

Getting Pre-qualified

Buying a home can be an enriching experience. But, it can also be frustrating if you waste time looking at homes you can't afford. Do yourself a favor and find out how much you can afford before you start looking.

Three factors will determine your price range. The first is the amount of cash you have for a down payment and closing costs. The second is the size of the mortgage you can qualify for. The final factor is how much you want to pay.

Although some buyers can pay all cash, most must borrow a mortgage from a lender to finance their home purchase. To qualify you for a mortgage, a lender will analyze your financial situation, including your credit history, to make sure that you are a good credit risk.

The easiest way to find out what size mortgage you qualify for is to talk to a loan professional. Assemble the following information about your current financial situation before you make any calls: Your gross income (before income taxes are subtracted), your outstanding debts (i.e. a car or student loan and unpaid credit card bills), any recurring obligations such as alimony or child support, and the amount of cash you have available for a down payment and closing costs. Based on this information, a lender or broker can tell you how much you can afford.

This cursory review of your finances is called pre-qualification. Once you've been pre-qualified, you can start looking at homes for sale. This will give you a sense for how much house you will get for the price you can afford to pay. But, as soon as you are serious about buying, you should get formally approved for the mortgage you'll need to complete a purchase.

Pre-approval is the process by which you are formally approved for a mortgage. You will need to submit a loan application. Pre-approved buyers have an edge in home purchase negotiations because pre-approval lessens any uncertainties the sellers might have about your financial capabilities.

HOUSE HUNTING TIP: Buyers often find that they qualify for a higher price than they feel comfortable paying. So regardless of how large a mortgage you qualify for, you should review your personal financial goals to determine a realistic price range.

It's useful to tally your monthly expenditures to see if there are any expenses that can be eliminated. Also, consider any major changes in your life that might affect your income and expenses, such as a new baby on the way or a planned return to school.

It's also important to consider the after-tax cost of home ownership. With certain limitations, homeowners who itemize deductions can deduct the costs of property taxes and mortgage interest paid on their principal residence in the year they are paid. This can amount to a significant tax saving.

THE CLOSING: Find out what you qualify for before you make an offer. Help reduce your own stress in the home buying process.

