First Bank

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The Ultimate Guide for First-Time Homebuyers

Everything You Need to Know Before You Buy Your First Home

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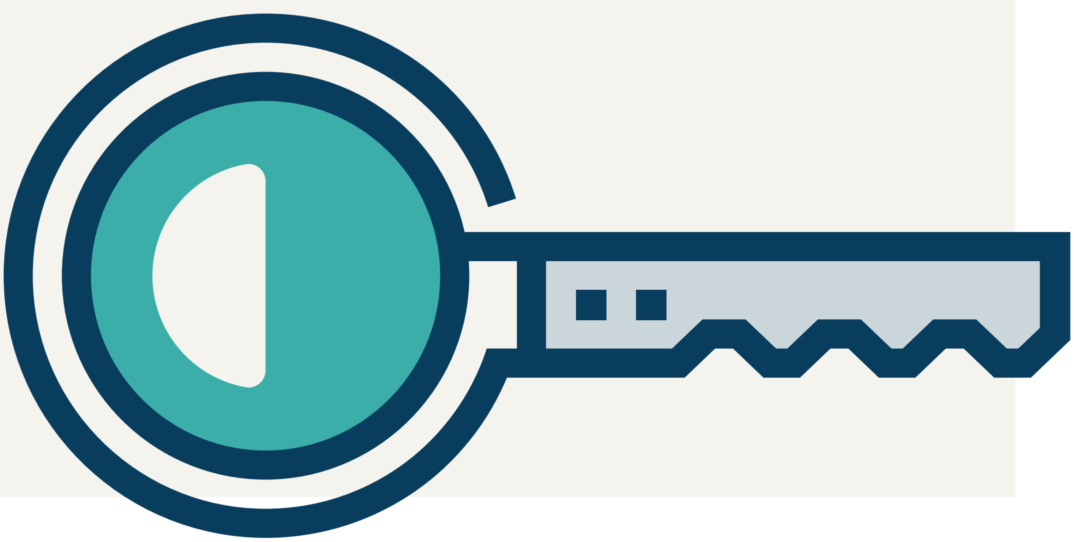
Handing You the Keys to First-Time Homebuying

Owning a home is a dream for many, but the journey to making it a reality can be overwhelming. With the right guidance and preparation, you can navigate the homebuying process with confidence and secure a home you love that fits your budget.

In this guide, we'll help you prepare for and understand each step of the homebuying process so you can be empowered to make smart decisions. From reviewing your financing options to closing on your new home, we'll cover everything you'll need to know.

Here's to making your homeownership dreams come true.



Getting Your Financial House in Order

Before you start house hunting, it's important for you to assess your financial situation and determine how much you can afford to spend. Factors like your credit standing, debt-to-income ratio, and down payment savings will impact your budget and ability to secure a mortgage.

HOW MUCH HOUSE CAN YOU AFFORD?

Section 1: Monthly Income	
Total wages, salaries, business income after expenses	+
Investment income (rental income, dividends, interest)	+
Other income (child support, alimony, pension, Social Security)	=
Total Monthly Income	$

Section 2: Monthly Non-Housing Expenses	
Car payment	+
Auto, health, and/or life insurance	+
Cell phone bill	+
Credit card debt	+
Childcare	+
Non-mortgage loans (student, personal, etc.)	+
Necessities (groceries, gas, internet)	+
Alimony/child support	+
Savings/investments contributions	+
Vacation/travel/recreational	+
Streaming services (Netflix, Spotify, etc.)/TV	=
Total Monthly Non-Housing Expenses	$

Section 3: Available Budget for Monthly Housing Expenses	
Total Monthly Income (from Section 1)	-
Total Monthly Non-Housing Expenses (from Section 2)	=
Total Budget for Monthly Housing Expenses	$

Section 4: Monthly Estimated Housing Expenses	
Mortgage payments	+
Property taxes*	+
Mortgage insurance*	+
Homeowners insurance* (liability, flood, fire)	+
Electric/gas/water/trash pickup	+
Maintenance/repairs/upkeep (lawn care, pest control, etc.)	+
Other (security system, HOA, etc.)	=
Total Monthly Estimated Housing Expenses	$

*Often included in mortgage payments through an escrow account.

