# Your Home Loan Toolkit – A Step-by-Step Guide


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**OPINION**

You want to buy a house? Great! It will be one of the biggest and most exciting adventures in your life. Like any purchase, it all comes down to what you can afford. You alone can decide your definition of "affordable" – don't let anybody push you. There are some good guidelines, however, to help you come to a clear view of what number is affordable in your life. Let me walk you through a few steps, and then I'll offer a good resource for your further consideration at the end of this article.

**Step 1** – Define what affordable means to you. Only you can decide how much you are comfortable paying for your housing each month. In most cases, your lender can consider only if you are able to repay your mortgage, not whether you will be comfortable repaying your loan. Based on your whole financial picture, think about whether you want to take on the mortgage payment plus the other costs of homeownership such as appliances, repairs, and maintenance.

**Step 2** - Understand your credit. Your credit, your credit scores, and how wisely you shop for a loan that best fits your needs have a significant impact on your mortgage interest rate and the fees you pay. To improve your credit and your chances of getting a better mortgage, get current on your payments and stay current. About 35% of your credit scores are based on whether or not you pay your bills on time. About 30% of your credit scores are based on how much debt you owe. That's why you may want to consider paying down some of your debts.

**Step 3** - Pick the mortgage type that works for you. The fixed rate mortgage is the vanilla ice cream in the mortgage market, the one most people choose. With an FRM, your principal and interest payment stays the same for as long as you have your loan – typically for either 15 or 30 years. There is also an adjustable rate mortgage. With an ARM, your payment often starts out lower, but your rate and payment could increase quickly. You'll want to research this item on your own before you choose.

**Step 4** - Choose the right down payment for you. A down payment is the amount you pay toward the home yourself. You put a percentage of the home's value down and borrow the rest through your mortgage loan.

**Step 5** - Understand the trade-off between points and interest rate. Points are a percentage of a loan amount. For example, when a loan officer talks about one point on a $100,000 loan, the loan officer is talking about one percent of the loan, which equals $1,000. Lenders offer different interest rates on loans with different points. There are three main choices you can make about points. You can decide you don't want to pay or receive points at all. This is called a zero point loan. You can pay points at closing to receive a lower interest rate. Or you can choose to have points paid to you (also called lender credits) and use them to cover some of your closing costs.

When you have a general understanding of what you can afford and how you want to get there, it's time to contact a REALTOR®. One of our members can help you shop with several lenders, choose your mortgage, and hit the street with solid information of the properties within your financial reach and dreams.

These steps are covered in detail in a fantastic little book from the Consumer Financial Protection Bureau: Your Home Loan Tool Kit – A Step by Step Guide.

For your own free copy of this document, visit **SPOKANEREALTOR.COM.**

Then, when you're ready, contact a REALTOR® to help you on your way to becoming a proud homeowner!

*This article represents the personal opinion of Susie Luby, 2016 president of the Spokane Association of REALTORS®.*