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HOUSING SCENE: Get ready to apply for financing

With interest rates at or near record lows, gasoline prices tumbling to their lowest in a half-dozen years and the Federal Housing Administration stepping up to the plate by lowering insurance premiums, 2015 is already being called the year of the first-time homebuyer.

But whether you plan to jump into the ownership waters this spring, this summer or even next fall, there are several steps you should start taking now so that there are no surprises when you are ready to get your feet wet:

• Credit record. Your credit history is the key to not just whether you are eligible for the lowest mortgage rates available, but also whether you can obtain a loan at all. So obtain a copy of your credit records from all three major credit repositories — TransUnion, Equifax and Experian — and look for any errors or issues that must be dealt with.

It can take several months to correct discrepancies, so the sooner you get your files, the better.

• Credit score. Your credit record will be used to determine a credit or mortgage score, which is the holy grail of mortgage lending. The higher the score, the easier it will be for you to qualify for financing. So you want to clean up any deficiencies in your record.

Here, it might be wise to align yourself with a good mortgage broker or loan officer who understands how scoring works. Why? Because a simple step that seems logical to you may actually lower, rather than raise, your score.

For example, it is often best to leave an old deficiency on your record and concentrate on newer issues. Paying off an old judgment can raise your score a few points, but by paying it off, it becomes a new problem in the eyes of the scoring software, and that can wind up lowering your score more than it raises it.

• Tax credits. Many states and even some localities offer tax credits for first-time buyers. Start looking for what your jurisdiction has to offer.

For example, Illinois, Ohio, Kentucky, New Hampshire and Washington, among others, offer help in the form of down payment or closing cost assistance for rookie buyers who qualify. Generally, eligibility is based on income, and there may be limits on how expensive a property you can purchase.

A good place to start searching for assistance is the Department of Housing and Development. The federal agency does not make grants directly to individuals, but it does grant money to organizations that is earmarked for first-time buyers. Learn more at hud.gov.

• Counseling. Consider aligning yourself with a housing counselor, who can help guide you through the maze and offer impartial advice that you may or may not receive from your lender of choice.

There are many free counseling agencies available throughout the country. Again, you can start your search for government-approved agencies at HUD or the FHA (fha.gov).

• Paperwork. When you finally apply for a home loan, you are going to be asked to turn over a bevy of papers, from pay stubs to tax returns, so become familiar with what's needed by your lender. Gather up what you can now, so the burden will be lighter later.

Here's a short list of what you will be asked to produce (some documents can be gathered now, but others will have to be current when you apply):

Federal tax returns for the previous two years, signed and with all schedules; W-2, 1099 and K-1 earnings forms that accompanied those returns; most recent 30 days of pay stubs or earnings statements showing year-to-date earning, and all pages from bank and investment account statements from which you will be paying your deposit, down payment and closing statements.

Also, a clear color copy of your driver's license, passport or other government-issued ID, and a copy of your most recent canceled rent check to verify your monthly housing cost. If you are self-employed, own investment property, or have been at your current residence or place of employment less than two years, even further documentation will be required.

"Once these basic documents are submitted, additional ones will be requested to clarify and expand on information already received, so the better prepared you are, the more smoothly and quickly your purchase will progress to close," says Chris Carter, a loan originator with the Paramount Residential Mortgage Group in Naples, Fla.

• Saving. The more money you produce at closing as a down payment, the lower your monthly house payments will be. So if you haven't already, start saving now. Even if it's only $100 a paycheck, your savings can mount quickly. Remember, once you buy a house, you are going to have a monthly payment. So setting aside money now will at least get you used to coming up with extra cash you'll need later on.

Many people try to set themselves up on some kind of budget, which is great if you can stick to it. But statistics show most fail at that exercise, so saving is a preferable alternative, says Donna Skeels Cygan, author of "The Joy of Financial Secuirty" (Sage Future Press, 2013).

"People so often fail to budget because, just like going on a bland diet, it's restrictive and makes us feel deprived," Cygan says. "That's why I suggest to my clients that they ditch their budgeting efforts ASAP and focus on saving instead."

Cygan admits that at first glance, this may feel like splitting hairs. But there's one important difference between budgeting and saving.

“With saving, you stay focused on something positive because there’s (almost) literally a pot of gold waiting for you at the end of the road,” she explains. “Instead of dwelling on what you’re doing without, you can track the growth of your assets and take comfort in your future financial security.”

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