



9 Things Every Buyer Must Know before Purchasing a Home

1. Know your pre-approved amount by getting pre-approved with a lender.

Before searching for a home, you should get pre-approved for a mortgage through a bank, credit union, or mortgage broker. By getting pre-approved, you show the seller that you're a serious candidate to purchase their home. Also, many sellers will reject your offer if you are not pre-approved. Finally, pre-approval allows you to know where you stand financially before searching for your dream home.

2. Know the amount per month you can comfortably pay, not the total price of the home.

While it may seem backwards, you should focus on the monthly payment you can comfortably afford and not the purchase price of the home. Too often, buyers settle on a purchase price range, not realizing that two properties that are priced identically can result in very different monthly payments because of factors like HOA fees, potential taxes, and insurance. Just because you are pre-approved for an amount does not mean that purchasing a home at your pre-approved price point will result in affordable monthly payments for you. Examine your budget carefully, determine your comfortable monthly payment amount, and work backwards to find your "ideal" purchase price.

3. Know that your credit score and report will be obtained by a lender at the time of pre-approval.

Although you may think it's obvious that a lender would pull your credit score and report, it is an important to be reminded of this because of the need to verify your report's accuracy. Current research has suggested there are over 40 million errors on credit reports. These errors can affect your score, and a difference of only 20 points in your credit score can greatly affect the amount you are approved for and your interest rate. You should know what is on all three of your credit reports and work to have any inaccurate information removed before starting the pre-approval process.

4. Know where you will be obtaining the down payment money if needed and be able to show proof.

During the pre-approval process, your lender will need to verify you have the funds available for down payment on your home. These funds can come from your own savings, a gift from a family member, or the sale of your current home. For your own funds, your lender will want to see at least a 3 month history of any source accounts you will be using and documentation of the source of any large deposits. If you are using a gift from a family member for down payment, your lender will require a gift letter from your family member verifying the funds, the ability of the giver to provide the gift funds, and the fact that the giver has no intention of having the borrower pay back the funds. If using the funds from the sale of your home, your lender will advise what documents they require, but will usually want as much information as possible on the property including an appraisal.

5. Know that you may need 3 months or more of reserve assets depending on your type of mortgage.

Depending on the type of mortgage you are eligible for (FHA, VA, USDA, Conventional, Jumbo), you may be required to show you have access to 3 months or more of reserve assets. These assets can be money in your savings or checking accounts, cash in hand, or investments such as CDs or money market accounts. You don't have to convert any of your assets to cash, but you may be required to verify they exist.

6. Know where you want to live.

When searching for a home, many buyers get distracted by what they want in a home and don't focus on where they want to live. There are many questions to consider when deciding where to live. Is there heavy traffic on the street? Can you handle a commute? What is the community like? Are you close to good schools? Are there cultural or religious organizations nearby that can serve you and your family? Answering these questions will help you decide the best area for you to search for a home.

7. Know 5 to 10 things you must have in your next home.

Be sure to think about and list the 5-10 things that are requirements for your new home. Remember, these are not wants but needs. Are you planning to expand your family and will need more bedrooms? Do you have family members with disabilities that need special accommodations (such as a single-level home or first floor condo/townhome)? Do you require a two-car garage for multiple vehicles? Once you know what you must have in your home, you can narrow your search.

8. Know 5 to 10 things you want in your next home.

Now that you know the things you must have in your next home, it's time to list the 5-10 things you really want in your next home. This is your chance to think about the things you've dreamed about; a professional kitchen, a huge yard, a spiral staircase, a cavernous bath. Listing these items will help you decide on your next home once you've narrowed the list to the homes that meet your must-haves.

9. Know that hiring a real estate agent is your best move.

The most important step before purchasing your home is hiring a professional real estate agent to represent you and negotiate for you. Buying a home is a major financial and emotional undertaking. Having professional representation will make the process as easy and rewarding as possible. An agent provides better access to sellers and the convenience of handling all the details of setting up viewings of homes you are interested in. A Realtor is trained in negotiation and real estate contracts and will make sure you receive the best value for your new home while ensuring you are covered legally.