

# Buying a house?

## Then you need a 10-point checklist

If you're new to the homebuying process, here's a guide to help you through each step, from thinking about buying a home to closing the deal.

### 1. Check your credit and strengthen it if necessary

You can obtain a conventional loan with a FICO score under 740, but you may pay a lot more in interest over the life of a \$250,000, 30-year mortgage than a top-tier (760-plus) borrower.

So, before you even start the homebuying process, check your own credit. Make sure you use an actual FICO score, as this is what most lenders see. Doing this first will give you plenty of time to work on your credit score if necessary.

### 2. Decide on a reasonable budget

It's possible to obtain a mortgage whose payment makes your total monthly debts 45% of your pre-tax income, but by no means should most people spend this much. Depending on your tax bracket, 45% of your pre-tax income could be almost all of your after-tax income, and this doesn't leave much for anything else. So be reasonable in calculating what you should realistically spend on your home.

### 3. Research mortgage options

Conventional loans are the most common, and they require a 3% to 20% down payment. Many loan issuers require private mortgage insurance if you cannot provide a 20% down payment. There are also FHA loans with low down payment requirements and easier credit standards than conventional loans, VA loans for qualified current and former military personnel, and USDA loans for borrowers in certain rural areas (the latter two don't require a down payment at all). Your mortgage lender will help you make the best choice.

### 4. Figure out where your down payment and closing costs will come from

Once you decide which mortgage type is right for you, you'll need to figure out where your down payment is going to come from, whether its money you've saved up or it's a gift from your family. In addition, plan on spending in the range of 1%-3% of the home's price for closing costs.

### 5. Gather your documentation

When you apply for a mortgage, there are several things you'll want to gather and have available for your lender:

- ✓ Income verification/employment – Last two years' tax returns, W-2s, 1099s, and your last few pay stubs
- ✓ Credit/ID – Drivers' license, Social Security card, or acceptable alternatives
- ✓ Financial condition – Bank and brokerage account statements including retirement accounts, proof of funds to close, a gift letter (if your down payment is coming from a gift)

Keep in mind that this isn't a complete list, but it's a good start.

### 6. Get a preapproval

A mortgage preapproval is essentially the same thing as applying for a mortgage, just without a specific home in mind. In order to obtain a preapproval, a lender needs to check your credit, verify your income and employment status, and may need to see other documentation as well. Keep in mind that this is different from a prequalification, which is based on unverified information you provide and won't carry nearly as much weight when shopping for a home. A preapproval is a commitment to lend you money and makes you look like a much more serious buyer.

### 7. Hire a real estate agent

Technically, this one is an optional step. You can buy a home without a real estate professional, but there are a few reasons not to do so. First, the real estate agent will do the research, contracts, and other time-consuming parts of the homebuying process for you – preventing your home search from turning into a full-time job. Additionally, a good real estate agent will have an extensive knowledge of the local market and can guide you through the entire process from looking at houses to sitting down at the closing table.

### 8. Look at houses

This is the fun part. Once you've narrowed it down to the neighborhoods you like, the best advice is to make a list of your "must-haves" and things that are simply on the "wish list". Walk away from homes that don't have the things on your must-have list, but don't pass up a great property for easily fixable cosmetic issues.

### 9. Make an offer

When it comes to offers, it's important to be a serious buyer, and get the best deal possible. Your real estate agent can help you with this, as there are a lot of variables that go into making an offer. Is the home overpriced or priced correctly? How long has the home been sitting on the market?

### 10. Get an inspection and wait for the closing day

After the seller accepts your offer, you generally have a short inspection period (three to five days is common). During this time, you have the option to hire a professional to do a thorough inspection of the property. However, the inspection is a must-do. The last thing you want is to move into a house only to find out that the supposedly new HVAC is really 35 years old, the home has structural issues (like a load-bearing wall was inadvertently removed at some point), or that the entire electrical system isn't up to code and is unsafe.

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