



# Guide for House Hunters: Preparing to Buy



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# Tips for Home Buyers

## Saving for Your Down Payment

Research has shown time and again one of the greatest hurdles to home buying is coming up with the – sometimes dreaded – downpayment. Here are a few practical strategies to help you clear the hurdle and come up with the cash you need.

### 6 Steps to Saving for a Down Payment

#### 1. Plan for progress.

Savings isn't all dollars and cents. It's a little emotional. To remind you why you're in the savings game, it's a good idea to find a few visuals – photos or a list of features of your dream home. When you've chosen your reminder, store it close to your budget, wallet, or in the place you pay bills to remind you of what you're working for.

#### 2. Slow your spending.

The biggest enemy of spending is the impulse to buy. When you're tempted make a purchase over \$25, wait 10 days to decide whether it's something you really need.

#### 3. Spend less for convenience.

Your mother was right, good things take time...and so do cheap things. From coffee on the go to lavish meals out, most consumers are paying quite a bit for convenience. Become friends with your kitchen to help your bottom line.

#### 4. Drink more water.

According to the National Soft Drink Association, the average American household spends about \$850 annually on sweetened drinks. In contrast, water costs just a penny per gallon. Make the switch to water and you'll start your life as a homeowner not only richer, but a bit healthier too.

#### 5. Track expenses.

Experts agree, the only thing more powerful than creating a budget is actually reading and tracking it. Schedule some time every week to review your spending habits and find new ways you can save.

#### 6. Eliminate the excess spending.

Locate the excess in your budget and slash it. Trade the gym for home workouts, swap expensive movie nights for checking out free videos from the library, and keep an eye out at the end of each month for services you aren't using.

### Serious Sources for a Down Payment

If you're serious about saving up these sure fire moves will help you reach your goal.

**Tax refund:** You know it's coming, why not use it toward your down payment? If you're really serious about home ownership, talk to an accountant about tax planning to make sure there is a little green at the end of the year to help with your down payment.

**Borrow from the 401(k):** It's not losing your retirement, but rather using a piece of one investment to make another. First-time homebuyers can borrow up to \$10,000 from their Individual Retirement Accounts (IRAs) without paying early withdrawal fees. Talk to your 401(k) or IRA administrator to find out how it will affect your retirement.

**More work:** Yes, we said it: more work. If you're serious about reaching your down payment goal, consider spending a few hours working part-time. Ten hours per week at \$10 per hour for a year will get you \$5200 closer to your goal.

**Payroll deductions:** One of the best ways to save money is to hide it from yourself. Redirecting some funds from your direct deposit to a special savings account can be a great way to trick yourself into saving.

# Tips for Home Buyers

## Improving Your Credit Score

**What makes up your credit score?** FICO scores are based on specific credit history, with hundreds of inputs used to find your score. Here are the five main parts of your credit score.

### Payment History : 35% of your credit score

Payment history measures how you've paid on your debts. Payment history is the largest part of your credit score because if you've recently missed payments to your creditors, it's likely those missed payments will continue, and may lead to default. Payment history also measures how "severe" a missed payment has been. An item in collection is worse than an item paid 30 days late.

#### Tips to improve:

Make payments on time, all the time — even items in dispute. Pay the bill and worry about refunds later.

### Amounts Owed : 30% of your credit score

Amounts owed measures how "maxed out" you are. This is the second-largest part of your credit score because a person who is maxed out has no safety net in the event of a crisis. Amounts owed is not about the dollar amount, but the amount you're borrowing relative to the total available to you.

#### Tips to improve:

Don't close out "old" credit cards, and don't lower your available credit limits. Having access to credit is good.

### Credit History Length: 15% of your credit score

Your credit history is your track record of managing credit. Credit history matters in the FICO model because "experienced users of credit" are viewed differently from new users of credit. Similar to the hiring process for a job, the credit bureaus want to see this isn't your first experience.

#### Tips to improve:

Don't close cards with "history". You need them to show you're experienced with credit.



#### Tip:

Don't close "old," no-fee credit cards when you're done with them. Instead, use them periodically, and pay your balances in full. This builds credit history and credit length.

### New Credit : 10% of your credit score

This category accounts for your recent attempts to secure new credit. In general, the more credit for which you've applied, the more damage it will do to your credit score. This is truer for credit cards than for mortgage applications. A consumer in search of new credit cards is presumed to "need" more credit lines, which is not viewed favorably.

#### Tips to improve:

When you shop for a mortgage, multiple credit checks can count as a single credit inquiry, protecting your credit score.

### Types of Credit : 10% of your credit score

The type of credit you carry matters, and not all credit types are the same. Installment loans such as mortgage loans and student loans, for example, are considered "better" than credit cards and charge cards. This is because installment loans eventually pay down to zero. Consumer cards, by contrast, are likely to go up.

#### Tips to improve:

Don't carry an abundance of store charge cards. Interest rates are high and the FICO model looks unfavorably upon them.

### Quick Tips

#### Keep clear of credit limits.

Carrying a \$500 balance on a credit card with a \$500 limit is bad for your FICO because you're "maxed out." Conversely, carrying \$500 on a card with a \$5,000 limit is good. Keep your balance ratios under 30% for best results.

#### Resist "cash register" offers.

Many retail stores offer discounts for "opening up a store charge card." The discounts are tempting, ranging up to 25% of your purchase price. To receive your discount, however, you'll be subject to a credit inquiry for a charge card that will be nearly maxed-out from the outset. These are each negative for your FICO. If you're buying a home sometime soon, you may save more money by passing on the in-store offer.

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## 5 Need-to-Knows Before You Move Into the Neighborhood

Buying a home can feel like the most intense research project ever. From mortgages to contracts to property condition issues, there's a lot to look at. An additional area you'll definitely want to investigate in detail: your new neighborhood. Here are five items you definitely need to know.

### 1. Details on shady dealings

Before you buy a home or move into a neighborhood, do the research and check out things like Megan's Law databases to see where registered sex offenders live. And be sure to tap into Trulia's Crime Maps to see detailed (and sometimes surprising!), uber-relevant crime data.

### 2. How recession-resistant it is

Let's face facts: some locations have fared better than others over the course of the recession. And some of the hardest-hit neighborhoods are where the best deals are to be found. But know that the harder-hit areas might take longer to see an uptick in home values, so you may want to stay put longer before you sell.

### 3. The neighborhood's flavor

Is the area you're considering popular for outdoor adventures and family events at the park, or fancy restaurants and wine tastings at the museum? Find out by pulling up listings on Trulia and seeing what the folks who live there have to say.

### 4. Neighborhood hot spots

Before you buy or move into an area, find out where all the stores, farmer's markets, parks, restaurants and other hot spots your family will want to use are located vis-a-vis your home-to-be. Your real estate agent can be a fabulous source for this kind of info, and check your Trulia mobile app to see any nearby haunts with Yelp! reviews.

### 5. The vibe at different times of day or week

A home, and a neighborhood, might feel different at various times and days, so visit several times and vary when you go. On sunny Sunday afternoon you might hear birds singing and see children playing, but at night you could notice graffiti or music blasting from a nearby home. Also, knock on neighbor's doors and see what insider info they can share.

#### 5 Need-to-Knows

1. Details on shady dealings
2. Recession resistance
3. The neighborhood's flavor
4. Neighborhood hot spots
5. The vibe at different times of day/week

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