



## Advice on Financing Your First Home

Buying your first house can be very exciting. But financing your home purchase can be a daunting experience. In both cases, do your research and shop carefully to ensure you find exactly what you want and need.

Deciding how much to spend on your home and which type of mortgage will work best for you — as well as understanding the settlement process — can be confusing. However, there are many sources that can help you get prepared well before you step foot into a sales office, model home or open house.

- Get familiar with the lingo. Our Home Buyer's Dictionary can help you.
- Figure out what you can actually afford to pay on a monthly basis. When determining the monthly payment you can afford, remember that, in addition to the monthly principal and interest, you will also be paying into escrows for property taxes, hazard insurance and possibly a homeowners or condominium association assessment. You have more knowledge about your living expenses than a lender. Hold firm with that number and don't be tempted to agree to an amount higher than what you are comfortable spending. Mortgage calculators are a great way to figure out what your monthly payments would be based on interest rates and down payment amounts. Calculators can be found on most real-estate-focused websites.
- Pay down your debts. Debt that you carry on your credit cards will limit what you qualify for from a lender. Lenders want to see a total debt service ratio that is less than 40 percent of your monthly income.
- Attend a first-time home buying seminar or talk to a credit counselor who does not work for a lender. You can research your options without being influenced by someone who has a financial interest in the home or loan you choose. The [U.S. Department of Housing and Urban Development](http://www.hud.gov) (www.hud.gov) offers free housing counseling and seminars.
- HUD also has a handy booklet on its site called "Buying Your Home: Settlement Costs and Helpful Information." It describes the home buying and settlement process and explains most of the expenses you will encounter. It is free and most lenders are required to provide their loan applicants with a copy of this document under the Real Estate Settlement Procedures Act (RESPA). However, you will be able to shop more wisely for settlement services if you have read the pamphlet before you visit a lender.

When you have done your research and are ready to move on to the next step, visit a lender, understand the loan choices that would be available to you, and, once you've determined the most suitable loan, get pre-approved for that loan. Since you will already know how much money you can borrow, you will know what price range you should be looking at and can move quickly if you are bidding on a house that has several interested buyers. A lender's pre-approval would still be subject to a final verification of your credit and a satisfactory appraisal, but it's a big step toward becoming a home owner.

