



Q. What kind of loan do I need to buy a home and how do I know if I will qualify?

A. Surprisingly, the best first step in home buying is to talk to lenders about whether you qualify for a home loan and for how much. It may be very disappointing to find the home of your dreams and then learn that your credit history or employment situation prevents you from getting the funding you need.

This can be a very intimidating process but your REALTOR® can help by introducing you to qualified lenders who can work with you to find the right product.

You will find that a strong employment history and an established credit history will both work in your favor. If you do not already have a credit record, you should begin establishing one as soon as possible. If you don't know how – ask. Most mortgage brokers can explain what steps to take in creating or improving your credit. Even if your credit isn't perfect, it can be improved. It takes at least 6 to 12 months to create a basic credit profile or to improve a damaged one, so the sooner you start, the better.

When applying for a loan, you will be asked to fill out forms along with providing some personal information including recent pay-stubs, bank statements and your previous tax return.

There are a wide variety loans to choose from including, fixed rate, interest only and adjustable rate loans. Not every loan will be right for you. Once again, your REALTOR® and lender can help you decide which type of loan fits you.

The most popular loans are fixed rate which locks in your interest rate and your monthly payment for the length of the loan - typically 15 or 30 years.

An interest only loan, which was once popular in the 1930s, is making a comeback today. It requires that you pay the interest only on the mortgage. This loan does not allow you to accumulate equity in the property as you are not paying down the balance. Attractive for the low rates and payments, for many people this loan would be considered high risk.

With an adjustable loan the interest rate and monthly payments remain the same until the loan “adjusts” its rate. The interest rate typically increases yearly or after several years, depending on the loan. There may be a maximum amount that the interest rate can fluctuate.

The best advice about loans might be this: no loan type is right for everyone, so get some good help and education from both a REALTOR® and a loan professional you trust.

This article was contributed by Terrell Williams a member of the Colorado Association of REALTORS®.