



## **AFFORDING A HOME**

Can you really afford a house? If so, how much house can you afford? To determine this answer will take serious financial planning, and the best time to start is at least six months before buying the home.

Although buying a new home may seem like an American Dream or romantic venture, the reality is that the house you can afford depends on your current income and debt obligations. You must be able to pay your mortgage, satisfy all your current debt, and still have money left over each month to put in the bank. When you consider all these issues, you may find you will actually be shopping for a lower-priced house than the anticipated dream home.

If after careful financial evaluation, you realize you cannot afford the house of your dreams, don't feel tempted to count on expected annual raises, thinking that eventually you'll be able to afford the higher payments. Most raises are generally 4% to 7%. In bad times, you won't get a raise, while inflation overtakes you. In the worse case scenario, you may get laid off and you won't be able to afford your monthly bills. If you don't have a budget that includes a savings account worked out on a spreadsheet, you are faced with a serious debt problem waiting to happen. If you cannot recite from memory all the creditors you owe and how much you owe them, you have a credit problem.

### **MONTHLY BUDGET SHEET**

At the top of your planning list, you must determine what your mortgage payments will be, while not ignoring other monthly expenses. Remember, you need this complete research, and an organized budget sheet, to guard against becoming seriously in debt.

For example, besides the home loan, monthly expenditures to add to your budget sheet may include:

- \* Homeowners insurance,
- \* Homeowners Association Fees,
- \* Flood insurance,
- \* Mortgage insurance,
- \* Utilities,
- \* Garbage,
- \* Cable TV,
- \* Groceries,
- \* Lawn service,
- \* Pet groomer,
- \* Doctor and veterinarian bills,
- \* Auto loan and/or unexpected auto repairs,
- \* Drycleaning bills,
- \* Savings account,
- \* Lunch money for spouses and kids, and many other obligations.

Second on your list is to clean up your credit report.

### **YOUR CREDIT REPORT**

Your credit score is the single most important factor determining whether you'll get approved for a mortgage, car loan, refinance loan, or credit cards, and what your APR will be. If your score is low, you'll pay very high interest rates, up to 23%. Most people are also unaware that their credit score also affects how much they pay for car insurance rates too. Many insurance companies run a credit check on you before selling you insurance.

### **CALCULATING YOUR CREDIT SCORE**

You should get your credit report at least once every year to verify it for accuracy, and make certain your credit score is up to par. If your credit is clean and you have your down payment ready to go, you won't need as much time to plan for a new home.

Everyone has a credit score calculated at the time your credit report is requested. It's based on over 100 different proprietary variables and algorithms developed by Fair Isaac (FICO). The range is 300 to 850. You can get your credit score from Equifax Score Power, True Credit, or Consumerinfo.

Most lenders consider people above 650 to be prime borrowers, meaning they will most likely be approved at favorable rates. According to a credit report from Equifax, 71% of the people with a credit score from 500-550 will default on their credit. Another 51% of buyers with a credit score from 550-600 will default on their credit. It is for this very reason that lenders run your credit report and focus on your FICO Beacon score.

#### FACTORS AFFECTING YOUR CREDIT SCORE

The most important factor affecting your score is the length of your credit history. College students generally have low scores, while 30-somethings have higher scores. If you have too many accounts open, they can lower your credit score also. Opening several department store credit card accounts and excessive financing accounts also lowers your beacon score.

So, take an inventory of your credit cards. Do you have department store credit cards, appliance store credit cards, and computer store finance cards that are no longer used? What's worse, even if a store is defunct, your account may still appear on your credit report as open. Call all sources and close these accounts since you never use them.

Just remember, it takes about 30 days for the closing transactions to appear on your credit report. Once you successfully dispute and remove negative items from your credit report, wait 30-60 days and order another copy of your report to verify that the bad debt was removed and you now have a higher score.