

10 Steps to Prepare for Homeownership

1. Decide how much home you can afford. Generally, you can afford a home equal in value to between two and three times your gross income.
2. Develop a wish list of what you'd like your home to have. Then prioritize the features on your list.
3. Select three or four neighborhoods you'd like to live in. Consider items such as schools, recreational facilities, area expansion plans, and safety.
4. Determine if you have enough saved to cover your downpayment and closing costs. Closing costs, including taxes, attorney's fee, and transfer fees average between 2 percent and 7 percent of the home price.
5. Get your credit in order. Obtain a copy of your credit report.
6. Determine how large a mortgage you can qualify for. Also explore different loans options and decide what's best for you.
7. Organize all the documentation a lender will need to preapprove you for a loan.
8. Do research to determine if you qualify for any special mortgage or downpayment-assistance programs.
9. Calculate the costs of homeownership, including property taxes, insurance, maintenance, and association fees, if applicable.
10. Find an experienced REALTOR[®] who can help you through the process.

How Big a Mortgage Can I Afford?

Not only does owning a home give you a haven for yourself and your family, it makes great financial sense, too.

This calculation assumes a 28 percent income tax bracket. If your bracket is higher, your savings will be, too.

Rent: _____

Multiplier: X 1.32

Mortgage payment: _____

Because of tax deductions, you can make a mortgage payment—including taxes and insurance—that is approximately one-third larger than your current rent payment and end up with the same amount of income.

For more help, use Fannie Mae's [online mortgage calculators](http://www.fanniemae.com/homebuyers/calculators/index.jhtml?p=Resources&s=Calculators) at <http://www.fanniemae.com/homebuyers/calculators/index.jhtml?p=Resources&s=Calculators>

7 Reasons to Own Your Own Home

1. **Tax breaks.** The U.S. Tax Code lets you deduct the interest you pay on your mortgage, property taxes you pay, and some of the costs involved in buying your home.
2. **Gains.** Between 1998 and 2002, national home prices increased at an average of 5.4 percent annually. And while there's no guarantee of appreciation, a 2001 study by the NATIONAL ASSOCIATION OF REALTORS® found that a typical homeowner has approximately \$50,000 of unrealized gain in a home.
3. **Equity.** Money paid for rent is money that you'll never see again, but mortgage payments let you build equity ownership interest in your home.
4. **Savings.** Building equity in your home is a ready-made savings plan. And when you sell, you can generally take up to \$250,000 (\$500,000 for a married couple) as gain without owing any federal income tax.
5. **Predictability.** Unlike rent, your mortgage payments don't go up over the years so your housing costs may actually decline as you own the home longer. However, keep in mind that property taxes and insurance costs will rise.
6. **Freedom.** The home is yours. You can decorate any way you want and be able to benefit from your investment for as long as you own the home.
7. **Stability.** Remaining in one neighborhood for several years gives you a chance to participate in community activities, lets you and your family establish lasting friendships, and offers your children the benefit of educational continuity.

To calculate whether renting or buying is the best financial option for you, use this calculator courtesy of Ginnie Mae:

http://www.ginniemae.gov/rent_vs_buy/rent_vs_buy_calc.asp?Section=YPTH

5 Common First-Time Homebuyer Mistakes

1. They don't ask enough questions of their lender and miss out on the best deal.
2. They don't act quickly enough to make a decision and someone else buys the house.
3. They don't find the right real estate professional who is willing to help you through the homebuying process.
4. They don't do enough to make their offer look good to a seller.
5. They don't think about resale *before* they buy. The average first-time buyer only stays in a home for four years.

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10 Tips for First-Time Homebuyers

1. **Be picky, but don't be unrealistic.** There is no perfect home.
2. **Do your homework before you start looking.** Decide specifically what features you want in a home and which are most important to you.
3. **Get your finances in order.** Review your credit report and be sure you have enough money to cover your downpayment and your closing costs.
4. **Don't wait to get a loan.** Talk to a lender and get prequalified for a mortgage before you start looking.
5. **Don't ask too many people for opinions.** It will drive you crazy. Select one or two people to turn to if you feel you need a second opinion.
6. **Decide when you could move.** When is your lease up? Are you allowed to sublet? How tight is the rental market in your area?
7. **Think long-term.** Are you looking for a starter house with the idea of moving up in a few years or do you hope to stay in this home longer? This decision may dictate what type of home you'll buy as well as the type of mortgage terms that suit you best.
8. **Don't let yourself be "house poor".** If you max yourself out to buy the biggest home you can afford, you'll have no money left for maintenance or decoration or to save money for other financial goals.
9. **Don't be naïve.** Insist on a home inspection and, if possible, get a warranty from the seller to cover defects within one year.
10. **Get help.** Consider hiring a REALTOR® as a buyer's representative. Unlike a listing agent, whose first duty is to the seller, a buyer's representative is working only for you. And often, buyer's reps are paid out of the seller's commission payment.