12 Steps to Buy A House

Step 1. Start saving

Buying a home takes a lot of time -- likely more time than you figured. Exhibit "A" in this case is the "saving for a new home period." This timetable starts well before you see your dream home for the first time. To act fast on a great home purchase opportunity, you're going to need cash, and the more the better. Your chances of buying a home are greatly increased if you can show a lender you have plenty of cash saved up, and that you can meet the seller's likely demand that you can bring the cash needed to buy a home to the negotiating table. That means saving money early and often -- and starting well before you set eyes on that dream home.

Step 2. Figure out your home down payment needs

While many homes (especially home loan deals backed by the FHA) can be purchased with as low as a 3% down payment, many others cannot. Thus, the goal is to have 20% of the potential cost of your home saved up for a down payment -- make that figure your savings goal going into the home purchase process.

Step 3. Check your credit score

You'll want to know in advance that you likely qualify for a home loan, and that's where a credit check can prove invaluable when you buy a house. Your credit check will track your financial health using data from the three primary credit reporting agencies -- Equifax, TransUnion and Experian. Your credit score from each agency can range anywhere from 350 to 800. The higher the credit score, the more likely you'll be granted a home loan, and the more likely you'll pay a lower interest rate when securing a home mortgage (that's because a high credit score will be viewed by a mortgage lender as a lower-risk loan proposition). In your run-up to your credit check, avoid taking out any loans or credit -- that will raise your credit risk level in the eyes of lenders -- and make sure you pay down any debt owed, and ensure you've got a good track record of paying your bills on time.

Step 4. Estimate your monthly mortgage costs

A mortgage is defined as a secured loan that uses your home as collateral. The key here is to identify what monthly mortgage payment you can afford without losing any sleep at night. Expect that figure to be around 15%-to-30% of your monthly income (depending on your local tax rates and the amount of your homeowner insurance). This step ties into step one -- the more money you save, the less you'll have to pay on your mortgage loan interest (see next step below.)

Step 5. Get to know interest rates

Interest rates are the term used to describe the percentage you'll pay your lender to borrow the money you'll need to buy your home. By and large, your mortgage will be paid off either at a 15-year or 30-year timetable. As far as interest rates go, the shorter the time you'll need to pay off the mortgage, the more favorable your interest rate. The lower your interest rate, the less your monthly mortgage payment will be. Consequently, job one when you go shopping for a mortgage lender is to compare interest rates -- and choose the loan where those rates are the lowest you can find.

Step 6. Learn your mortgage options

While there is seemingly no end to the scope and breadth of home mortgages, chances are you'll wind up mulling over two options: fixed rate and variable rate mortgages. Here's a breakdown on each home loan option:

- ***Fixed rate mortgages*** are just what they say they are -- mortgage loans that allow borrowers to "lock in" a fixed interest rate over the complete loan period (typically 15-to-30 years.) There are upsides and downsides to fixed-rate mortgages, depending on the direction of interest rates. If rates spiral downward, the loan borrower is stuck paying the higher interest rate stated on the mortgage loan contract. On the other hand, if interest rates climb, the borrower's fixed interest rate insulates them from paying the added costs linked to mortgage loans with soaring interest rates after the mortgage is signed.
- ***Variable rate mortgages*** are also known as adjustable rate mortgages, float up and down on a regular basis, based on the movement of U.S. Treasury bonds. Treasuries are tied closely to the overall U.S. economy, and ebb and flow based on the health of our nation's economy. Variable rate mortgages typically come with lower interest rates up front, but with the potential of seeing those rates rise after an interim period of five-to-seven years after the mortgage loan is signed.

Step 7. Get pre-qualified for a mortgage loan

Getting pre-qualified for a home loan is a critical step in the mortgage process. Do so by approaching a mortgage lender or a bank and provide them with the necessary loan document information to get approved for a home loan. That includes your annual income, your household debt and your household assets -- and in some cases, your tax returns (especially if you own your own business.) Once you provide this information to a lender, they'll review your data and come back with a mortgage amount you're likely qualified to obtain. Normally, there is no cost to you for a mortgage pre-qualification, and you won't likely undergo a credit check -- not yet, anyway.

