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## House Hunt with Open Eyes and an Open Mind



### DWELLING ON DWELLINGS:

By **Brad Boisvert**

Buying a house will be one of the most exciting experiences of your lifetime. It can also be one of the most financially daunting. So before you review homes for sale in the classifieds, you should first review your financial situation.

Owning a home is a big part of the American Dream; but do you have the wherewithal to have it all? A good credit rating increases your chances of getting the best rate, fees, and points on your mortgage.

Your first act of home economics should be to create a viable budget and stick to it. Pay off as many debts as you can. Having big balances on several credit cards will not only make it difficult to make house payments, it will make it more difficult to get a home loan in the first place.

Equally important, save for a down-payment. These tips may help:

1. Rather than putting all your savings in one bank account, set up a separate savings account exclusively for your down-payment to keep you focused on your home-buying goal. If you don't have the will power, have this money automatically deducted from your paycheck.
2. If you can swing it, put as much of a second income toward your down-payment savings.
3. Make a monthly payment to yourself. As you pay off your debts, deposit the money you previously spent on monthly credit card bills into your savings account.
4. Have a garage sale. After all, why pack junk for your move

when you could pack extra cash into your down-payment?

5. Put any bonuses, refunds, or gift money into your down-payment savings account.

For additional help, ask your real estate agent or lender about more creative home-loan financing. There may be other ways to finagle a down-payment ... that don't involve selling a kidney. Arguably, however, the best way to save for a home is to be is to simply be patience, responsible, and frugal.

No doubt it's important to stick to a plan before you buy a house. Yet for home-ownership to be viable, you should also consider what your budget will be like after you buy. Make sure you weigh all the costs, such as repairs, property taxes, and insurance. Property taxes vary, so thoroughly research the area you'd like to live in.

How much of a house can you afford? For a rough idea, multiply your gross annual household income by 2.5. For example, if you and your spouse earn \$70,000 collectively, you may qualify for a \$175,000 home. (This is only a rule of thumb and individual cases will vary depending on a lot of factors.)

Lenders use debt-to-income ratios to evaluate how much of a monthly house payment you can afford. You should be wary if your combined monthly credit cards, personal loans, car loans, and mortgage payments are more than 36 percent of your monthly income (certainly lenders will be).

Your safest bet is to get prequalified for a home loan. Getting pre-approved will greatly facilitate the buying process and take a bit of the stress of you by letting you know exactly what you can afford.

To get prequalified, your lender will ask you for detailed financial information. He or she will pull and analyze your credit report, examine your debt-to-income ratios, and let you know the price range your likely to be approved for. (Note: you don't have to use the lender who prequalified you when it comes time to actually getting the loan. When it's time to get a mortgage, shop around and compare interest rates and costs.)

Once you're more confident of what you can afford, the home-buying experience should be less stressful if not more enjoyable. The process of getting a mortgage is laden with paperwork and can be complex. But your real estate agent can help you through that. To make everybody's job easier, keep copies of all important financial documents and maintain detailed records of everything that relates to money. Your lender will want to see copies of tax returns, pay stubs, bank statements, verification of employment and anything else that may help paint your financial picture.

In the meantime, you can do your part by making sure your financial picture is painted more in the black than in the red.

Brad Boisvert is a successful real estate professional, based in Portsmouth. If you have questions about buying or selling a home, you may reach Brad at (603) 431-1111 x12.