A – Z Guide to Buying a Home

The Home Buying Process

Have Your Credit Pre-Approved

Getting a credit pre-approval means you receive a loan commitment from your mortgage company before you have found a home, based on a review of your credit and finances. A credit pre-approval shows sellers that you're a qualified buyer and helps you establish a clear price range.

The credit pre-approval process

The process of applying for a credit pre-approval is the same as a typical mortgage application, except that it doesn't include information on the property you will purchase. Your loan officer collects information on your credit, income, assets, and debts, and sends this information through an underwriting system. If the underwriting process determines that you qualify for a loan, you receive a loan commitment for up to a certain amount, which is contingent on the property meeting certain criteria.

Benefits of having your credit pre-approved

There are many good reasons for getting a credit pre-approval before you buy a home:

• It makes your home search more efficient by allowing you to focus only on homes you know you can afford.
• It lets sellers know that you can back up your offer, so they don't have to worry about whether you can get a loan.
• It lets you know early in the process if you will have difficulty getting pre-approved, so you have a chance to address problems before finding a home.
• It gets most of the mortgage process out of the way up front, so you can complete your transaction quickly after you find a home.

Go House Hunting

Now that you've had your credit pre-approved and know how much you can afford, it's time to go househunting.

You may look at one house or two dozen before you find the one that's right for you. Just keep an open mind, and focus on the things that are really important to you, and you're sure to find a place where you'll feel at home.

Choosing a neighborhood

House-hunters should keep in mind the familiar adage about the three most important features of a home: location, location, location. That's because finding the right home for you and your family has as much to do with the neighborhood as with the home itself. In fact, you'll probably notice during your search that a home in one area costs much more than a similar home in another. Factors like safety, school quality, and proximity to shopping and entertainment all contribute to demand for homes in a given neighborhood.

Beyond price, what you look for in a neighborhood probably has a lot to do with your personal situation. How far are you willing to commute to work? How close do you want to be to family and friends? Do you have young children who would enjoy a nearby playground? Picturing your day-to-day life in a certain neighborhood is a good way to predict whether you will feel comfortable there.

Considering different house styles

You may want to look beyond the traditional detached single-family home. Condominiums, town houses, and duplexes can be more affordable options, especially if you're looking in a densely populated area. These types of housing may not offer as much yard space or privacy as single-family homes, but those may not be as important to you as the chance to own a home in the neighborhood of your choice.

Building a new home

If you've looked and looked for your dream home without success, or if you want to be the very first owner of a brand new home, consider building. You'll have more opportunity to customize the home's features and design, more up-to-date appliances and building materials, and usually a builder's warranty to cover problems that come up in the first year.

Make an Offer

So, you've found a house you want to buy. Congratulations! Now you need to decide how much you're willing to pay to make it yours. In today's real estate market multiple offers on the same home are commonplace, so you may only get one chance to make an offer that the seller will consider. That's why it's important to think carefully about your strategy.

Your real estate agent should be able to give you a list of similar homes nearby that have sold recently, and for how much. Although you can't directly compare the home you want with the homes on the list without ever having been in them, you can use the list of comparable sales to get a general idea of the neighborhood's price range.

In addition to sale prices for other homes, there are several ways you can determine a good amount to offer:
• The condition of the house. Is the home in move-in condition, in need of paint and other cosmetic improvements, or a fixer-upper that needs some real work?
• The market. If you are in a buyer's market—where there are more homes for sale than there are people to buy them—prices are probably stable or falling. If you are in a seller's market—where there are more buyers looking for homes than there are homes for sale—prices are probably moving upward.

Your threshold. If you've gotten a credit pre-approval, you know how much you can borrow for your home purchase. Of course, you may not be comfortable paying as much as you've been approved to borrow, so think carefully about your financial situation before making an offer.

Get a Home Inspection

When you are making what is likely the largest investment of your life, you should know as much as possible about what you are buying. That's why it's a good idea to have a home inspected before you make your purchase. Most purchase contracts contain provisions for a home inspection to be performed within a certain timeframe, and sometimes they specify what action the buyer and seller may take if problems are uncovered.

