

The Home Buyer Roadmap - Prequalifying for a loan



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You want to buy a house, a place of your own? You're probably excited and a bit nervous at the prospect, especially if you're a first time homebuyer. So where do you begin? It's important to go through the process of "prequalifying" for a loan before you start house hunting. This will give you a chance to educate yourself on what programs are available and what you can afford.

Find a lender that you can trust. Mortgages are available from a number of sources including mortgage brokers, mortgage companies, commercial banks, credit unions, and financial companies. Your real estate agent may be quite knowledgeable about lenders in your area and able to recommend a company they have had good experiences with.

The first step your lender will take is to request your credit report using the FICO credit scoring system. Your credit score is a numerical evaluation of your credit record, provides a history of your paying your debts, and reflects the likelihood of repaying your future debts. Your lender may have an upfront fee to pull your credit report, or they may absorb this cost. If you would like a copy of your credit report before seeing a lender, log onto www.Experian.com and request a copy of your credit report and credit scores. Their fee for this service is \$34.95. Under the new Fair and Accurate Credit transactions ACT you can request a report once a year, but you do not receive your credit scoring.

In general, lenders use your credit score to determine the interest rate at which they can provide you a loan. The higher your credit score generally the better rate you can obtain. So, what is the perfect score?

Above 730	Excellent credit
700-729	Good credit
670-699	Average credit risk
585-669	Higher risk, may not qualify for the best rates
Below 584	Poor credit risk; maybe hard to get credit without good collateral

You can see the importance of maintaining good credit health! If your credit score is not where you would like it to be your mortgage professional can advise you on a course of action.

What helps?

- Pay bill on time
- Maintain 2-4 national credit cards
- Close unused credit or store cards
- Keep balances well below limit
- Pay more than the minimums
- Establish long-term credit history
- Review your credit report every twelve months for errors

What hurts?

- Too many credit cards
- High non-mortgage debt
- Delinquent accounts
- Frequent job or address changes
- Bills marked uncollectible
- Bankruptcy
- Foreclosure

There are 4 components to your total financial picture, **credit** being only one of them. The other three components your lender will look at are **income, savings, and the type of home you wish to purchase**. Think of your financial picture as a stool with 4 legs. If all 4 legs on the stool are in place, it is very sturdy. If you are missing one leg, the stool is still standing, but maybe a little shaky. If you are missing more than one leg of the stool, it is pretty hard to remain standing! After analyzing your total financial situation, your lender will provide you with an estimate of a home purchase price and monthly payment that you can afford.

You can take your prequalification one step further and become “Pre-approved. After providing required documentation, your application will be processed via an Automated Underwriting System. If you are approved for the loan program, your lender will then provide you with a “Pre-Approval” letter, which will summarize the amount of the loan, the loan program and any special conditions. Your real estate agent will include this letter when a sales contract is written. The seller will know, with confidence, that you are indeed a serious buyer. You will have more bargaining power with the seller if they can count on this being a completed contract!

This can be a very confusing and overwhelming time. The most important component is to have good rapport with a lender and finding someone that you can trust! Your financial situation is not to be taken lightly. Be sure to consult with a mortgage professional before you shop for a home.

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