Step 8. Hire a real estate agent

Having a good real estate agent on your side can help you eliminate the homes that don't meet your unique needs, and hone in on the home that does meet those needs. A savvy real estate agent knows the good homes in the good neighborhoods and communities, and can help you negotiate a better price once you've focused on a single property. A real estate agent will also be there with you when you close on the house, and can steer you away from making any last-minute mistakes, and help you cut down on often-onerous home closing costs.

Step 9. Get pre-approved for a mortgage loan

Now you're getting into serious home buying territory. Once a bank or mortgage lender gives you a price range for a home mortgage, you can go ahead and attempt to get pre-approved for a home loan. In a pre-approval scenario, a mortgage lender will dig deeper into your personal finances. You'll fill out a mortgage application (and pay a fee to do so), undergo an extensive credit check and answer any questions a mortgage lender may have about your ability to repay a mortgage on time, and in full. If you're approved, you'll receive a conditional commitment from a mortgage lender to green light a home loan for a specific loan amount and with a specific interest rate range. A pre-approval document from a lender is pure gold for a home buyer, as it shows a demonstrated ability to procure an actual mortgage, and shows a home seller that you're a serious buyer.

Step 10. Start shopping and choose a home

Once you've got your savings growing, your down payment set, and you are pre-qualified and pre-approved, start the search for your home. Begin by using sites like Zillow.com or Realtor.com to zero in on the home you want and the community you want to live in. Factor in key lifestyle needs -- like good schools, decent commute to your job, manageable property taxes, and ultimately, a home that has a good chance of appreciating in value if you ever want to sell it.

Once you find a home you like, go see it multiple times and give it a thorough walk-through. If you still like it, be prepared to make an offer as soon as possible, and let them know you're pre-approved for a home loan.

Step 11. Get your mortgage loan approved for a specific home

The last step in securing a home mortgage, and ultimately buying a home, is getting an official loan commitment for a specific home and for a specific sales price. Once again, you'll undergo a credit check, so make sure you don't take out any loans or new credit cards right up to home closing date - that could impact your mortgage loan in a negative way. At this point, you don't want to raise any "red flags" to lenders, so keep your personal balance sheet clean during the mortgage loan approval process. Once you've cleared this hurdle, you'll get a loan approval letter for the specific home you want to buy.

Step 12. Get your home inspected and appraised

Your mortgage loan provider will want you to get your home fully appraised by a professional home appraiser. That's because the mortgage provider wants to make sure the home is valued near or above the sale price, thus ensuring a better chance that the loan will be repaid. You'll also want to get a home inspection, to ensure there are no defects like a leaky roof, mold in the home, or cracks in the infrastructure, among other cost-prohibitive issues.

Mistakes to Avoid When Buying a Home

Make sure you cover this checklist of mistakes to avoid when buying a home.

- **Not having a realtor**. You'll want a seasoned real estate professional to guide you through what can be a complicated home buying process.
- **Not having an inspection**. A good home inspection can shine a spotlight on needed repairs -- before you own the home and have to pay for all of them.
- **Not taking care of your credit**. Without a decent credit score (a FICO credit score of 660-or-over is recommended) you'll have problems getting a home mortgage. Take care of your credit health first before buying a home.
- **Not getting pre-approved for a home loan**. If you set your sites on a dream home without the backing of a pre-approved home mortgage, someone who does have their mortgage pre-approved may beat you to the punch and buy the home out from under you.
- **Buying "too much house."** Overpaying for a new home can set the stage for years of worrying about covering the monthly mortgage payment and stop you from truly enjoying your home ownership experience. Only buy a home you can afford, and never talk yourself into buying a home for more money than it's worth.

Cutting the Home Purchase Deal

Once the mortgage loan is in place and the home is determined to be properly valued and in good condition, a deal can be struck to buy the home. A closing date will be determined where you'll sign the home sales contract, pay the seller, and get the keys to your home.

It's a good idea to have your real estate agent or mortgage broker on hand to guide you through the closing cost process. They can point out any issues in the contract, and keep closing costs down to a manageable minimum.

Once the closing commences, you'll officially own the home, and can move right in knowing that you've taken the right steps to buy your dream property -- on your terms and to maximum financial benefit.