

BUYING A HOME: FINANCIAL PLANNING CHECKLIST

Buying a home is a big decision. Make it with confidence by following these steps.

DETERMINE HOW MUCH YOU CAN AFFORD.

Determine what you can comfortably afford, and stick to that number. Your total monthly housing expenses should not exceed 28 percent of your pretax income and should not exceed 36 percent when combined with all other monthly debt (student loans, car payment, credit cards).

UNDERSTAND WHAT YOUR MONTHLY HOUSING EXPENSES WILL INCLUDE.

In addition to your mortgage payment, you'll need to account for these expenses:

- Homeowners insurance
- Property taxes
- Home Owners Association fees (if applicable)
- Private mortgage insurance (if you put less than 20 percent down)
- Utilities

TIP: Check to see if you are eligible for the IRS first-time home buyers' credit.

CHECK YOUR CREDIT SCORE.

To obtain a mortgage loan, most lenders require a minimum credit score of 620. The higher your credit score is over 620, the lower your mortgage interest rate will be. Check out FreeCreditReport.com to get your score for free.

RESEARCH YOUR MORTGAGE OPTIONS.

There are three main types of mortgage loans:

- Conventional loans (typically require a 20 percent down payment)
- FHA loans (allow for lower down payment; nearly 40 percent of first-time home buyers choose this option)
- Special loan programs (Department of Veterans' Affairs and US Department of Agriculture for vets and rural areas)

TIP: Shop around for mortgage rates – even a small amount can make a big difference with a large house loan. Also, a larger down payment could help you get a better interest rate.

GET PRE-APPROVED.

Work with a lender to confirm your ability to qualify for a mortgage. It'll give you peace of mind in knowing how much you can spend, and it'll give you negotiating leverage. Getting pre-approved is generally free, and many sellers want to deal only with people who can get financing.

GET EXPERT HELP TO FIND YOUR HOME.

Work with a realtor who can help you through the process, especially if you're a first-time home buyer. It shouldn't cost you anything; the seller typically pays the realtor's fees. Ask friends and family for referrals.

UNDERSTAND THE COST OF CLOSING THE DEAL.

When you're ready to make an offer on a home, be prepared for these major expenses:

- Earnest money, a deposit that is deducted from your purchase price, provided the sale goes through (usually 1-2 percent of the purchase price)
- Down payment (from 3 to 20 percent of the purchase price)
- Closing costs (usually 2-5 percent of the purchase price)



Download our "First-time Home Buyer's Financial Guide."

