

# How to Buy a House in Eight Steps: A Guide for First-Time Homebuyers

Whether “someday” is coming up soon or still a couple years down the road, you can benefit from learning about the process and the financial decisions you’ll need to make.

*Zillow enthusiast. “House Hunters” superfan. Keeper of a “future home” Pinterest board. If these monikers describe you, you probably want to own a home someday. Buying your first home is an incredibly emotional and time-consuming process. It also may be the biggest financial decision of your life so far, and it’s totally understandable to feel a little – or a lot – of apprehension about it.*

Whether “someday” is coming up soon or still a couple years down the road, you can benefit from learning about the process and the financial decisions you’ll need to make. Here are the eight big steps you can expect in the home buying process.

## 1. Figure out what you can actually afford

- How much can I/we realistically pay for a house?
- Are we ready to cover extra expenses?
- Do I/we need to tweak our cash flow to make this happen?

Think of it this way: You are working toward owning a home. You don’t want a mortgage so big that your home owns you. It’s important to be realistic – even conservative – about how much “house” you can afford.

The first step is to figure out your target price range. Do this before you start to look at houses! Knowing what you can ►

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realistically pay will help you avoid falling in love with a home you can't afford. Search for mortgage calculators online to get a sense of what kind of payments you could afford.

A way to get a sense of what you'll be able to borrow is to get pre-qualified by a lender. This is a quick process, usually handled online or by phone, and you'll share an overview of your financial background. The lender takes that information and estimates the loan you'd be able to get. Don't get carried away by this figure, though – this is the biggest mortgage you could get, but it may not be the right mortgage for you and your financial situation.

Don't forget that the true cost of buying a home is more than the purchase price. You'll also need to pay closing costs, homeowners' insurance premiums, maintenance, utilities and taxes.

### 2. Start saving for a down payment

- How much do I/we want to put down?
- How will I/we get there?

A down payment is a significant chunk of cash – don't be discouraged if you need to save for a while or tweak your budget to get there. Look for savings opportunities and put the newfound cash toward your future home. If you have high fixed expenses like student loan payments, focus on reducing those to free up money for a down payment.

The gold standard for down payments is 20% of the purchase price – so, a down payment for a \$250,000 home would be \$50,000. That said, you can put down less money, and some types of loans have much lower minimum down payments. However, many lenders require private mortgage insurance (PMI) for down payments of less than 20%. This is an additional monthly payment you'll have to cover on top of your mortgage payment.

### 3. Assemble your team of trusted advisors

- What kind of partners do I/we want to work with during the house hunting process?

If you're interested in working with a real estate agent, take the time to find someone you like and want to work with. Talk to your family, friends and co-workers and ask for referrals, or check out agent reviews online. Meet a few

potential agents in person and ask questions to get to know their personality, work style, negotiation skills and areas of expertise. If a financial advisor is your personal financial "quarterback," your realtor can serve as your home buying quarterback, identifying lenders, inspectors and other specialists to help you land the home of your dreams.

It's also important to find a lender that fits your personality and needs. Whether you want to work with a person at a brick-and-mortar bank or do everything online, there are plenty of options. Shop around and talk to at least a few lenders. Get to know their services, interest rates and specifics of the loan they'd offer you.

No matter who you decide to work with, be sure your advisors have your best interests in mind and aren't out to sell you the priciest house that generates the most revenue for them. Additionally, look for advisors who will be able to work in harmony – it's important they can collaborate, especially if there comes a point in the process where you need to move quickly to make an offer or finalize details.

### 4. Get preapproved for a mortgage

- Is my/our credit ready for a "hard check?"
- Are we ready to move on buying a house in the next month or so?

Preapproval is formal process where a lender does a thorough check of your finances before offering you a mortgage at a specific interest rate. When this process is complete, you'll get a preapproval letter you can use to show home sellers that you'll be approved for a loan.

The letter is usually valid for 60-90 days. If you haven't made an offer by the end of this window, it's a good idea to renew the preapproval before making an offer on a house.

### 5. Start house hunting

- Where do I/we want to live?
- What do I/we need in a home? What isn't critical, but would be nice to have?

Check out apps, websites, magazines and newspapers to get a sense of what's available in your area and what the housing market is like. Which neighborhoods are you interested in? How much do homes cost and how long do they stay on the market? What kind of commute are ►

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you willing to accept? If you're thinking about having kids, which school districts would you prefer? Tackling these questions early on will help you dial in on what you need and what you want in a home.

After you have a sense of what you're looking for, check some houses out in person. Talk with your agent and nail down your needs, wants and price range. Continue to look at listings, and your agent will also suggest homes to you to tour. Take note of what you see and refine your needs/wants list as you visit homes.

### 6. Make an offer and negotiate

- How much am I/are we willing to offer?
- What contingencies would I/we want to build into an offer?

So you found a house you love – great! Now it's time to make an offer. Your agent will guide you through this process and advise you on how to craft an attractive offer that takes the asking price, the surrounding market and other items into consideration. If you're trying to buy in a competitive market, you might add something called an escalation clause, which automatically increases your bid if another buyer offers more than you.

You can also include contingencies for inspection, appraisal, financing and more to protect yourself if any surprises emerge later in the buying process. It's important to balance your offer with a seller's desires – remember, a seller is likely to be drawn to an offer that provides the highest sale price, as soon as possible, with the fewest strings attached.

If the seller accepts your initial offer, congrats! You're one step closer to owning your home. If they don't, it's time to negotiate. Breathe – your agent will walk you through this process and help you consider counteroffers and help you form counters of your own.

### 7. Get an inspection and an appraisal

- How will we negotiate or pay for any last-minute surprises?

Arrange for an inspection shortly after your offer is accepted. The inspector will produce a report that outlines problems in the house. All homes will have some issues, but if the inspection turns up major damage, you may need to go back to the seller and negotiate for repairs before closing on the house.

It's also important to get the house appraised. If the home appraises for less than you've offered to pay, there could be trouble ahead – your lender won't loan you more than the home is worth. You may need to renegotiate your offer, find extra cash to make up the difference or walk away from the deal.

### 8. Get homeowners' insurance and close on your home

- How much and what kind of insurance do I/we need?
- Are we prepared to cover closing costs?

Unless you plan to pay for your home in full, in cash, you'll likely be asked to show proof that you've paid for one year of homeowners' insurance before the lender will close on your home. Shop around for a policy and get quotes from a few companies. Look carefully at what's included in the policies and purchase additional coverage if you need it, like flood insurance.

Now for the home stretch – schedule and attend your closing meeting, where you'll sign more than a few documents and pay closing costs, which could be between 2-5% of your home's purchase price. When this is all done, you've crossed the finish line. Take your keys and head back to your new home!

Buying your first home is a huge life and financial milestone. Getting there takes patience and savings. It can be tough to find the right balance between saving for a house and other goals like putting money away for retirement and paying down student loans.

Please reach out if you or anyone you know would benefit from discussing this topic further.