Section 4 (Monthly Estimated Housing Expenses) shouldn't exceed Section 3 (Available Budget for Monthly Housing Expenses). *If it does, re-evaluate your homebuying budget or reduce unnecessary expenses, such as recreational funds, streaming services, or lawn care.*

HOW MUCH DO YOU NEED FOR A DOWN PAYMENT?

A down payment is the out-of-pocket, upfront payment you make when you buy a new home. Typically, down payments are **3–20%** of the home's purchase price, but first-time homebuyers, on average, put down 7%. If you're eligible for a Federal Housing Administration (FHA) loan, your down payment could be as low as 3.5%.

A Key Example

There are two different ways to calculate your down payment: multiplying your desired purchase price by the percentage you want to put down *or* dividing the amount you've saved for a down payment by the purchase price.

1. Multiplying: Say you've liked homes in the $200,000 range and want to estimate how much you'd need for the down payment. For an FHA loan with a 3.5% down payment requirement, you'd need $7,000 (200,000 x 0.035 = 7,000). To pay 7% down, you'd need $14,000.

2. Dividing: Now, imagine you already have $10,000 saved for a down payment and want to know what percentage down that would be. For a $200,000 home, you'd be able to offer 5% down (10,000 ÷ 200,000 = 0.05). If the home is $250,000, you'd have a 4% down payment.

Remember: the more you put down, the lower your monthly mortgage payments will be.

Know Your Options

As a first-time homebuyer, you may have access to programs that make buying your first home more achievable. Several states and cities have their own down payment assistance programs. At the federal level, programs exist for low-income, military, rural, and other populations that may reduce your down payment expenses significantly.

Your financial institution can help you determine which financing options you're eligible for.

CALCULATING DEBT-TO-INCOME RATIO

Your debt-to-income (DTI) ratio is a measurement of how much of your monthly income goes toward paying debts. It can be calculated by dividing your monthly debt obligations by your gross monthly income. The formula looks like this:

DTI = (Monthly debt payments) ÷ (Gross monthly income)

Your debt-to-income (DTI) ratio is a measurement of how much of your monthly income goes toward paying debts.

To calculate your DTI ratio, add up all your monthly debt payments, including credit card payments, car loans, student loans, and any other recurring debts. Then, divide that total by your gross monthly income (your total income before taxes and other deductions). The resulting number is your DTI ratio.

A DTI ratio of 36% or lower is considered healthy, while higher DTIs may make financing progressively harder to secure. Many lenders won't extend financing to someone whose DTI would exceed 43% with a mortgage payment, due to the high risk.

Your DTI ratio can serve another purpose: helping you gauge the effects that different mortgage amounts may have on your finances. Adjust your possible mortgage payment amount when calculating your DTI to see how it affects your ratio.

A Key Example

Let's say that you have $700 in existing monthly debt payments and a gross monthly income of $4,500. Lenders will consider your new mortgage payment when assessing your DTI, so add your potential mortgage payment to your debt amount. If your new mortgage payment is $1,000, then your DTI calculation would be:

1,700 ÷ 4,500 = DTI
1,700 ÷ 4,500 = 0.377
DTI ratio is 37.7%

While you may be able to afford this, you're just over the cusp of a favorable DTI. Reducing your debt or mortgage payment may improve your ability to secure preferable financing.

CALCULATING YOUR CREDIT UTILIZATION RATIO

Your credit usage ratio refers to the amount of your overall available credit that you've used. Lenders consider your credit usage ratio when assessing your financial stability, and it also directly impacts your credit score (which we'll discuss shortly).

Your credit usage ratio can be calculated with the following formula:

Credit usage ratio = Total credit card balances ÷ total credit card limits

In general, it's recommended to keep your credit use ratio at or below 30%. Otherwise, it could signal that you rely on credit and may have a shaky financial standing.