Finding a home inspector

It's very important that you choose a qualified inspector who has plenty of experience with residential homes. Contact a national or state association of home inspectors to find out what certifications it requires for membership and if there are any members in your area. You may also want to ask your real estate agent for a list of reputable companies.

What the inspection should cover

At a minimum, the inspector should examine the following:

• Exterior structural components, including the foundation, roof, siding, and chimney.
• Interior structural components, including the basement or crawlspace, attic, flooring, and ceilings.
• Major systems, including heating, cooling, plumbing, and electrical.

You should make every effort to be present during the inspection so that you will have an opportunity to ask questions and see first-hand what the inspector looks at. You should receive an inspection report with descriptions, and possibly photographs, of any problems with the home.

Close the Deal

You've found your home, agreed on a price with the seller, had the home inspected, and now you're ready for the closing, where you will officially take ownership of the property. Welcome to the end of the home buying process—and the beginning of your homeownership journey.

When to schedule your closing

The closing date will depend on when the seller is ready to move out, when you are ready to move in, and when all of the mortgage details have been finalized. You may want to request a closing date near the end of the month in order to minimize the amount of interest you have to prepay on your mortgage.

Who should be there
Closing practices vary based on location, but attendees may include the following:

- Buyer and seller
- Real estate agents for the buyer and seller
- Closing agent
- Title company representative
- Mortgage company representative
- Attorney

What happens at closing
Despite all the new technologies that are streamlining the mortgage process, the closing phase remains very paper-intensive. You will have to review and sign a hefty stack of documents, some of them in duplicate and triplicate. You will also have to pay for any closing costs, including:

- Lender fees, such as an appraisal fee, credit report fee, origination points, and discount points
- Third-party fees for services not provided by your lender, which may include a settlement fee, title insurance, and attorney’s fees
- Prepaid items that must be paid to your lender in advance, such as prepaid interest, hazard insurance, and deposits to set up an escrow account

Move into Your New Home
So you’re ready to start life in your new home — congratulations! Now all you have to do is get yourself, your family, and your belongings there intact. You can save time and energy by hiring a moving company, or save money by doing it yourself — it all depends on how much stuff you have, how far you’re moving, and how much you can afford to spend.

Hiring a moving company
The key to choosing the right mover is trust. To find a company you can have confidence in, look for one that:

- Has been in the business for a number of years
- Has a clean record with the Better Business Bureau®
- Can provide several references to satisfied customers
- Meets the standards of your state’s professional association for moving companies, if there is one

Moving yourself
Your move may not require professional help, but pulling it off successfully does require a professional approach. You wouldn’t want your moving company taking shortcuts, so why should you?

Preparations should start well before moving day. Keep these tips in mind:

- Get the right moving supplies, and plenty of them. High-quality boxes, padding, and other packing materials are a good investment.
- Take a room-by-room inventory of everything you will take with you, and get rid of the rest either in a garage sale or by donating it to charity.
- Label each box you pack, and keep a list of its contents to make unpacking easier.
- Set aside a box of items you’ll need immediately after you arrive, such as cleaning supplies, kitchen utensils, dinnerware, bath items, tools, and a telephone.
- Have kids pack a box of their favorite things to unload right away at the new house.

Settling in
Making yourself at home in your new surroundings is about more than unpacking. Try to explore the neighborhood and get acquainted with neighbors right away. Ask about stores, playgrounds, and places of worship, so you don’t have to put your life on hold while you familiarize yourself with the area.

Five Tips on Selling Your Home

1. Hire a good agent

Some sellers choose to go the FSBO (For Sale by Owner) route in order to avoid paying a sales commission—usually around six percent of the sales price—but for many people, a good Realtor is the key to a successful sale.

You should expect your agent to help you:
• Set the right price. Realtors can give you information on recent comparable home sales in your area, helping you understand pricing in the local market.
• Do the leg-work. Creating advertisements, screening prospective buyers, and showing your home are all very time-consuming and labor-intensive.
• Review the contract. A real-estate sales contract is a complex and legally binding document—a professional can help you make sure it reflects your interests.
• Find the right buyer more efficiently. A good agent will know how to screen for buyers who are most likely to want your house and be able to make a good offer on it.

