



Before you start shopping...

Before you start shopping for a house, consider this:

The best way to buy and finance a house is to first arrange the mortgage. Then, go shopping for your home, confident that you have already been pre-approved for a mortgage and won't have to panic to obtain financing.

There are several basic home finance techniques:

- **NEW MORTGAGE** - This is today's most common home finance method. New low down payment Conventional, FHA and VA mortgages are readily available.
- **ALL CASH** - Most homebuyers can't afford this method. Furthermore, even if you can, paying all cash usually isn't smart. Cash buyers lose leverage advantages. Usually, the only time to pay cash for a home is if it will result in a rock-bottom bargain purchase price.
- **EXISTING MORTGAGE** - A buyer can assume or take title subject to an existing mortgage already on the home. If the home's existing mortgage has attractive terms, ask if you can take it over. Many older VA and FHA mortgages lack "Due on sale" clauses and home sellers eagerly pass them on to buyers.
- **SELLER FINANCED** - If the home seller has a large equity position and needs income, the seller can carry back a first or second mortgage. Free and clear houses for sale by elderly sellers who need retirement income are the best seller finance candidates.
- **COMBINE THE ABOVE** - For example, if you can take over an existing mortgage, the seller might carry back a second mortgage to finance your home purchase. Or, you can get a new first mortgage and the seller might carry back a second mortgage. If you need a new mortgage to buy your home, get the best loan for your personal situation. Here are the steps to take before shopping for a home:
 - Get a free copy of your credit report. Be sure to notify the credit bureau of any errors in the credit report you receive.
 - Before shopping for your new home get pre-approved so you know the maximum mortgage you can obtain. Read the conditions carefully. Your pre-approval should only be contingent on the appraisal of the home you decide to buy.
 - Decide if a fixed-rate or adjustable-rate mortgage (ARM) is the best. If you plan to stay in your home less than seven years, an adjustable-rate mortgage (ARM) can save you interest.
 - If you plan to keep your home over seven years, a fixed-rate mortgage is usually the safest. Should interest rates plummet, you can refinance. Should interest rates rise, a fixed-rate mortgage protects you because your interest rates cannot increase.
 - When shopping for an ARM, ask about the index used, the margin, maximum annual payment and interest increases, lifetime "cap" maximum interest rate, and if the ARM is assumable by a future buyer of your home. The slowest moving ARM index is usually the "cost of funds index" whereas the most volatile are the three "treasury bill indexes." A margin, such as 2 percent is added to the monthly index rate to arrive at the ARM interest rate.
 - When comparing mortgages offered, obtain the APR (annual percentage rate), which includes all loan fees.