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A Key Example

Say you have two credit cards with limits of $3,000 and $1,500, making your total credit limit $4,500. If they carry balances of $400 and $300 respectively, your total credit card balance is $700 and your credit usage ratio calculation would be:

700 ÷ 4,500 = Credit usage ratio
700 ÷ 4,500 = 0.155
Credit usage ratio is 15.5%

In this case, your credit usage ratio is very healthy.

REVIEWING YOUR CREDIT REPORT & SCORE

Before lenders give you a mortgage, they want to be confident that you're a trustworthy borrower. Your credit history and standing play a significant role in how lenders may view you – and the financing options they can offer you. For this reason, it's essential to check your credit reports and scores to understand how you might appear to lenders.

Q: What's Considered a Good Credit Score?

A: Credit scoring models vary, but FICO® is one of the most common. While credit requirements may differ by loan and lender, it's generally recommended to have a FICO® Score of 620 or greater to secure a mortgage. FHA loans will typically accept a credit score of 579 or lower with a 10% down payment. If your score is 580 or higher, you could secure an FHA loan with only 3.5% down.

Q: How Do I Improve My Credit Score?

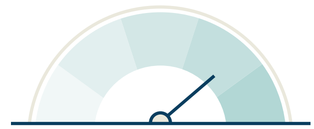
A: Improving your credit score generally takes a concerted effort over a long period of time. However, there are steps you can take to maintain your credit score while searching for a home:

+ **Don't open new credit/loan accounts** until after you've closed on your new home, as this could affect your credit standing and mortgage eligibility.
+ **Maintain a good payment history** by making payments on time and in full. A late or missed payment could be a red flag on your report.
+ **Pay down credit card balances** to reduce your credit usage. **Note:** Avoid closing credit accounts, even if you've paid them off, as this could impact your credit score.

Q: What If My Credit Report Is Inaccurate?

A: There are three main credit bureaus (Experian®, Equifax®, and Transunion®) that monitor consumers' credit. They don't share information, so your report from each may differ slightly.

If you find an inaccuracy (like an account that isn't yours or one you closed that shows to be open) on any of your credit reports, you should address it immediately. Inaccuracies might negatively affect your credit standing or even be a sign of fraud or identity theft. Contact the credit bureau that issued the report to have it corrected. Each bureau has its own process for submitting disputes.



*You can request a free copy of your credit reports from the three main credit bureaus once every 12 months through **annualcreditreport.com**, a government-authorized service. You'll need your name, address, Social Security number, and date of birth.*

Anticipating the Costs of Buying a Home

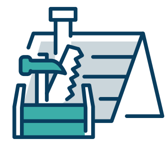
Buying your dream home can have both immediate and long-term financial implications. As a prospective homeowner, you should understand the upfront and ongoing costs associated with homeownership so you can be prepared when they come up.

UPFRONT COSTS

Before the sale is complete, there are a few upfront expenses you'll be expected to pay. These are usually paid out of your own pocket and include:

- **Earnest money:** This is a good-faith deposit, usually made within three days of your offer being accepted, which goes toward the down payment. This is typically around 1%–3% of the home's total purchase price.
- **Closing costs:** Closing costs cover the fees incurred to finalize the sale and mortgage loan, including lender's fees, commission to your real estate agent, home appraisal, inspections, and mortgage underwriting fees. Closing costs are usually 2%–5% of the purchase price.
- **Down payment:** Your down payment is how much of your own money you're putting toward the purchase. It may be 3%–20% of the purchase price.

These upfront costs may not apply to every first-time homebuyer. In some scenarios, you can secure financing that requires no down payment (e.g., VA or USDA loans) or apply for a program that covers the down payment for you. It's also possible to request that your closing costs be covered by the home's sellers during negotiations.



Beyond your mortgage payments, there are ongoing expenses that you should start planning for now.

