

10 Ways to Prepare for Home Ownership

- 1. Decide what you can afford.** Generally, you can afford a home equal in value to between two and three times your gross income.
- 2. Develop your home wish list.** Then, prioritize the features on your list.
- 3. Select where you want to live.** Compile a list of three or four neighborhoods you'd like to live in, taking into account items such as schools, recreational facilities, area expansion plans, and safety.
- 4. Start saving.** Do you have enough money saved to qualify for a mortgage and cover your down payment? Ideally, you should have 20 percent of the purchase price saved as a down payment. Also, don't forget to factor in closing costs. Closing costs — including taxes, attorney's fee, and transfer fees — average between 2 and 7 percent of the home price.
- 5. Get your credit in order.** Obtain a copy of your credit report to make sure it is accurate and to correct any errors immediately. A credit report provides a history of your credit, bad debts, and any late payments.
- 6. Determine your mortgage qualifications.** How large of mortgage do you qualify for? Also, explore different loan options — such as 30-year or 15-year fixed mortgages or ARMs — and decide what's best for you.
- 7. Get pre-approved.** Organize all the documentation a lender will need to pre-approve you for a loan. You might need W-2 forms, copies of at least one pay stub, account numbers, and copies of two to four months of bank or credit union statements.
- 8. Weigh other sources of help with a down payment.** Do you qualify for any special mortgage or down payment assistance programs? Check with your state and local government on down payment assistance programs for first-time buyers. Or, if you have an IRA account, you can use the money you've saved to buy your first home without paying a penalty for early withdrawal.
- 9. Calculate the costs of homeownership.** This should include property taxes, insurance, maintenance and utilities, and association fees, if applicable.
- 10. Contact a REALTOR®.** Find an experienced REALTOR® who can help guide you through the process.