 percent or more, creating an LTV ratio of no more than 80 percent. If you exceed that ratio, you'll likely have to pay for private mortgage insurance or PMI. Buyers with small down payments are subject to higher loan interest rates.

Be ready to verify your savings and income. Although interest rates remain at historic lows, credit requirements have tightened since the mortgage market decline after the recent housing boom. Your lender may require that your mortgage payments and other debts, such as automobile and credit card payments, don't exceed 36 percent of your gross monthly income.

Before you buy, compare the costs of owning and renting. Homeownership remains the main method of building wealth for most Americans. However, renting typically requires a smaller monthly cash outflow. Mortgage payments include principal and interest, insurance, taxes, and in some cases mortgage insurance. If you live in a part of the country where prices soared during the recent housing boom, homes still may be overpriced.

When you rent, the landlord typically is responsible for property maintenance, so you don't have to use your savings to replace a water heater or repair the roof. Unlike homeowners, who often have much of their wealth tied up in their homes, you are free to invest your savings elsewhere. On the downside, renters can't write off property taxes or mortgage interest and rental rates are subject to unexpected increases. There are numerous mortgage calculators online that can help you determine the long-term costs of owning compared to renting.

Finding a home you truly can afford

The best way to approach homeownership is as a long-term investment. Your home primarily should be a place to live, not a means of making money quickly when real estate prices escalate. During the recent housing boom, many buyers stretched beyond their means to purchase homes with the expectation that they would sell them before prices dropped. Some homeowners pulled too much equity out of their homes through refinancing. As a result of this risky behavior, foreclosure rates spiked in many communities around the country when prices declined.

Not everyone suffered, however. Homebuyers who stuck to the fundamentals of good real estate practices fared well. They didn't enter the market to flip homes and take advantage of soaring prices. Rather than getting in over their heads with unsustainable loans, they used traditional mortgages to purchase homes they could afford to keep.

Before you enter the housing market, sit down with a real estate agent or financial planner and review your housing goals and expectations.

<http://www.realtor.com/home-finance/homebuyer-information/step-2-choose-the-real-estate-agent-who-represents-you-best.aspx?source=web>

Step 2: Choose the Real Estate Agent Who Represents You Best

Choosing the Real Estate Agent Who Is Right for You

By Emmet Pierce



Step 2: Finding a knowledgeable real estate agent to help you. Photo:

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You can buy a home on your own, but if you're not familiar with the real estate industry you're probably better off seeking the help of a qualified real estate agent. Finding the right Realtor® may seem easy. You've probably received numerous advertisements from agents in the mail. Keep in mind that the one you hire will be your guide through a sometimes confusing process. He or she will help you make decisions that you may have to live with for many years. Take care to hire a skilled professional.

Look for an agent with a solid track record. During hot real estate markets, when prices soar, the real estate industry is flooded with new agents. When the market cools and sales decline, there typically is an exodus. The most committed and qualified Realtors® tend to stay in the business through good times and bad. They form lasting relationships with clients so they can work with them again, when their housing needs change. They tend to focus their efforts on communities that they have grown familiar with over time.

As a rule, agents are paid when they sell properties and the commissions are paid by sellers. Find an agent who is willing to put your needs first. You may be tempted to work with a big real estate brokerage because its name is familiar to you. But it's more important to focus on the abilities of the individual agents. For instance, agents who show you only homes listed for sale by their company — whether they are right for you or not — is not serving you well and is

wasting your time.

Check credentials

If you have friends or co-workers who recently bought homes, ask for referrals. A good place to meet agents and to see them in action is at open houses. Don't be afraid to ask questions and request references. Find out how successful the agents have been in helping others make good housing choices. Talk to past clients and ask if they would be willing to use them again?

Interview at least three agents. When you meet with them, here are some questions to ask:

- What strategies do you use to find suitable homes for clients?
- How much formal real estate training do you have?
- How familiar are you with the neighborhoods and housing types that I am interested in?
- Is your commission negotiable?

Be open and honest with your agent. Most agents would consider it a breach of trust they learned that you were working with another Realtor® on the side. They prefer an exclusive relationship to justify the time and effort they are expending on our behalf. Contracts in which buyers agree to make offers only through one agent are common in some parts of the country.

It's reasonable for agents to seek to protect themselves, but be careful about signing exclusive, long-term contracts. First make sure you have a good partnership. Don't enter into an agreement unless you have a high degree of comfort. Good Realtors® earn their pay by finding the home you need, negotiating a fair price, overseeing property inspections, and guiding you through the closing process.

<http://www.realtor.com/home-finance/homebuyer-information/step-3-checking-your-credit-score.aspx?source=web>

Step 3: Checking Your Credit Score

Monitor credit scores and eliminate errors

By Emmet Pierce



Step 3: Know your credit score. Photo: iStock

The Fair Isaac Corporation, also known as FICO, created the first credit-rating system in 1958. Credit reports maintained by major credit bureaus are used to determine how reliable you are as a borrower. Your credit score can determine your mortgage interest rate or how much you will need to pay for an automobile loan. Landlords may use your score to decide whether you are a responsible tenant. The higher the score, the lower the perceived risk.

Because credit scores affect your access to credit, it's important to review them periodically. The "big three" credit bureaus are Equifax, Experian and TransUnion. However, don't overlook Innovis, a relative newcomer. Each of the bureaus is required by law to provide you with one free credit report each year. If you find errors, the bureaus must give you a chance to correct them. If you don't get results when reporting errors, be persistent. Be prepared to document your claims.

Each lender has its own method of using credit scores and its own threshold of tolerance for risk. When seeking a home loan, a score of 750 or higher from Equifax, Experian or TransUnion is considered excellent and usually will get you a low interest rate. If your score is above 680, you still should be able to find a decent rate. If your score drops below that, loan terms become less favorable. If your score is below 620, you may fall into the "subprime loan" category, which means you could pay significantly more for your mortgage. Check your credit report six months before you apply for a loan to make sure there are no mistakes. That will give you time to correct any errors.

Checking your scores

Some websites seek to charge you a fee for other services in return for providing you with "free" credit reports. You can avoid this by contacting the credit bureaus directly on the Internet. Equifax, Experian and TransUnion jointly maintain a site called AnnualCreditReport.com. Innovis has its own site, Innovis.com.

You can't improve your credit score overnight. But if you are serious about boosting your rating, follow these tips:

- Pay your bills on schedule. Late payments and collection activity will pull down your score. Paying off a collection agency account won't wipe it off your credit bureau record.
- If you have trouble bringing your accounts current, see a reputable credit counselor. This won't immediately change your score, but it may give you the tools to create new payment patterns.
- Pay down the balance of credit cards. High outstanding balances count against you.
- Don't open new credit card accounts simply to take advantage of one-time shopping discounts.
- A rise in the number of your accounts can look risky to lenders and reduce your score.

Remember, a credit report is only a snapshot of your credit history. As new information is recorded, your score at each bureau fluctuates. If your score is less than perfect, take comfort in the fact that meaningful changes you make in your borrowing and repayment practices will begin to show up right away. Old credit blemishes fade as bills are paid in a timely manner.