

Set a House-Hunting Budget

When buying a home, you must adhere to a strict price point and budget.

Especially if you are financing, the term of the loan is likely for many years.

A lot can happen to impact your financial security, so make sure you buy a home that gives you room for saving and preparing for emergencies, without affecting your quality of life.

A great place to start when determining your budget is to be pre-approved for a mortgage. Make an appointment with your financial experts to discover how much money they will lend you, interest fees and information on taxes. This should be done before you begin hitting open houses or hiring a Realtor to find potential properties.

When you're pre-approved, you increase buying power during negotiations and can plan a financial strategy that makes sense.

PLAN TO OVERPAY

To become familiar with how your monthly payments are related to the size of the loan, you should understand mortgage amortization. Essentially, it is the reduction of debt by regular payments of interest and principal sufficient to pay off the balance.

When choosing a fixed mortgage, your payment won't change. However, how your payments are applied does



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change — from more interest at the beginning, to more principal later in the life of the loan. When you only make your minimum payment, it's hard to have much of an impact on the bottom line.

When creating your budget, make sure the monthly payment allows you room to apply

additional funds each month, so you can make a difference to the principal balance, early on.

STAY AHEAD IN ESCROW

You probably have considered wrapping all your monthly housing-related payments into an escrow account. This service offers the convenience of your

lender paying the premiums for homeowner's insurance and property taxes. When using escrow, your fixed mortgage becomes a bit more difficult, sometimes leading to surprising increases.

That's because in many states, property taxes are reassessed annually and trend

upward to accommodate new construction projects, schools or county or local services. Your insurance premium also can rise due to new policy options or claim history.

Your bank is required to cover the extra funds and increase your monthly payment. It's a good idea to stay in contact with your lender regarding shifts in policies so you're not caught off guard with an increase.

Your budget should allow you to cushion your account in case of price changes, which otherwise could cause you to be unable to afford the payment.

CONSIDERATIONS

If you're moving into a bigger home, you'll need to account for higher heating and air bills and water obligations. Entertainment services may not be as easily accessible if you're moving to a desolate area where high-speed internet isn't available.

Make sure your budget can handle additional expenses for higher costs for specialty services.

When developing a budget for a home, you also should consider having enough left over to contribute to a savings and emergency fund. As a homeowner, you will be solely responsible for making repairs and upgrading failing appliances.



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REAL ESTATE 101



Get Budgeting Tools

The Consumer Financial Protection Bureau offers free tips and tools for homebuyers and others to make and stick to a budget for their personal finances. Available resources include a budget worksheet and a Get a Handle on Debt boot camp that includes lessons sent to your email. To learn more, visit <https://bit.ly/2y48iPr>.

The CFPB also offers a primer on preparing to shop for a mortgage, including setting a budget. Other topics in the series include checking your credit, determining your down payment, and building a network of advisers. Read the entire series at <https://bit.ly/2pU7wRn>.

HOMESWISE GLOSSARY

Seller take-back: An agreement in which the seller of a property provides financing to the buyer for the home purchase.

SOURCE: Federal Trade Commission

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