2. Think like a buyer

Prospective buyers who look at your home will probably have looked at other homes for sale in the area. You should do the same. Buyers will be comparing your home to the ones they've already seen, and looking at them yourself may give you an edge on the competition.

Ask your agent for information on comparable homes that have sold recently, and any that are currently on the market. Drive by each one and note your first impression — you may get ideas for enhancing your own home's curb-appeal.

3. Hire your own inspector

A home inspection isn't just for buyers. Hiring an inspector before you put your home on the market can be a smart move if you want to prevent — or at least prepare for — any issues that might come up during the buyer's inspection. Uncovering problems ahead of time can give you:

• A smoother process. The more problems you correct before the sale, the less likely it is that a defect will stall the process.
• More accurate pricing. Rather than having to haggle over the price because of defects, you can set your asking price to account for the cost of repairs.

Make sure you choose a qualified inspector with plenty of experience. You may want to ask your Realtor for a list of reputable companies, or contact a professional association of home inspectors to find out if there are certified members in your area.

4. Spruce up before you sell

Some relatively small and inexpensive improvements can make your home much more attractive to buyers — but be careful not to overdo it. A remodeled kitchen is sure to fetch a higher sale price, but probably not enough to pay for itself. A sparkling-clean kitchen with a fresh coat of paint, on the other hand, can make a valuable impression on buyers at a low cost.

Keep these tips in mind as you prepare your house for showing:

• Start outside to create curb appeal. Sometimes the key to getting buyers inside your home is to make them notice the outside. A mowed lawn, trimmed hedges, and clean siding can give a neat and tidy first impression.
• Get rid of clutter. Buyers want to be able to visualize themselves living in your home—seeing lots of pictures on the walls and personal items lying around makes that more difficult.
• Hire a professional cleaner. Cleanliness can have a major impact on your sale, especially when it comes to kitchens and bathrooms. Cleaning your home yourself may be alright, but for a truly spotless home a professional cleaning can be a good investment.

5. Sell when the season is right
Listing your house at the right time of year can make a big difference in how quickly it sells and for how much.

Spring and summer
In most markets, home sales usually peak during April and May, and often remain strong through July. This is the preferred time for most families to move because it falls at the end of the school year and brings warm weather.

Autumn and winter
Like the weather, the real estate market tends to cool off quite a bit during the late fall and winter months. That doesn't mean you can't sell your home, though. You may be able to get a better price because there will likely be fewer homes on the market. It can also be an advantage if you're looking for a quick closing, because buyers will be eager to close by year-end so that they can claim a mortgage deduction on their taxes.

Your Credit
Why Your Credit Is Important
Credit is a financial tool that enables you to buy things now without paying for them all at once. Your ability to use credit responsibly and repay creditors on time has a lot to do with how much access to credit you will have in the future. Building a solid credit history gives you more buying power when you need it, and that can be especially valuable when you are buying a home.

How credit affects your loan options
When you apply for a mortgage, the lender will evaluate your credit history to see how you have managed credit in the past, and then use that information to determine how likely you are to keep up with payments in the future. By predicting how well you will manage your debt, the mortgage company can measure the risk involved with lending you money.

Everything else being equal, someone who has consistently made payments on time is a lower credit risk than someone who has not. Because lenders usually offset risk with higher financing charges, having a better credit history generally means getting more favorable loan terms. And because some loan options are riskier than others, good credit may give you more flexibility in structuring your mortgage.

Buying a home when you've had credit challenges
Many people believe that they can't buy a home unless they have great credit. While it's certainly helpful, a flawless credit history is not a requirement for buying a home. In fact, homeownership can be a tool for getting past credit difficulties.

Buying a home gives you an opportunity to improve your financial situation by:
• Establishing a strong payment record. Paying your mortgage on time every month goes a long way toward showing creditors that you can manage debt effectively.
• Building wealth for your future. Each time you make a mortgage payment, not only do you improve your credit, you also build home equity that you can leverage to reach your goals.

If you have less-than-perfect credit, we may be able to direct you to loan programs that can help you become a homeowner.

