Making a game plan

Buying a home is a time of enormous possiblities and intense preparation. Doing some preliminary planning before you begin your home search will make the entire process more manageable and less overwhelming. As part of your initial game plan, you should:

- Fine-tune your credit rating;
- Explore mortgage pre-qualification and pre-approval;
- Make a wish list to learn what you need, want and don't want in a new home.

Check your credit rating

Even if you're sure you have excellent credit, it's wise to double-check at the outset. Straightening out any errors or disputed items now will avoid troublesome holdups down the road when you're waiting for mortgage approval.

You may see disputed items, in addition to errors caused by a faulty social security number, a name similar to yours, or a court ordered judgment you paid off.

TIP: **Make sure that any outdated derogatory entries are deleted from your credit file.** Adverse credit information is not supposed to be reported or included in your credit report after seven years (except bankruptcy information, which can be reported up to ten years).

TIP: **Officially cancel inactive credit cards.** If you have an inactive credit card with a $5,000 limit, even though you owe nothing on it, some mortgage lenders will consider that a potential future debt. Too many inactive credit cards with significant credit limits could keep you from obtaining a mortgage loan. Don't just cut up your extra cards; officially cancel them, and do it now so there will be time for the news to reach the credit bureaus.

TIP: **Hold off on making any major credit card or car purchases while you're waiting to apply for a mortgage.** Monthly payments you're obligated to pay will be counted against you, and reduce the amount of the mortgage loan you'll be offered. Even if you've been pre-approved for a mortgage, that approval is subject to last-minute evaluation of your financial situation, and a spending spree for appliances, furniture and other goodies intended for your new home may wreck your chances for buying it.

Pre-qualification and Pre-approval on a Mortgage

I will assist you in "pre-qualifying" for a mortgage before we start house-hunting. Over the years, I have worked with several good mortgage brokers, or mortgage counselors who can calculate what you may be able to afford on a house purchase with no obligation or fee to you.

Obtaining mortgage "pre-approval" is another thing entirely. It means that you have in hand a lender's written commitment to put together a loan for you (subject only to the particular house you want to buy passing the lender's appraisal, etc.)

Being pre-approved will make you a stronger buyer when it comes to negotiating a contract. With most other purchasers, sellers must tie the house up on a contract while waiting to see if the would-be-buyer can really obtain financing.

The down side of getting pre-approved is that you must pay an application fee to cover the lender's paperwork in order to verify your employment, income, assets, debts and credit rating. If you later decide not to use that particular lender, you'd have to start all over again elsewhere - with no rebate.

Pre-approval will also speed up the entire mortgage procedure once you've found the house you want. The only remaining question will be whether the house will "appraise" for enough to warrant the loan.

Closing Costs

No later than three business days after your loan application was received your lender should have delivered or mailed to you a "good faith estimate" of the total charges due at closing and a copy of the government publication "Settlement Costs: A HUD Guide."

How does buying compare to renting?

Renting offers a lifestyle that's nearly maintenance-free. That may appeal to you, but consider that renting offers you no equity, no tax benefit, and most likely no protection against regular rent increases.

If your rent has averaged $700 a month for the last 10 years, you've spent $84,000 with nothing to show for it. Isn't it time you invested in yourself instead of your landlord?

Several financing options hold special advantages for first-time buyers or families with limited cash reserves. FHA-insured and VA-guaranteed mortgages can minimize or even eliminate your down payment. You may also consider borrowing cash for a down payment from life insurance, profit-sharing, retirement account or relatives.

In addition to tax deductions you'll likely receive that can partially offset the cost of real estate taxes, insurance and home maintenance, your home may appreciate in value. Say you purchase a home that costs $100,000. If property increases in value a meager 2% each year, your potential appreciation in just two years is nearly $4,200. And thanks to recent changes to the tax code, but subject to certain restrictions up to 250K/500K if married filing jointly, the profit you make when you sell the house is tax free as long as you own the property for a minimum of 24 months.