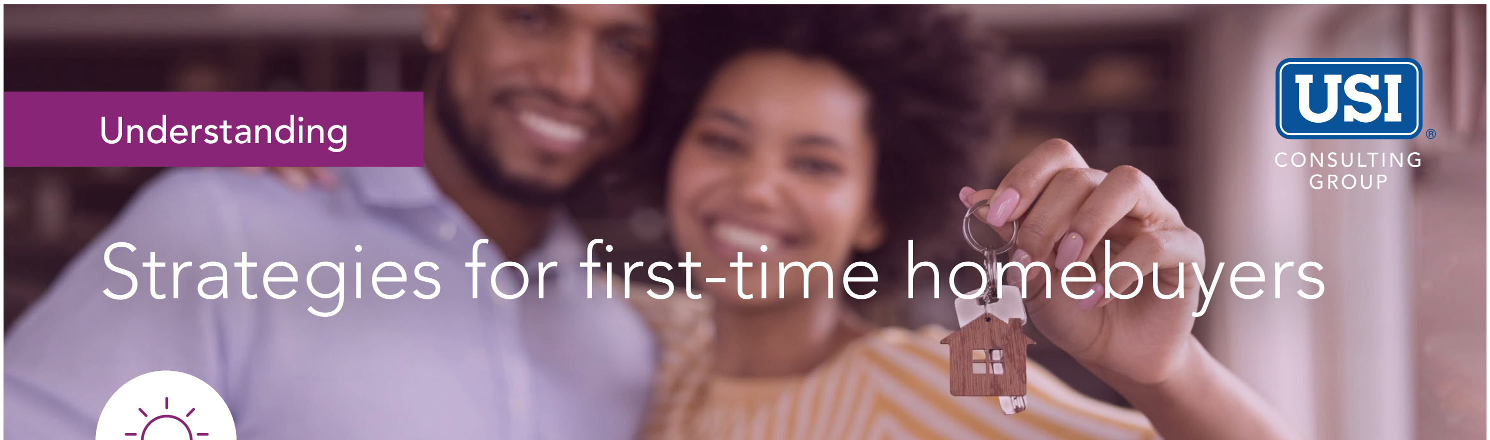

Understanding

Strategies for first-time homebuyers

The purchase of your first home may be the most important financial decision you'll ever make. Finding the perfect property in the location you love is just the beginning of your journey. There are numerous other aspects to buying a home. You will have to come up with a down payment. You will have to meet a mortgage lender's criteria to qualify for a mortgage loan. And you will have to be ready to make monthly payments on the home you buy for as many as 30 years. Knowing ahead of time what steps you'll need to take can help you make informed decisions and eliminate a lot of the anxiety and uncertainty as you start out on the road to home ownership.

Tackle your debt load

It's important to minimize your debt load because mortgage lenders calculate what's known as your debt-to-income ratio. Essentially, this is how much money you spend each month paying off your debt expressed as a percentage of your total monthly income. If your ratio is under 43%, you may qualify for a mortgage. If your debt-to-income ratio is greater than 43%, it may be an uphill struggle to obtain a mortgage at a competitive rate.

Work on your credit score

Your credit score is simply your past credit history, your current credit situation, and a prediction of your future credit performance expressed as a single number. It's based on several factors, including:

- Your credit payment history
- Your outstanding debts
- The length of your credit history
- How many types of credit you have
- The number of new requests for credit

Lenders use your credit score to decide whether to approve you for a home mortgage. Your score can also affect your insurance rates and even what jobs you can get. So it is important to check your credit reports several months before you apply for a mortgage to ensure that there are no errors in it. You and your partner should request a report from each of the three national consumer-reporting agencies. It's best to check all three reports because the information in each may be different. Errors are common, and they can range from inaccurate payment information to an out-of-date home address or employment information. If there are errors, you will have time to correct them.

Save for that down payment

Saving enough money for the down payment is a struggle for many people. Many first-time homebuyers forget that there are other expenses that must also be considered when buying a home. There are bank and lawyer fees (closing costs), property and school taxes, homeowner's insurance, and sometimes, home association fees.

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How much should you set aside as your down payment? A survey by RealEstate.com found that the median down payment for a first-time homebuyer was 10%. If you put less than 20% down, you generally will have to pay private mortgage insurance (PMI), an extra fee charged by the bank as a form of financial protection. The bank (lender) figures PMI into your monthly mortgage payment.

If saving for that down payment is a struggle, you probably need a budget. Making a budget based on your – and your partner's – expenses and income can give you a clearer picture of your finances. Think of it as a spending plan, a tool to help you manage your money better.

A budget helps you to:

- Manage your income and expenses
- Reduce your outstanding debts
- Control spending
- Avoid future credit problems

To design a spending plan, track the money you have coming in (receipts) and the money going out (expenditures) for a couple of months. You may want to record all the little purchases you make each day in your smartphone or a small notebook. Or, keep your receipts and enter your purchases into a financial program or spreadsheet later.

Get preapproved for a mortgage

Finding out beforehand if you can be approved for a mortgage and for what amount allows you to focus on homes for sale in your price range. Moreover, sellers and realtors like dealing with someone who has been preapproved as opposed to someone who has not. Any mortgage lender will run the numbers for you and give you the terms of a potential loan. You are under no obligation to ultimately choose that lender for your mortgage.

Finding the real estate agent who is right for you

Shop around for the perfect fit. You want a real estate agent who truly understands your needs and who is willing to put in the time to satisfy you. Some real estate agents specialize in first-time buyers and the good ones can be invaluable in guiding you through the whole process.

> Making the effort to strengthen your finances, reduce your debt, and obtain preapproval for a mortgage can help streamline the home buying process when you finally find the home that you want.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

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