



Homebuying and credit

Is your credit on solid ground?

Buying a house is amazingly easy when you are playing a board game. Roll the dice, pick the property, and pay with play money. The entire process takes less than a minute and rarely requires a second thought. In real life, homebuying is much more complicated and stressful. Still, if you know the rules of the game and plan your strategy, buying your dream home can become more fun and less work for the entire family.

Get your credit report

It gives you a good head start

Before approving your request for a home loan, mortgage lenders review your credit report. In fact, they often get your report from two or more credit reporting companies to be sure they have your complete credit history.

If you review your credit report in advance, you'll see yourself from a lender's perspective. That can help you avoid possible loan approval delays. Get free copies of your credit reports at www.annualcreditreport.com. If you already have obtained your free annual report from Experian, you may purchase another by contacting Experian directly at www.experian.com or by calling 1 888 EXPERIAN (1 888 397 3742) for information on how to get a copy of your Experian credit history.

Be prepared

If necessary, explain your credit history

When mortgage lenders review your credit report, they evaluate how much you already owe, how much unused credit you have available, how promptly you pay your debts and whether you've recently applied for new credit.

They may ask you to explain any late payments, recent inquiries on your credit report or new accounts. If you have no credit accounts, they may ask you to show that you pay your rent, telephone bills or utility bills on time.

Consider purchasing a credit score with an accompanying credit score report. It will show you how lenders will view you in terms of general credit risk, and it will provide detailed explanations of what factors from your personal credit report most affect your creditworthiness. The credit score and credit score report can be valuable tools in identifying the steps you should take if you need to improve your credit standing before applying for a mortgage.

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Count your savings

Down payments and fees really add up

Have you saved enough money? You generally need a down payment of at least 5 percent of your new home's purchase price. You also need money for closing costs. But that's not all. Set aside extra funds for emergencies. If you spend every dime on your down payment, you're statistically more likely to lose your new home to foreclosure in the future.

Seek preapproval

This step puts you in the driver's seat

Touring homes you can't afford makes homes in your price range pale in comparison. Asking a mortgage lender to prequalify, or preapprove, you for a specific loan amount narrows your search, helps you avoid disappointment, improves your bargaining power and speeds the sales process.

Know your options

Select a mortgage that's right for you

Ask the lender to detail on paper the cost differences of various mortgage plans, and then select the one that's best for you. Options include:

- Fixed-rate mortgages for 15, 20 or 30 years.
- Adjustable-rate mortgages.
- Balloon mortgages.
- Government-insured loans or special loan programs.

Remember: Besides your mortgage payment and property taxes, your monthly housing costs can include mortgage insurance, home insurance, special assessments and homeowners' fees. Mortgage loan experts advise that, as a general rule, your housing costs should total no more than 28 percent to 32 percent of your monthly income before taxes. Add other long-term debts such as car and student loans, and your total should take no more than 36 percent to 41 percent of your monthly income before taxes.

Narrow your choices

Consider nonfinancial factors, too

This is not just a house. It's your home; it's where you live. More than that, your home gives you pride of ownership, freedom from landlords and a sense of security. That's why it's a good idea to consider more than finances before buying. Also consider your needs and preferences for the following:

- Schools and transportation.
- Healthcare.
- Community amenities.
- Recreational opportunities.
- Commute to work.
- Housing styles and lot sizes.

Make your payments

Use your home loan to build your credit

What you borrow, how much you owe and when you pay become a part of your credit history. When you apply for new loans or credit cards, other lenders will review this history.

Late payments can remain on your credit report for up to seven years, keep you from buying another house and make it more expensive to buy a car. A good credit history proves that you manage your finances well. It lets you enjoy using credit at your convenience and at a lower cost.

A good plan will help you win the homebuying game

No matter when or where you start the homebuying process, the right attitude and a well-thought-out plan will help you secure the home of your dreams.

For more information, please e-mail us at consumer.education@experian.com.