



6 Things to Consider Before Buying Your First Home

1. The Process

There's work to do before you even start looking at houses with a realtor.

Before you look:

- Save your money. You'll need it for a down payment, a home inspection, closing costs, some repairs or upgrades to your new home, and monthly mortgage payments.
- Get prequalified for a loan to learn how much house you can afford. This keeps you from looking at houses that are out of your price range and also lets sellers know you're serious and can afford their home.

2. Affordability

You need to seriously crunch the numbers of your monthly income to see just what kind of mortgage payment you're comfortable with.

Just because you've been preapproved for a certain amount doesn't mean you have to max out that loan with your first home. In fact, you may not want to spend every penny on your home loan every month. When considering how much house you can afford, here are some other costs to be aware of:

Mortgage payments are the monthly payments you make to the bank to pay back your loan. Often, these payments include not just the principal and interest on the loan, but also property taxes and homeowners' insurance. If your lender does not collect and pay out your taxes and insurance, you'll be responsible for them yourself.

Closing costs, which are paid at the loan closing, might include lender and attorney fees, flood or title insurance, and any up-front interest on your loan -- called points.

Your new neighborhood may have a homeowners association with required monthly or annual dues.

Keep all of these expenses in mind as you're shopping for a new home, and talk to your real estate agent and lender about any other unexpected expenses to expect.

3. Credit Score

Your credit score has a huge impact on what your monthly payments will be.

Before you begin shopping for a house, get a copy of your credit report. Your credit score will play a large part in determining the interest rate you are able to get on your loan. The FICO credit score is the most widely used and ranges from 300 to 850 [source: Bankrate Credit].

Credit scores are affected by such things as the number of credit cards you have, outstanding balances, student and car loans, and whether you pay your bills on time. The higher your credit score, the more likely you'll be able to get a loan to buy a house at a lower interest rate.

4. Down Payment

The bigger your down payment, the better positioned you are as a home buyer.

The down payment, which is the money you pay up front for your home, can vary from 0 to 20 percent or more, depending on the loan type and your credit rating. Do your research and talk to lenders in your area about how much you will have to put down.

Credit unions and several government-backed programs -- including the Veterans Administration (VA) and the Federal Housing Administration (FHA) -- offer low-down-payment loans. Most conventional loans -- not government-sponsored -- require more down. Many first-time homebuyers have trouble saving enough for the down payment. The lucky ones have a family that will give them money to help with it. Before you get too excited, talk the gift over with your lender, who will want to be sure the money is an outright gift and not a loan dressed up like a gift.

5. Job

If a long commute is something you just can't stomach and you feel your job is fairly stable, you'll want to focus your home search to areas near your work.

There are a couple of things related to your job that are important when you're thinking of buying a house. First, how stable is it? Have you had your job for at least a year? Do you see yourself staying with the job for the next few years? These are things a lender will look at and talk to you about before making a loan.

The second thing to consider is your commute. Does it matter to you how long it is? Does it matter to your partner? If you choose a house close to work and then either lose your job or take a job in a different area, is that still a place you'd be happy to live? Maybe you work from home. If so, do you need dedicated space for equipment, computers, or a phone? There are no right or wrong answers to these kinds of questions. Just think seriously about them, and talk to your housemate about them as well, to find the right answers for your situation.

6. Home Repairs and Maintenance

Every house will need work at some point. If you're not ready for the expenses of upkeep, you might want to reconsider buying.

Some of the hidden costs of home ownership are in repairs and maintenance. When thinking about how much house you can afford, consider these costs before you commit to a monthly payment that will take up your entire budget. What happens if the air conditioning needs to be replaced, the roof leaks, or the refrigerator dies? Consider putting money aside every month to cover those home emergencies, which will crop up more often than you think.

If you're handy, you might consider buying a house that needs some work. You can probably get it for much less than a perfect home, and then you can put in what's commonly called "sweat equity." Later, when you have the home of your dreams, it may be worth much more than you paid for it. Talk to your real estate agent about whether or not home values are rising in your area. You don't want to buy a fixer-upper that's in a neighborhood on the decline.