

Mortgage 101: Tips for first-time home buyers.



Thinking about buying a home?

As you know, a house is usually the biggest purchase people ever make, and there's quite a process before you can call it your own. But don't worry, we've got you covered.

Start by getting more information about getting a mortgage:

- **Learn more about lending.** You can't just walk into a realtor's office and put a house on your credit card. And almost no one can afford to write a one-time check for the full value of a home. So, how do people pay for these houses they live in? How do they afford their homes? The answer? A mortgage, or a loan that helps you buy a house. Like any loan, you'll be responsible for paying it back — usually on a monthly basis.
- **Determine what you can afford.** Take your annual income and subtract any debts you may have. As a rule of thumb, you should be able to afford a mortgage that's about three times that amount. But... that's not all there is to consider. The best place to start is the price you pay right now. What does it cost to live where you live? Do you ever struggle to make the payment? Could you afford to spend more? Using that information will help you estimate a payment you could reasonably make.
- **Check your credit.** Take a peek at your credit score... there are tons of free resources. Your score will range from 300 to 850, and higher is better. Many lenders will require a certain score before they offer you a mortgage, and it can affect the interest rates of your loan, too. According to Bankrate, someone with a credit score of 740 or more will qualify for the lowest interest rates on a mortgage. On the flip side, someone with a lower credit score could face higher interest rates. Ultimately, lenders just want to see that you pay back what you borrow, and you do it in a timely fashion. They'll look for low balances (30 percent of your total credit limit or less) and they'll look at how recently you opened your last account. Tip: Opening a new

credit card or applying for a major loan right before you buy a house could be a red flag for lenders. Try to steer clear of accepting an auto or student loan right before buying a house, and try to pay any credit cards with high balances.

- **Schedule a meeting.** Depending on where you're looking to live, you might not be able to start house hunting until you've been approved for a mortgage. That's why meeting with a mortgage officer (or two, or three, or four) is so important. Find a few lenders in your area who you'd feel comfortable working with. Because not all lenders can offer the same loans, it could pay to shop around. Just make sure you're sharing all the same information (like the same down payment) with each lender, so it's fair to compare quotes.
- **Weigh your options.** When it comes to mortgages, there are two main types: fixed rate and adjustable rate. A fixed rate mortgage comes with an interest rate that will never change. You'll always know what your payment will be, and it's great for people who have a stable career, a family and are ready to commit to a community for years. An adjustable rate, on the other hand, has an interest rate that will be reset at specific intervals. For example, a "5/1" adjustable rate mortgage means your rate will be the same for five years, and then will be adjusted annually. With an adjustable rate mortgage, you start with a lower interest rate, which makes your monthly payment more affordable. With this type of mortgage, you could qualify for a larger loan, which would likely mean a larger house. For those who are first-time buyers, younger, and could see themselves moving around a bit, an adjustable rate mortgage is likely the best option. What's best for you? Talk to your mortgage officer about the loan that makes the most sense—including the type and the length of time.
- **Be approved to buy a house.** Throughout the approval process, know that your lenders will want to see a lot of documentation. Seeing your tax returns, bank statements, proof of income, debts, etc. will probably be a requirement. Then... when the moment finally comes and you're finally approved, remember you don't have to take the full amount you're approved for. It's better to take only what you need—no more, no less.
- **Write your wish list.** Before you start house hunting, make sure you have an idea what kind of house you're hunting for. How many bedrooms? How many bathrooms? How many floors? While you might not find a home with every feature you've ever dreamed of, you'll be more likely to come close with a list. And once you know what you can afford, you'll have an even better idea what to look for.

Ready to start the search? We can help. Check out our step-by-step guide to buying your first home.