Understanding Your Credit Report and Score
Before lending you money, creditors — including mortgage lenders — need to determine how likely you are to pay it back. One way to do that is by examining your past use of credit, which is recorded on your credit report.

What goes on your credit report
Although each credit reporting agency may report information differently, all credit reports contain the following:

• Identifying information. This includes your name, address, date of birth, and social security number.
• Credit accounts. Your report lists information on each of your accounts, including the account type, date it was opened, credit limit, balance, and payment history.

• Inquiries. When a lender requests your credit report, either to process an application you submitted or to qualify you for pre-approved offers, the inquiry is recorded. When you request your own report, however, the inquiry is not listed.
• Public records. These include information on bankruptcies, foreclosures, and any other liens.

What your credit score means
Credit scoring translates the information on your credit report into a numeric score, which makes it easier for a lender to evaluate your credit. Scores generally range from 300 to 900, with a higher score indicating a greater likelihood that you will make payments on time.

What affects your score
Credit scores are developed by comparing credit reports from millions of consumers over time, and identifying factors that tend to predict how well people manage credit later on. Those factors include:

• Payment history. Whether you've made payments on time in the past is used to predict how likely you are to pay in the future.
• Outstanding balances. Being over-extended on your credit accounts tends to lower your score.
• Length of your credit history. Credit scores reflect payment patterns over time, so having a longer history gives lenders a more reliable picture of your credit.
• Types of credit in use. Having a diverse mix of account types usually has a positive affect on your score.
• New credit. A series of requests for new credit may suggest to lenders that you are looking to take on new debt. Because people tend to shop around for mortgages and other loans, all credit applications within a 14-day period are counted as a single request.

Credit scores are considered unbiased because they are based only on your past credit history. Your score cannot be based on race, religion, national origin, age, sex, marital status, or income.

Improving Your Credit
Whether you need to rebuild a damaged credit history or simply maintain your solid rating, here are some things you can do to achieve your goal.

Check your credit report for errors
Your first step is to make sure that your credit report is accurate. Balancing out a negative entry with consistent payments takes time and effort — getting rid of an incorrect entry is much easier, and can make a big difference in your credit score.

Here's how to check for and correct errors:
• Order a copy of your credit report from one or more of the three major credit bureaus.
• Review each account on your report to make sure it actually belongs to you, or did at one time.
• If an account that you no longer have is listed as open, contact the creditor and ask them to report it as closed.
• If an entry is inaccurate, ask the credit bureau to investigate. They should give you a response within 30 days.

Change the way you think about credit
Having credit cards and loans that you pay regularly is a good thing in the eyes of lenders. At the same time, having credit available often brings the temptation to buy things you can't really afford. The key to good credit management is in finding a comfortable middle ground.

To guard against overspending, try to think of credit as a tool that gives you more financial freedom — not more stuff.

Consolidate your debt
If you are overextended with credit and living month-to-month, debt consolidation might make your payments more manageable. By paying off multiple credit accounts using a refinance or home equity loan, you can take advantage of three valuable benefits:

• Simplicity. Instead of a steady stream of bills in the mail — each with a different payment amount and due-date — you receive a single statement each month.
• Lower payments. Because they are secured by your home, home loans generally carry lower rates than most other types of credit. That means you'll have lower monthly payments and a chance to put money into savings.

• Tax savings. Unlike credit cards and installment loans, interest on home loans is usually tax deductible. And because monthly payments at the beginning of the loan term are mostly interest, you could enjoy substantial tax savings early on. Be sure to ask your tax advisor about the deductibility of mortgage interest.

Top 10 Mortgage Questions

1. What will a lender look at when I apply for a mortgage?

Lenders consider many factors in evaluating your loan application, but they usually focus on four areas:

• Income and debt. How much money you make and what other bills you have to pay helps the lender determine whether you can afford to make mortgage payments.
• Assets. The lender needs to make sure you have enough money to cover the costs of buying a home.
• Credit. Whether you've met other financial obligations helps the lender predict whether you will repay your mortgage.
• Property. The home you want to buy has to be worth enough to act as collateral for the mortgage.

