

Home Financing 101 for First-Time Home Buyers

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As our nation's housing and job markets continue to recover, many first-time home buyers are gearing up to become home owners. Yet, with stricter regulations put in place after the housing crash and the long list of paperwork that's already required to buy a home, many prospective home buyers remain concerned about the home financing process.

Advance preparation is key when getting ready to buy a home. You need to decide how much to spend on your home and which type of mortgage will work best for you, as well as understand the settlement process.

Before you visit a sales office, model home or open house, you should take advantage of the many sources that can help you get prepared, and take some steps to ensure you're in the best possible financial situation.

Be Realistic About What You Can Afford

Figure out what you can comfortably pay on a monthly basis. Write down all your monthly expenses including loan payments, utilities, insurance, credit cards and don't forget food, clothing and entertainment expenditures.

When determining the monthly payment you can afford, remember that in addition to the monthly principal and interest, you will also be paying into escrows for property taxes, hazard insurance and possibly mortgage insurance or a home owners or condominium association assessment.

Many real estate-focused websites have mortgage calculators that are a great way to figure out what your monthly payments would be based on current interest rates and down payment amounts.

Pay Down Your Debts

Debt that you carry on your credit cards will limit the amount of a loan a lender will be willing to give you. Lenders typically want to see a total debt service ratio that is less than 40 percent of your monthly income.

Get Objective Advice

Attend a first-time home buying seminar or talk to a credit counselor who does not work for a lender. The U.S. Department of Housing and Urban Development (HUD) offers free housing counseling and seminars; visit www.hud.gov or call HUD's interactive voice system at: (800) 569-4287 for more information.

Pre-Qualify for Your Home Mortgage

To ensure that the financing process goes smoothly, buyers should consider pre-qualifying for a mortgage and having a financing commitment in place before shopping for a new home. Buyers also may find that some home builders have arranged favorable financing for their customers or offer financial incentives. Pre-approval also enables you to quickly make an offer when you find a home, and is attractive to sellers who are considering multiple offers. A lender's pre-approval would still be subject to a final verification of your credit and a satisfactory appraisal.

Qualifying for a mortgage and saving up for a downpayment remain primary obstacles to homeownership. Recently Fannie Mae and Freddie Mac attempted to address this issue by announcing new low-downpayment mortgage programs geared primarily toward the first-time home buyer market.

These lenders will now offer mortgages with 3% downpayments, allowing more creditworthy borrowers who lack the funds for a large downpayment to obtain a home mortgage.

After taking these steps to get your financing in order, finding your first home will be a much more enjoyable experience. For more information to help ease the first-time home-buying stress, contact the [Builders and Remodelers Association of Northern New Jersey](#) or visit nahb.org/forconsumers.

The Builders and Remodelers Association of Northern, NJ (BRANNJ) is a professional trade association celebrating 70 years in Bergen, Hudson, Passaic & Sussex counties and is a local chapter of the National Association of Home Builders and the New Jersey Builders Association. Our mission is to enhance our members' ability to provide safe, affordable, quality housing, remodeling and commercial development to the citizens of New Jersey and whose members are committed to integrity and professionalism in the home building industry.

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