FINANCES AND BUYING A HOUSE

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House ownership has always been a top dream for millions of Americans, and with the many television shows, magazines and other media geared toward owning a home in the U.S., buying a home is very much a reality in our country.

While we can get caught up in the very fun aspect of looking at homes, browsing the many websites dedicated to real estate, looking for a home or property is just one aspect in the entire home buying process. One part, of which is fairly important and might be casually looked over at the beginning, is that of getting one's finances in order to begin a home search. Finances are a huge part of buying, especially if you'll be applying for a mortgage loan. To put yourself in a great position before you begin your home or property search, use the tips below regarding credit, a home budget and having cash for a down payment and closing costs to help you ensure you have your bases covered before you begin your property search.

Credit

One of the most important aspects of your finances when it comes to buying a home, or even in general, is your credit. Your credit is your ability to obtain goods or services before payment. Credit, when it comes to home ownership, generally means a mortgage loan. The majority of buyers in the United States will have to obtain a mortgage loan in order to purchase a home or property, and that's ok. Mortgage loans have been around for decades, helping buyers who might not have a cash payment be able to afford a home. If you are one of the thousands of home buyers that will need to look into a mortgage loan, getting your credit in order before looking at homes is an excellent step to take in getting your finances in order.

Your credit is made up of your credit score and your credit report. A credit score is a three digit number that is generated based on what is in your credit report, and it basically tells banks and other lenders what your creditworthiness is. In general, a higher credit score means better creditworthiness. Your credit report is a detailed report of your credit history, and the information is used to generate your credit score.

When most people consider buying a property, one of the first things that's suggested is to get one's credit in order. This can mean a number of things, but it includes running a credit report, checking a credit score, and paying off or paying down any debts that might be outstanding in order to have a better credit score and higher creditworthiness. If you're looking at buying, run your credit report to make sure it's current, up-to-date and that there's nothing 'off' on the report. You want to make sure all the information that's listed is true and only pertains to you.

Budget

We all can get wrapped up in the fun and excitement of property searches, and many times our wants and likes go beyond what our budgets can afford. Once you have your credit in check, the next thing to do is determine your budget. The best advice to heed when thinking about a budget: you want to be financially comfortable. You already know your monthly expenses as a non-homeowner, but if you don't, dedicate some time to sitting down and writing out all your monthly expenses to get an idea of how much you or your household spends each month. Compare this number to the amount of money you bring in each month. If you're already renting, you know how much of your income goes toward your rent, renters insurance, and any other expenses that come along with your rental unit.

If you don't rent, once you have all of your spending written out, you'll have a good understanding of how much you have left each month that can go toward a mortgage payment or toward a down payment. An excellent tool that can be found on the Internet is a Home Affordability Calculator - this helps to determine a comfortable monthly payment based on all of the other recurring expenses a household might have.

Cash for a Down Payment and Closing Costs

Another part of finances when it comes to buying a home or property is a down payment and closing costs. You've made sure your credit is in order; you've figured out a comfortable budget for a monthly home payment; now is the time to set some cash aside. A down payment is generally required when taking out a mortgage loan. Most lenders require a down payment and it goes toward the total amount of the mortgage loan. Your down payment is going to be based off of the type of mortgage loan you get - which, percentage wise, can range all the way up to 20% of the total purchase price. There is no limit to the down payment, as you can pay as much as possible toward it, but for the majority of home buyers the down payment will be anywhere up to 20% of the final price.

Another cash expense of home buying is closing costs. Closing costs are fees that are associated with the closing of a real estate transaction, and they are paid either by the buyer, seller, or both parties together. The costs are based on the type of property that is purchased, the location of the property, and a number of other things, but for the most part closing costs can range anywhere from 2 to 5 percent of the purchase price. Closing costs, just like a down payment, are made in cash, and sometimes buyers can negotiate for a seller to cover closing costs. To be on the safe side, have enough cash set aside to cover both a down payment and closing costs when buying a home or property.

Buying a home is an exciting life event, but it's also a large financial event. Before you begin your home search, have all your bases covered when it comes to finances and the home search will be much more rewarding and less stressful in the long run.

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