

10 Secrets Every First-time Homebuyer Should Know

1. Visit a housing counselor at a nonprofit organization.

Owning a home requires a large investment of time, money and energy, so you should make your decision to buy a home carefully. Housing counselors credentialed through a nonprofit agency provide objective advice and unbiased recommendations.

2. Get your finances in order.

Find out what your credit report and credit score is and correct any inaccuracies. Your credit score will determine your ability to borrow money. A credit score reflects how much money you owe, how often you use credit and whether you pay your bills on time. Lenders look at factors called the four Cs of credit: credit history (timely bill paying), capital (money available for a down-payment), capacity (income versus debt), and collateral (the value and condition of the house). It is important that you understand what a lender is looking for and what counts most in your favor regarding your finances so that you are prepared to get the best mortgage loan package available to you.

3. Look for down-payment and closing-cost assistance programs.

The down payment is the amount of cash you pay toward the purchase price. Closing costs are expenses over and above the purchase price of a home that you incur by financing and transferring ownership of the home. While normally both are expected to be paid upfront, there are loan programs that allow you to borrow the down payment and closing costs, or at least part of them. Some nonprofit organizations and state or local government agencies can help you with down payment and closing costs through grant money or low-interest loans.

4. Make sure homeownership fits with your lifestyle.

There are some situations where renting may be a better financial situation than buying a home. If you will be in a particular community for less than three years, if the local economy is not doing well, if unemployment is rising, or if your future income will not provide you with enough for mortgage payments and other financial responsibilities to owning a home, then renting may provide the better option.

*You can order your credit report and credit score from each of the three major credit reporting agencies: Experian – www.experian.com; Equifax – www.equifax.com; and TransUnion – www.transunion.com). For more information on credit scoring, visit www.myfico.com.



5. Shop around for everything related to your home purchase.

Finding a good loan, the right home and reputable professionals can save you thousands of dollars. Follow the “rule of threes” by comparing at least three products, professionals or services before making your final selections.

6. Get pre-approved for financing before shopping for a home.

Pre-approval will help you know exactly what you can afford and find the best rates and terms in advance of the purchase. Pre-approval is different from pre-qualification, which refers to when a lender calculates how much mortgage you likely can afford based on unverified information. A pre-approval is a guarantee that the lender will loan you a fixed amount of money, as long as the property appraises over the amount for which you are qualified and you buy within a certain time period. There may be a fee for pre-approval, but it helps you shop for a home with confidence by knowing how much you can afford based on your finances and credit.

7. Carefully select a location.

Research area schools, property tax rates, insurance rates and crime statistics. When you buy a home, you are making an investment, and the neighborhood is a prime factor in determining how good an investment your home turns out to be. Spend time thinking about things that may be important.

8. Get a professional home inspection.

When you make an offer to the seller to purchase a home, you should include a condition, or contingency, for a home inspection that indicates no major problems.

9. Don't rush!

Sometimes enormous time pressures are put on homebuyers to race through the deal. It is easy to be blinded to “bad deals” when pressure is applied by different parties. Purchase contracts and loan documents are legally binding documents. If you are rushed to sign such documents, you could get locked into prices or terms that are not in your best interest.

10. Homeownership always costs more than you think it will.

Many first-time homebuyers are surprised by the cost of basic maintenance. Financial experts recommend building an annual emergency fund that is equal to three months' worth of living expenses.

