

# First-Time Homebuyers' Guide

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# Introduction

Buying your first home is so exciting!

Congratulations on taking the first step: learning what to expect from the homebuying process.

While you may be feeling exhilarated, chances are you're also a bit stressed out and overwhelmed.

Never fear — homebuying isn't a solo task, and we can work together to build your team and find you the perfect place to live.

You'll need a number of other professionals and advisers by your side. You probably already know you need a real estate agent, but have you given thought to finding a home inspector, a title agent and maybe even a real estate lawyer or a financial adviser?

The quality of those you choose to work with will play a significant role in how successful, efficient and, most importantly, affordable your homebuying journey is. Don't be afraid to ask lots of questions along the way.

Let's get started:





# Know Your Rights

## The Fair Housing Act

Do you know about the [Fair Housing Act](#)? While you may have heard it in passing, you should know that it protects you from discrimination when you're renting or buying a home, getting a mortgage, seeking housing assistance and more. The website for the [U.S. Department of Housing and Urban Development](#) has more information if you need it.

[The Consumer Financial Protection Bureau](#) is another resource you can use while navigating homebuying. It was formed to ensure you're treated fairly by financial institutions and companies.



Okay, so maybe you aren't quite on the brink of buying a home just yet, but you still want to learn what you'll need to do when the time comes. That's where your finances first come into play.

There are plenty of reasons you might feel like you're not ready to buy. Are you afraid that your student loan debt will stop you? Do you have bad credit — or no credit profile at all? Or are you simply unsure where to start when it comes to saving for a purchase so large? No matter where you're at, we can discuss solutions so you can fulfill your dream of becoming a homeowner.

## **How will student loan debt affect you?**

It may be less of an issue than you think. Plenty of people who are still paying off their student loans are also able to buy a house. One of the main things you should be thinking about is your debt-to-income (DTI) ratio.

If adding a mortgage payment to your current debts — student loans, car loan, credit card payments, etc. — will eat up more than **43% of your income** each month, it'll be tougher for you to get approved for a home loan. We can discuss your situation together and figure out the best options.

## Do you have enough for a down payment?

Saving for a down payment is often cited as a major hurdle for first-time buyers. Even if you're in good financial standing, it may seem like an impossible task to save tens of thousands of dollars. But did you know that the typical 20% down payment you've heard of is far from your only option? It's true.

- 1. You could consider a government-backed loan.** You may be able to get an FHA loan with a small down payment dependent on your credit score, while VA loans often require no down payment for active military, reservists, veterans and spouses. And if you're in a rural area, you may qualify for a zero-down USDA loan.
- 2. You could also opt for a down payment assistance program or use gift money from family members to help cover the down payment.** The amount of gift money you can use depends on the loan type. And you'll likely need signed documents stating that the money is indeed a gift, not a loan or anything earning interest.
- 3. There are more traditional budgeting tips you could use to save up for your down payment too.** Enabling automatic deposits into your savings account — scheduled right after paydays — is one hands-off way to save. Another easy way to amass enough for a down payment is to use apps that round off your transactions and either invest your money or add it to a savings account. It's the modern version of putting your extra change in a piggy bank.

## How's your credit score?

If you have a low score, don't worry. It isn't hard to overcome with a little time and effort. You should start paying off debts, and be sure to make all of your payment deadlines.

1. If you don't have a credit history, most financial experts suggest opening up a credit card and committing to paying it off in full every month. If you have to do that, wait a while before applying for a mortgage so you can build up your score.
2. Don't buy a new car, co-sign a loan for others or open up new credit lines during the homebuying process.

## Are you aware of the additional costs?

There are plenty of fees associated with buying a home. The down payment is a big one, but there are others you should keep in mind. So what should you consider when budgeting for a home purchase?

These expenses are a good place to start:

- You'll receive a breakdown of estimated closing costs, known as a [Loan Estimate](#), within a few days of applying for a mortgage. These fees typically add up to between 2% and 5% of the purchase price.
- Homeowners insurance to protect your new investment is a must. And if your down payment is less than 20% of the home's price, you may need private mortgage insurance (PMI) as well. Property taxes are another thing to consider, and they might be paid in installments, depending on where you live.
- You have to consider the price of moving materials (and maybe even professional movers), as well as the ongoing costs of home maintenance and repairs. It's always best to have more saved than you think you need, but that's especially true for homeowners.





