

Financing Your First Home

Buying your first house can be very exciting, but financing your home purchase can be a daunting experience. 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. Visit nahb.org for mortgage basics, a home buyer's dictionary and information on financing, insuring and settling on your new home.

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 association assessment. 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, including nahb.org.

Be realistic when estimating your monthly living expenses such as groceries, electrical and other service bills, entertainment, etc. Once you know what you can afford on a monthly basis, hold firm and don't be tempted by a higher amount than what you are comfortable spending. Pay down your debts. Debt that you carry on your credit cards will limit what you qualify for from a lender. Lenders typically 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.

The U.S. Department of Housing and Urban Development (HUD) offers free housing counseling and seminars; visit www.hud.gov for more information. 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. 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. Once you have figured out the best way to finance your new home, get out there and go find it!