If You're Purchasing a House, Keep These Ten Tips in Mind

Looking for a home? Maybe you need directions.

Most of us buy homes so infrequently that we never become experts. That means there is a fair chance we'll mess up – which is a tad worrisome, given the hefty sums involved.

What to do? Here are ten tips for home buyers.

1. Save 20%. To avoid taking out private mortgage insurance or using some costly combination of mortgages, you typically have to put down 20% of a home's purchase price.

If you're in your 20s and fairly new to the work force, it can be hard to scrape together that 20%, unless you get financial help from your parents or elsewhere. Still, save as much as you can. The more you put down, the easier it should be to get a mortgage – and the lower your mortgage rate is likely to be.

2. Then save a little more. In addition to making a down payment, you will likely face a slew of other home-purchasing costs, including legal fees, mortgage application expenses, home inspection costs, title insurance and moving costs.

3. Gauge your borrowing ability. How big a house can you buy? That'll depend on how much you put down – and how much you can borrow.

As a general rule, the bank will let you take on monthly mortgage payments, including property taxes and homeowners' insurance, equal to 28% of your pretax income. In other words, if you earn $60,000 a year or $5,000 a month, a bank might lend you enough for a mortgage that requires monthly payments of $1,400. But if you have little or no other debt, you might be allowed to borrow more.

> "Remember, if you don't manage to purchase the house that caught your eye, there will always be other places to buy – and to fall in love with."

To find out what sorts of monthly payments you might reasonably take on – and how much that means you can borrow – try the various calculators at www.hsh.com.

4. Check your credit. Your ability to borrow will depend not only on your income, but also on your credit history. To get a free copy of your credit report from the three major credit bureaus, go to www.annualcreditreport.com. See whether there's any negative information in your credit report – and anything that needs correcting.

Also consider purchasing your credit score. You can do that at www.annualcreditreport.com, www.equifax.com, www.experian.com, www.myfico.com and www.transunion.com.

5. Location, location, location. Now that you have a rough idea of how much house you can afford, start looking for the right town or neighborhood.

People tend to pay attention to things like nearby shopping, the reputation of the schools and the quality of local housing. But also think carefully about how far you will have to commute each day. An extra ten minutes' drive each way to work might seem like small potatoes – but after a few weeks, it will likely loom large.

6. Buy for the long haul. Purchasing and especially selling real estate can be horribly expensive, so you want to do it as infrequently as possible.

That means aiming to buy a home that you can see living in for a good long time, and preferably no less than five years. To boost the chances that you will be happy remaining in your new house, you might even stretch to buy a slightly more expensive place – but only do that if you think your job is secure and your income is likely to rise.

7. Factor in remodeling costs. Inevitably, you will want to spruce up the house you buy. Indeed, you might even toy with buying a decrepit home and then fixing it up.

But this is usually an expensive proposition and you are unlikely to recoup the full cost of any remodeling projects, as you will discover from the Cost vs. Value survey at remodeling.hw.net.

These survey estimates are based on selling your home within a year of making the improvements. The longer you wait, the less you will probably recoup.

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One implication: Instead of making improvements that are likely to be money losers, you may be better off finding a home that has been fixed up to your liking – and then buying the owner's improvements at a discount.

8. Prepare to walk. Once a house catches your eye, it's easy to become an overly anxious buyer – and to raise your bid by $10,000 or $20,000 without much thought.

But it would likely take you years to save $20,000, so you shouldn't be too quick to part with the extra money. Remember, if you don't manage to purchase the house that caught your eye, there will always be other places to buy – and to fall in love with.

9. Play the banks. Once you have agreed to purchase a house, you will likely need to get a mortgage. Lean toward taking out a fixed-rate mortgage. If you have a steady income and a stomach for risk, you might consider an adjustable-rate mortgage. But be warned: That will involve fluctuating payments.

10. Stay off point. Think long and hard before paying extra money, in the form of "points," to get a lower mortgage rate. While the lower rate may seem attractive, many folks move or refinance before they recoup the money they paid to get that lower rate.

HOUSE HUNTING

- Search for your next home at **www.realtor.com** and explore different places to live at **www.bestplaces.net**.
- Get an estimate of your home's value at **www.zillow.com**.

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