2. What does it mean to get pre-approved?

Getting pre-approved means you receive a loan commitment from your mortgage company before you have found a home, based on a review of your credit and finances. Having your credit pre-approved shows sellers that you're a qualified buyer and helps you establish a clear price range. The process is the same as a typical mortgage application, except that your application doesn't include property information.

3. What if I've had credit problems?

Your credit history is only one factor in qualifying for a loan, and having made some late payments doesn't have to keep you from buying a home. Someone who has consistently made payments on time in the past may have more financing options than someone who has not, but that doesn't mean a mortgage is off-limits if you've had credit problems. In fact, we may be able to suggest a variety of mortgage options to help people with less-than-perfect credit become homeowners and leave credit challenges behind.

4. What is the minimum down payment I can make on a home?

There is no minimum down payment required for buying a home, in general. Many first-time buyers believe they must be able to put down as much as 20% of a home's purchase price in cash. That may have been true in the past, but many of the mortgage options available to today's home-buyers require little or no down payment. With housing prices as high as they are, homeownership would be impossible for many people if not for these low-down-payment options. We may be able to suggest a number of loan programs that can help you buy a home with little or no cash.

5. Will I have to pay for Private Mortgage Insurance?

Private Mortgage Insurance (PMI) provides your lender with a way to recoup its investment if you are unable to repay your loan. PMI is usually required when the mortgage amount is higher than 80% of the home's value. That means that if you buy a home with a down payment of less than 20%, you will probably have to pay for PMI. One common way of bypassing PMI without making any down payment at all is to use an 80/20 program, which combines a first mortgage with home equity financing.

6. What closing costs will I have to pay?

Closing costs vary based on a number of factors — including the lender, mortgage type, purchase contract, and location — but they usually include the following:

• Lender fees. Your mortgage company may charge for expenses related to making the loan, including an appraisal fee, a credit report fee, origination points, and discount points.
• Third party fees. Charges for services not provided by your lender often include the settlement fee, title insurance, and attorney's fees.
• Prepaid items. Certain mortgage costs must be paid to your lender in advance. The most common of these are pre-paid interest, hazard insurance, and deposits to set up an escrow account.

7. Should I pay discount points?

Discount points are prepaid interest, which you can pay to your lender at closing in exchange for a lower interest rate on your mortgage. Paying discount points, each of which is equal to 1% of the loan amount, is often called "buying down" your rate.

So does paying points make sense for you? The answer depends primarily on how long you plan to stay in your home. First, find out how much lower your monthly payments will be if you pay points. Then, calculate how long it will take for those monthly savings to add up to the cost of the points. If it would take five years to break even and you're planning to live in your home for 10, paying discount points may be a smart move.

8. Should I choose a fixed-rate or adjustable-rate loan?

Most mortgage loans have either a fixed interest rate or an adjustable interest rate. With a fixed-rate mortgage, the interest rate never changes and your payments remain stable throughout the life of your loan. With an adjustable-rate mortgage (ARM), the interest rate changes at regular intervals — usually once every year — based on market indicators. For most ARM options, rate adjustments begin after an initial period — usually between three months and ten years — during which the rate is fixed.

A fixed rate is usually best if you plan to stay in your home for the long term and are buying at a time when rates are relatively low. You may get the most value from an ARM if you plan to move before the end of the fixed-rate period, or if you're buying at a time when rates are relatively high.

9. Should I lock my rate?

Locking your interest rate means your lender guarantees the rate on your loan even if market rates change before closing. Most lenders will allow you to lock your rate for 30 to 60 days, with the option to extend the rate-lock period for a fee.

So how do you know whether to lock your interest rate? It depends on whether you expect rates to rise or fall before you close on your home. No one knows for sure which direction rates will go at a given time, so it's difficult to make a reliable prediction. It helps to keep track of announcements from the Federal Reserve Board, whose monetary policies have an effect on mortgage rates, and to talk to you financial advisor about what may happen in the near term.

10. What will my mortgage payments include?

For most borrowers, each monthly mortgage payment goes toward the following:

- Principal, which is the total outstanding balance of the loan
- Interest, which is the cost of borrowing money
- Taxes, which are levied on the property by the local government
- Insurance, which protects the owner and the lender from losses caused by fire and natural hazards