



Jefferson County Economic Development Consortium

Steps to Purchasing a Home

For many people, it's the biggest financial transaction they'll ever make. That's why doing it right the first time is so important. Sometimes, buying a house can feel like a dizzying set of rules and regulations. Luckily, armed with the right knowledge and know-how, you can start realizing your homeowner dreams — the fast, easy, way.

Step 1 – Getting your Financials in Order

The higher your FICO score, which ranges from 300 to 850, the better interest rate you'll qualify for. This is extremely important. The difference between a 4.5% interest mortgage and a 5% interest mortgage can mean tens of thousands of dollars over the life of the loan. Get a free copy of your credit report so that you can see what lenders see when looking at your credit history. Pay down credit cards and resolve any credit disputes or delinquencies.



Step 2 – Get pre-qualified or pre-approved by a lender



You will be able to contact as many lenders as you choose within a two week period so that the inquiries do not damage your credit report. Do this *before* contacting a real estate agent so you have a firm idea of what you can afford, and you don't accidentally fall in love with a house that you cannot afford.

- Sellers love buyers who get pre-approved. Pre-approved buyers are almost always given the green light by lenders, meaning there's less risk for the deal to get scuttled in the end.
- Don't accidentally get pre-qualified instead of pre-approved. There's a difference. Pre-approval means that the lender is usually prepared to give you a loan after seeing your financial vitals. Pre-qualified only means that the lender *is estimating what* you could borrow. It doesn't mean you'll get a loan.

Step 3 – Shop for a loan

Wait — why would I shop for a mortgage before deciding on a house? Isn't that totally backward? Not necessarily. Shopping for a mortgage before you decide on a house can be beneficial for one overriding reason:

- You'll know exactly how much you can borrow before you buy your home. Too many people fall in love with a home that they can't afford. They struggle finding a mortgage that covers the cost

of the home. Finding a mortgage first and a home second is decidedly less sexy, but it's twice as smart. You'll immediately be able to tell whether a home is in your price range or out of it.

Think about the sort of down-payment you'll be able to afford. This should be part of your mortgage calculations, although you don't need to know for sure when shopping for a mortgage. Have a general idea in mind.

Find out what ratios lenders are using to determine if you qualify for a loan. "28 and 36" is a commonly used ratio. It means that 28% of your gross income (before you pay taxes) must cover your intended housing expenses (including principal and interest on the mortgage, as well as real estate taxes and insurance). Monthly payments on your outstanding debts, when combined with your housing expenses, must not exceed 36% of your gross income. Find each percentage for your monthly gross income (28% and 36% of \$3750 = \$1050 and \$1350, respectively). Your monthly payments on outstanding debts cannot exceed the difference between the (\$300) or else you will not be approved.

Step 4 – Find Downpayment Assistance Programs

Contact JCEDC (920-674-8711 or roxanne@jeffersoncounty.wi.gov) to see if you qualify for the home buyer grant programs. Currently Jefferson County offers two down payment assistance programs to help with down payment and closing costs:

1. Down Payment Plus – which is a \$6,000 grant forgivable after 5 years.
2. HOME Consortium Down Payment Assistance which is a \$5,000 grant forgivable after five years.



Step 5 – Decide on a location and what type of home to buy- Choose a Real Estate Agent



Once you know how much you can afford in terms of a home, you need to decide what is important to you in terms of location and type of home. There are a couple of things in particular that you should give thought to:

- What will you and your family need in several years? Maybe you're just a couple right now, but are there are plans for kids in the future? A home that snugly fit two people could be extremely uncomfortable for three or four.
- What trade offs are you willing to make? In other words, what are your priorities? Although we like to believe that buying a house can be straight forward, it's often a complex ordeal in which we're forced to compromise. Do you care more about a safe neighborhood and good schools over a big backyard? Do you need a big, workable kitchen more than a big luxurious bedroom? What are you willing to sacrifice when it's crunch time?

Now you are ready to choose your real estate agent. An agent will understand the real estate market and help homebuyers find homes they want to see. As a result this will save time and frustration by the home buyer. The recommendation of family/friends is one of the best ways to choose an agent. Choose an agent that has a good reputation in the area. The agent should be a buyer's agent dedicated to working in the best interests of the home buyer. The agent should be someone who has no problem listening to the buyer and answering questions that the buyer may ask.

Step 6 – Making the offer

Once you have found the perfect home, it is time to make an offer on the property. Your real estate agent will base the offer price off of comparable homes that have sold in the area recently. The agent will draft a contract that is agreeable to the home buyer. The contract will include the price of the offer, as well as terms that the seller and the buyer will need to meet in order to complete the transaction. Your agent will forward the offer to the sellers agent. The seller will then decide to accept, reject or make a counter offer. Once the offer is accepted your are officially in escrow, which means you are committed to buy the home or lose your deposit, unless you do not get final mortgage approval or something comes up during the home inspection contingency time that you cannot accept.



Step 7 Schedule your home inspection



You want to be assured your new home is structurally sound and free of surprises such as leaky pipes, poor electrical, or pests living in the walls. Do not be tempted to waive the home inspection when buying a home. A good inspection will be able to notify you of structural problems, flooding issues, lead-paint, asbestos insulation, mold and other potentially serious problems.

- Usual cost of an inspection is \$250-\$450.00 and should last between two and four hours.

Step 8 Shop for home owners insurance

Your mortgage lender will require you to have homeowners insurance. You may be required to purchase additional insurance – like flood insurance. You aren't required to buy from a particular insurance company. Instead, compare coverage, price and customer reviews. Be sure you get the right type and amount of coverage. Avoid paying for more than you need, but remember to shop for value, not necessarily rock-bottom price. Since you'll mainly deal with insurance companies during times of disaster, make sure the company you choose has great customer service reviews.



Step 9 Finalizing the Deal – Sign Papers



You are finally ready to go to closing. This is usually conducted at an escrow office or bank and involves signing documents related to the property and your mortgage.

The packet of papers includes the deed – proving you now own the house, the title – which shows that no one else has claim to it or lein against, and the mortgage – stating how much you will be paying your lender for the home.

Be sure to read everything before you sign!