

# Thinking About Your Next Home?

*"Decided to look for that a new home? Read this article to help you prepare for the big step... before you start to look!" – Jim & Connie*

## Step 1: How much home can you afford?

It's essential to consider how much you can afford to pay **before** you look for a house. Considering affordability early on will save you time and money because you won't make offers on houses outside your price range or apply for loans that are out of your ballpark. It will be easier to get a loan, and, if necessary, you will be able to take creative steps toward improving your financial and credit profile.

As a rule of thumb, most people can afford to purchase a house worth about three times their total gross annual income. (Assuming a 20% down payment and a moderate amount of other long-term debts, such as car or student loan payments). With no other debts, you can probably afford a house worth up to four or even five times your gross annual income. Lenders normally want you to make all monthly housing payments with 28%-38% of your monthly income -- the percentage depends on the amount of your down payment, the interest rate on the type of mortgage you want, your credit history, the level of your long-term debts and other factors.

## Step 2: What is your credit history?

When reviewing loan applications and making financing decisions, lenders typically request that the credit bureaus reporting your file (Equifax, Experian, TransUnion) provide your credit risk score, a statistical summary of the information in your credit report, including:

- Your history of paying bills on time.
- The level of your outstanding debts.
- How long you've had credit
- Your credit limit.
- The number of inquiries for your credit report (too many can lower your score).
- The types of credit you have.

The higher your credit score, the easier it will be to get a loan. If you routinely pay your bills late, you can expect a lower score, in which case a lender may either reject your loan application altogether or insist on a very large down payment or high interest rate to lower the lender's risk. Again, the internet is the place to go to check your credit report. Go to [www.myfico.com](http://www.myfico.com) to find out your credit score and request a credit report for a very small fee. If you find that there are errors on the report, write to the credit bureau, describe the mistake and request an investigation. Correcting any errors on your report can take up to 45 days. That is why this step is always done before looking at homes and before talking to a lender.

**Note: For more information about credit reports, be sure to read our article on Credit Reports in the 'For Buyers' section.**

## Step 3: Loan Preapproval vs Loan Prequalification

Up to this point, you have a fairly good idea on how much home you can afford and your credit record is in good shape (or you have plans to improve it) But before you go out and start looking at homes, it is highly recommended to contact a lender. The reason for this is that you want to be **pre-qualified** or **pre-approved** for the maximum amount of loan you can afford. This process can take up to 60 days. If you do not know of a good, qualified lender, please contact us and we would be happy to recommend proven lenders.

**Prequalification** will be in a letter form from the lender stating that you qualify for the loan amount specified based on your stated income and credit history. This gives you confidence of the amount of loan as it is backed up by a professional lender's calculations. It will also state approximately how much you'll need for a down payment and closing costs.

**Preapproval** goes a step further. Rather than simply relying on your own statement about your income and debts, the lender has checked your credit, supported your information about your income/expenses and evaluated your financial situation. **Preapproval** means that the lender would actually fund the loan, pending the following:

- Appraisal of the Property
- Title Report
- Purchase Contract

Having a lender **preapprove** you for a loan is crucial in a competitive market and gives you leverage when making an offer on a home.

Listed here is information the lender will need:

- Employment
  - History last 2 years.
  - Gross monthly income & last pay stub.
  - Proof of other income.
- Self-employed
  - 2 years 1040 returns.
  - Current P/L statement.
- Creditors (those you owe money)
  - Name/address/account type/account numbers.
  - Monthly payment & balances.
- Child Care expenses.
- Banking
  - Name/address/account type/account numbers.
  - Present balances.
- Assets
  - Stocks, bonds, land.
  - Life insurance cash value.
  - Social security #
  - Vets-cert of eligibility
- Cash for application fee

#### Step 4: What are your Needs, Wants and Wishes for your next home?

Up to now, you know how much of a home you can afford which is backed up by your lender on a pre-approval status. Review all of the following questions with three words in mind – NEEDS, WANTS, WISHES.

Needs are those things that you must have. Wants are those things that would be nice but you can live without. Wishes are those things that if you could get, it would be amazing. So review the questions below to help you get started and remind yourself of the needs, wants, and wishes.

- If you own a home, do you buy first or sell first?
- Single family home, condo or townhouse?
- What areas do you want to live in? Look at the neighborhoods, nearby parks, schools, etc. Talk to residents about the things they like and dislike about their neighborhood.
- Where are the daycare centers?
- Are schools important? Is the school district progressive?. Are levies being passed?
- Do you need to be close to public transportation?
- Is it important to be close to major arterials or freeways?
- How close are stores and shopping centers? Do you need to drive far for a gallon of milk?
- How far to travel to your work? How long will it take to commute?
- What kind of outside look or architectural style do you prefer.
- Would you prefer a low maintenance exterior such as stucco or vinyl siding for example?
- Would the age of the home be important to you?
- What kind of floor plan would you prefer? Open, boxed, multilevel?

- Is it important to have a lower level walkout or is a full basement satisfactory?
- How many bedrooms and bathrooms would you prefer?
- Is it important to have a completely, finished house, or do you plan on completing any necessary finishing?
- Would you like the laundry room on the main level?
- What size garage do you need? 2 stall, 3 stall, etc.
- Would you like a fireplace? Wood burning or gas?

#### Step 5: Team up with professionals!

You have already selected a lender, now is the time to select a real estate agent. You may know of someone in the business, a friend or relative. If you think you can work with them, by all means do so. If you do not know of anyone, ask those you know who have recently bought or sold a home to recommend agents they had worked with. We recommend that you interview several agents to make sure you would like to work with during the upcoming weeks in purchasing your next home. It is important that you are represented with an agent you like, who gives you a confidence in understanding your wants and needs in a home and one you can trust.

#### Step 6: Agency Relationships – Agents can wear many hats!

When you begin a dialog with an agent, they will go over with you a document which explains the different relationships that occur between an agent and consumer. There are about five different ways an agent appears to a consumer. This disclosure is required by Minnesota State law. This document is called [Agency Relationships in Real Estate Transactions](#). They will ask you to sign it after you have read and understood it. This is not a contract and is for your benefit. If you should still have questions after reading this form, please give us a call.

#### Step 7: Buyer Representation – Don't look for a home without it!

Once you have chosen an agent, you will want to be represented and this takes the form of a legal contract. This contract form is called [Contract For Exclusive Right To Represent Buyer](#). Signing this contract will allow a professional to represent you in purchasing a home. The agent will work hard for you in knowing you are relying on him/her solely for their services. The contract will state the number of days and when it will terminate, the type of compensation and fees and the nature of real estate property to be purchased. This contract can be cancelled by mutual agreement.

#### Step 8: Find Your Next Home.

Start looking and enjoy the ride!



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