



## Home Buying Preparation Timeline - Part II

This is the second part in a series of articles aiming to help you prepare for the home buying experience. There are many things that need to be done in order to feel confident on the day your home loan closes. The first article detailed the issues to be dealt with during the six to twelve months before you buy, including improving your credit score, reducing your debt-to-income ratio, and saving for all the necessary fees. This article will help you figure out the important steps you need to during the three to six months before you plan on buying a home.

### **THE SIX TO THREE MONTH COUNTDOWN LIST**

#### **Determine Your Price Range**

Now is the time to start figuring out just how much house you can afford to buy. While it is great to fantasize about the size and layout of your dream house, you have to determine how much of that dream house can fit into your budget. You should realize that some lenders may be willing to qualify you for a bigger loan than you can truly afford. It is up to you to decide on your financial limits. You may want to use the 28/36 ratio discussed in the last article to calculate how much your monthly mortgage payment should comfortably be. Basically, your mortgage payment plus all your monthly debts combined should be no more than 36 percent of your monthly income. So for example, you earn \$5,000 per month. Your monthly debts total \$700. Thirty-six percent of \$5,000 equals \$1800. Subtract your monthly debts (\$700) from that total and you have room in your budget for a \$1100 monthly mortgage payment. Don't worry; if all this seems to confusing, almost any mortgage lender's website provides a handy calculator that will do the calculations for you.

#### **Plan for Home-owning Costs**

You started your home buying savings plan several months ago, but now you need to calculate just how much it is going to cost to remain a homeowner. Find out how much you will have to pay for property taxes and homeowners insurance. You should also take into account the fact that if you are planning to move into a bigger place, your utility bills will likely be larger as well. You should also plan into your budget and savings plan for various home repairs that will need to be taken care of. Once you figure out the total amount for all these expenses you will have a better idea of what it will cost to maintain your home.

#### **Research the Loan Programs Available**

Finally, this is also the time to start studying your options in terms of the various loan products available. Research the differences between fixed rate loans and adjustable rate mortgages. List the pros and cons of each type of loan for your situation. After you understand the basics you can dive into more specific programs. You can consider the choice between a 30-year, 15-year, or even 20-year fixed rate loan. Or you may find that you favor a hybrid ARM loan over interest-only or pay option ARM loans. Once you have discovered your preferences you will be prepared for the next stage of preparation: shopping around for a mortgage.

Stay tuned for the next part in this series that will give you a run-down of the things that you



need to do two months ahead to the time the mortgage loan closes.

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