

## Steps to Homeownership

How long have you been thinking about it? Are you waiting until the time is right? No, we are not talking about having kids, getting married or asking someone on a date! We are talking about one of the biggest financial decisions you will ever make, buying a home.

The steps to homeownership may be easier than you think. Unfortunately many consumers go about the process in the wrong way. They find a real estate professional, start looking, and fall in love with a home they cannot afford. If you will follow the steps outlined in this article you may be able to eliminate most of the “surprises” in the process.

Homeownership starts with your personal finances. Before you begin shopping for a home, you need to do a careful analysis of your current financial status. This begins with your credit report. Most consumers are aware of the credit reporting agencies, but not how they work. When you eventually apply for a mortgage loan, your “credit score” will become an important factor in not only obtaining a home loan but also the interest rate you will be charged. More often than you might think, credit reports are incorrect. There may be accounts still listed that were paid off, incorrect residence addresses, or credit information belonging to someone else with a similar name. There may be account of which you might not even be aware. What should you do?

Contact the credit bureaus to obtain your credit report. The three major reporting agencies are Equifax ([www.equifax.com](http://www.equifax.com)), Experian ([www.experian.com](http://www.experian.com)), and TransUnion ([www.transunion.com](http://www.transunion.com)). You can call or e-mail to obtain information. In most cases if there is incorrect information, it can be changed in a reasonable time frame. If you obtain the information on-line, be sure to copy the reports. Why is this course of action important? You are eliminating any surprises for your mortgage lender and you. Correcting your credit report involves the following steps:

- Make a copy of the report and highlight any items that you feel are not accurate.
- Write the credit bureau and give them a letter of explanation asking for an investigation. If you have supporting material, send copies.
- Also send a letter to the creditor involved in your disagreement with the same highlighted information. Often it is best to contact the creditor first so when the credit bureau calls, the dispute has already been settled.
- Be prepared to follow up with a phone call to each entity. Expect this to take several weeks.

Your second step in the home buying process is to review the numbers. With what amount of house payment will you feel comfortable? Did you figure in other home expenses such as taxes, insurance, and upkeep? The good news is you may have an additional tax deduction.<sup>1</sup> One important point to keep in mind, don't make any major

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<sup>1</sup> Always consult your tax adviser regarding the deductibility of interest.

purchases prior to applying for a mortgage loan; it could affect your ability to qualify for your dream home. People often ask the question, should I pay off some of my existing debt? The answer is, maybe. This is where a professional mortgage consultant or financial advisor can assist, and one of many very important reasons to choose a mortgage consultant or financial advisor before you shop for a home.

Usually at this point a potential homebuyer starts looking for a home, but that can be a big mistake. Choosing a mortgage company first may save you time, headache and heartache. Many consumers shop for a home first only to be disappointed when they discover they could not qualify for that particular home. They also have very little leverage in the home buying process. What do we mean by leverage? Real estate professionals will tell you that a seller of a home is much more likely to negotiate on price when they know the potential buyer is already approved. Now the important question, how do I choose the right lender and mortgage consultant or loan officer? Here are a few things to consider:

- If you had a great experience with your current mortgage company, contact them first and, if possible, make sure your mortgage consultant or loan officer is still available.
- Avoid falling into the “rate trap.” Many consumers go through the newspaper or call a number of lenders to get the lowest rate. Look for a mortgage consultant or loan officer that asks you questions regarding your needs and wants. No lender can guarantee a rate without knowing your current circumstances, including your credit score.
- Reputation is important. Do not hesitate to ask friends and relatives about their experience or if there is someone they trust. If you narrow your search to a few mortgage consultants or loan officers, ask for references. A truly professional mortgage consultant or loan officer will be glad to give you this information.
- You cannot put a price tag on great service. Check out the reputation of your lender through the Better Business Bureau. Since lending is very complicated, mortgage companies are more likely to be reported for poor service or disputes. Ask everyone you know and trust if they have heard of the companies you are considering, and never underestimate the value in the financial strength of many of the major lenders.

Finally. You are ready to meet with a mortgage consultant or loan officer and start the application process. You can help your mortgage consultant or loan officer make this process smoother by having important documents ready such as bank statements, investment accounts and job information. One very important point, always disclose everything the mortgage consultant or loan officer asks and do not try to hide any facts you think will be detrimental. In today’s “information age” the lender will find out any negative information, and if you did not disclose that information, it could hurt you in the overall loan process.

One important thing a mortgage consultant or loan officer can do for you is provide a “pre-approval.” You will hear the terms “pre-qualified” and “pre-approved.” Pre-

qualified means that based on the information you gave the mortgage consultant or loan officer, you are likely to qualify for a loan, but it is not a guarantee. Being “pre approved” is much stronger and indicates that you are approved pending such things as the appraised value of the home and an acceptable title search. Remember, being pre-approved gives you valuable leverage in the home buying process! Mortgage consultants or loan officers are required to give you an estimated breakdown of the costs you are likely to incur at closing. This estimate is provided in the form of a Good Faith Estimate (GFE).

Congratulations! You have been pre-approved for a specific loan amount. Now it is time to choose your real estate professional. Again, do your homework and check with friends and relatives who can recommend someone. When you meet with the real estate agents, have questions ready regarding their experience and make sure to ask them if they are a member of the National Association of Realtors® (NAR). Why? NAR has strict ethical codes and holds their members to high standards. Make sure you let the real estate agent know you have already been pre-approved and want to look at homes within your price range.

Now the fun begins. Are you looking for a new home, existing property, a home near schools or shopping? Figure all this out before you walk out the door and share this list of “important factors” with your agent. Do not settle, take your time and enjoy the process! Once you decide on a home you will be asked to sign a real estate contract and provide earnest money to bind the contract. This money will go into escrow and eventually go toward the home price and closing costs associated with the loan. Many things must come together for your loan to close and for you to take possession of the property. A title search will occur to be sure the property is free of any liens, homeowners insurance will have to be acquired, final loan approval and a closing date established. It is very important at this point to not be surprised at the closing if fees differ from the GFE. Ask for all information, including the HUD 1 settlement statement, before the closing so you can discuss it with your mortgage consultant, loan officer or agent.

Do not hesitate to have the property inspected by a certified professional. Existing homes will have problems, most minor but you do not want to find out something after the fact when it could have been uncovered. Do not cut corners on this important and valuable process!

Closing day! Everyone is anxious and happy. Do not get intimidated by the paperwork and feel free to have documents explained that you do not understand. Make sure your real estate agent and your mortgage consultant or loan officer have all your contact information, including phone numbers and e-mail addresses, and you have their contact information as well. You will have questions and a top professional will continue to provide support. Expect to be a little overwhelmed and maybe a little unsure. This is a big decision.

When you decide to become a homeowner, take this article with you, do your homework and enjoy the process knowing that you will be better informed than the average

consumer. We want to be sure you feel comfortable and confident as you go from renter to homeowner and acquire one of the few financial assets you can enjoy every day. Oh, and by the way, get a really good lawnmower!