# Finding Your Dream Home

You've gotten preapproved for a mortgage, and we've found a knowledgeable local real estate agent for you to work with. Now it's time to take action!

## How do you define the dream?

Before you start looking for your dream home, you have to decide what that means to you. For some, it's a two-bedroom, two-bathroom condo in the heart of downtown. For others, it's a ranch-style house in a quiet suburb with room to raise a family. But you'll have to get even more specific than that to find your perfect place.



Location is often touted as the most important factor in your home search for a reason. Think beyond your commute and ask yourself lots of questions:

- Do you want to be in a specific school district?
- How much street noise can you cope with?
- Are you looking for an established neighborhood or one that's up and coming? How will that impact traffic, cost of living, property taxes and home values down the line?
- Do you want to be close to friends and family — or to restaurants, grocery stores and other amenities?

Consider the neighborhood around the home. In addition to asking yourself the questions above, you should also drive around and chat with a few neighbors to get some real-life opinions on the area. Make sure to visit the area on weekdays and weekends, as well as during the day and night to see what the community is like at different times.

Pay attention to how much work the home will need, if any. How much work are you truly willing to take on? If the home needs cosmetic updates, will you want them completed before you move in? If you fall for a fixer-upper, do you have a budget for renovations?

Consider your future plans. If you know you'll be in the home for the long haul, make sure it meets both your current *and* future needs. Are you planning to have kids? Will your aging parents move in?

## **Will you be attending open houses?**

There are several ways to look for your new home. If you choose to attend open houses in your area, be sure to:

- 1.** Show up on time so that you're not inconveniencing the listing agent hosting the event. If the hours don't work with your schedule, contact the agent to set up a private tour at a later time.

2. Let the agent know if you're represented by a buyer's agent. Many agents use open houses as a way to get new client leads, so let them use their valuable time to speak with customers who need them.
3. Give other prospective buyers room to explore the home and respect their space. No one wants someone rushing them out of every room.
4. Avoid making negative comments about the home or staging. Your words may come back to haunt you if you decide to make an offer.

## How can you narrow it down?

As you're hunting for your next home, you should also remember to ask your agent plenty of questions. After all, helping you is their job. Once you've narrowed down your search to just one or two houses, ask the following:

1. **Is there a homeowners association?** Make sure you're aware of any HOA dues and rules, and decide if they fit with your lifestyle.
2. **What are the utilities like?** Ask about the average cost of water, gas and trash bills. You should also figure out what options you'll have for cable, internet and other services.
3. **What are the property taxes?** Know how much you can expect to pay every year, and find out if you'll be eligible for any exemptions.
4. **How long has the house been on the market?** If it was listed a while ago, ask why it's been on the market for so long. There could be an issue you're overlooking.
5. **How soon are the owners looking to sell?** If they're in a hurry, they may be more willing to negotiate on price than a seller who has time to wait out a better offer.



## Are you ready to make an offer?

Your search is over: You've found the house of your dreams. Now it's time to put into motion the actual buying process. You'll have to make an offer, but don't just think this means picking a price with your agent. This is a big step, and there are lots of things to consider before moving forward.

If the home is in a hot market (or one that's heating up), you might be dealing with a bidding war. And it's fairly common in these situations that you'll be going head-to-head with all-cash offers. But a cash buyer isn't unbeatable. Many times, they make low offers or demand costly extras, both of which will mean lost cash for the seller.

Your preapproval letter is the first step to being a serious contender, but you should also:

- 1. Offer more earnest money or a bigger down payment.** More money down means you're serious about purchasing their home, which gives sellers more confidence in your offer.
- 2. Make an appropriate offer.** Discuss local comparative sales with your agent to assess the home's value. Low offers are likely to be dismissed without a second glance.
- 3. Include an escalation clause.** If you really like a home, this can open the door for a dialogue with the seller. More importantly, it shows you're willing to up the ante if you are outbid.



Whether or not you're in a bidding war, there are other things to consider when you're making a financial decision as significant as purchasing a home. Adding contingencies to your contract can give you time to assess the property and feel confident that it's a sound investment. So what contingencies should you think of including with your offer?

- 1. Financing Contingency:** It's not unheard of for something to go awry with your loan. You could end up being unable to secure a mortgage, or the terms and conditions may change significantly during the contingency period. This contingency ensures you're not on the hook, and you can back out without any penalties.
- 2. Inspection Contingency:** This gives you a set time frame to have a professional home inspection done on the property. Should issues be found, you can negotiate with the seller to make repairs or adjust the sale price to account for the home's condition.
- 3. Appraisal Contingency:** What if your appraisal comes in below the sale price? If that happens, it's up to you to make up the difference by securing additional financing, paying it out of pocket or renegotiating the deal. If none of these methods work, the contingency allows you to back out without losing your earnest money.
- 4. Occupancy Contingency:** This one protects you should you need to move into your new home by a specific time. It gives you possession of the home on the date you specify.



A photograph of a young couple sitting at a wooden table in what appears to be a cafe or office setting. The woman, with brown hair tied back, is wearing a white button-down shirt and is smiling while looking at a document on the table. The man, with short dark hair, is wearing a grey hoodie and is also smiling, looking towards the woman. A third person with long dark hair is partially visible in the foreground on the left, facing away from the camera. The background is softly blurred, showing shelves and indoor plants.

# Reaching the Final Stages

You're so close to being a homeowner! There are just a few more steps left, and they're important: the home inspection, the appraisal, the final walk-through and the closing.

After submitting your offer, you'll get a home inspection and an appraisal — both of which you might have had contingencies for in your contract. So that you understand how the two differ, let's go over them:

## **What's included in a home inspection?**

This is an independent, third-party evaluation of the house's structure, systems and features.

While each home inspector does things a little bit differently, they all follow a [similar checklist](#). And inspections are pretty thorough: They include the roof, foundation, insulation, appliances, HVAC systems, plumbing, electrical systems and more.

You'll likely want to be in attendance for this process. That way the inspector can walk you through any defects they find.

You'll also want to read the report provided by the home inspector and decide if any of the issues are major enough for your contingency to come into play. You may also notice that the inspector won't take a deep dive into certain issues noted, like pests or mold. There are a number of other types of inspections you can order on the property if you think it's necessary.

As a buyer, you'll be paying for the home inspection. But a proper inspection ensures the home is safe to live in and a good long-term investment for your household. It's worth it for your peace of mind.

## **Why do you need an appraisal?**

An appraisal is an independent estimate of the property based on recent sales data of similar homes. This will be handled for you, since it's a required part of getting a mortgage.

The appraiser will physically measure the home's square footage and visually inspect the entire property. They'll consider the home's floor plan and age, any remodels or updates, the surrounding neighborhood and the size of the lot. The appraiser will compare all of that against similar nearby homes sold within the last 90 days to figure out the home's value.

When your mortgage amount matches the appraised price of the home, you know that you have a good loan-to-value ratio — and aren't paying more than you should be.

But if the appraisal comes in lower than expected, you won't be able to get a loan for more than the appraised price. This is where your appraisal contingency comes in: You'll either need to come up with the difference, renegotiate the price of the house or walk away.

## **Have you taken the final walk-through?**

Your home inspection returned great results, the appraisal came in as expected and your closing is just around the corner. But you don't want to forget to take a look at the house yourself one last time. This is



an opportunity to make sure the condition of the home is as expected; specifically, you'll want to confirm there haven't been any unexpected or unwanted changes made to the property.

During your final walk-through of the property, make sure you check to see if:

1. There's any move-out damage from the sellers
2. All requested repairs have been made
3. No extra furnishings have been left behind
4. Fixtures included in the home price are there and in good condition

You can use a checklist to make sure you've covered all your bases. You should bring a copy of your contract along for reference, and consider asking your real estate agent or a home inspector to help you double-check everything and verify repairs. Remember, this is your last chance to give the property a good once-over before you legally claim it as your own.

## **Are you prepared for closing?**

The day you've been looking forward to for weeks has finally arrived. Because this is the day when legal ownership of the house is transferred, you should expect plenty of paperwork. But do you know what to expect of the closing costs?

Closing costs typically run about 2% to 5% of the purchase price and are paid to title agents, attorneys and other third parties. You'll notice that you have more fees to pay than the seller does at closing — that's because many of those costs are related to your new home loan. At this time, you'll pay for your appraisal, as well as loan processing fees and prepaid costs (property taxes and homeowners insurance).

But wait! Sometimes these fees are negotiable. The seller may agree to pay part or all of your closing costs, which is something you can discuss with your real estate agent.



## You're Finally a Homeowner

Congratulations! It's been a long road, but you've reached your goal of buying your first home. Now it's time to move in and get settled.

Are you ready to buy a home? Do you want to see what kind of mortgage you qualify for? Reach out so we can go over your financial standing and discover the home loan that will work best for you.