ONGOING COSTS

The financial demands of buying and owning a home don't stop once you've signed the paperwork and have the keys to your new home. Beyond your mortgage payments, there are ongoing expenses that you should start planning for now:

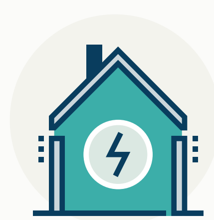
- **Maintenance:** Think HVAC filters and tuneups, gutter cleaning, and lawn and tree care. Less frequently, you may have to tackle larger projects, like roof replacement. Plan to spend roughly 1% of your new home's purchase price on maintenance per year, though this could fluctuate.
- **Repairs:** Leaky pipes, missing roof shingles, a faulty outlet – anything that breaks is your responsibility to repair. Older or neglected homes may need more repairs. Your home inspection report should give you an idea of which items may need repairs soon so you can prepare.

- **Utilities:** This includes water, gas, electricity, and trash pickup. Research average utility costs for homes in your desired area to estimate your expenses before buying. When you find a home you love, it may be possible to see its recent average utility costs.
- **New Appliances/Furniture:** New homes don't often come fully furnished and may not have all the appliances you need. Old appliances may also need to be replaced or updated. Costs will vary depending on your needs and preferences, but a few common needs are:
  - **Washer/dryer set:** $500–$2,000
  - **Countertop microwave:** $65–$150
  - **Living room set:** $1,000 and up
  - **Bedroom set:** $2,000 and up
  - **Patio furniture:** $200 and up
- **Security Systems/Cameras:** It's wise to protect your investment. The average cost to install a home security system ranges from $200 to $600, plus an additional monthly subscription fee for monitoring services. Purchasing equipment you can install yourself may help cut costs.
- **Pest Control:** Quarterly preventive pest control treatments range from $100 to $300, on average. Treatment for a bug infestation can climb into the thousands, such as if you need termite fumigation.
- **HOA Dues:** If your home is part of a homeowners association (HOA), you'll likely be required to pay HOA fees and dues. HOA fees can range from $100–$1,000 per month but average out to roughly $200–$300.

When It Pays to Own a Home

Homeownership isn't all about expenses. You may earn federal income tax credits for investments in energy-efficient home improvements like solar panels or efficient appliances. They include:

- Energy Efficient Home Improvement Credit
- Residential Clean Energy Credit
- HOMES Rebate Program
- High-Efficiency Electric Home Rebate



You can also deduct mortgage interest, mortgage points, and property taxes from your taxable income if you itemize deductions.

HOMEOWNERS ASSOCIATIONS (HOAs)

Homeowners associations (HOAs) can be a divided topic in homeownership. Some homeowners see them as effective ways to maintain property values and enjoy shared amenities, while others see them as a nuisance expense. Here's what you should know about HOAs as a first-time homebuyer.

Q: What Is a Homeowners Association?

A: A homeowners association is an organization or committee of homeowners that establishes and enforces rules and regulations for properties and residents in the HOA's jurisdiction. Rules may apply to homes' exterior appearances, such as landscaping, paint colors, décor, and more. Other common rules include pet regulations, parking limitations, and restrictions on live-in guests or renovation projects.

Beyond making and enforcing regulations, an HOA is responsible for the maintenance and improvement of common areas and amenities, such as pools, playgrounds, security, or common utilities. They may also offer services like lawn care or trash pickup.

Q: What Properties Have HOAs?

A: Condominiums almost always have HOAs, and townhouses typically have them as well. Single-family homes located in subdivisions, gated communities, or upper-scale neighborhoods may also have HOAs.

If you purchase a home that falls under an HOA's jurisdiction, you are automatically an HOA member, as membership is not optional.

Q: How Does an HOA Affect My Ongoing Costs?

A: Homeowners in an HOA pay monthly, quarterly, or annual dues to support the services that the HOA provides. If the HOA needs to cover a large, unexpected expense, homeowners may need to contribute extra funds, called special assessments, to help cover the cost. An HOA might also fine homeowners who don't comply with the established rules and regulations.

You'll need to account for membership dues and the possibility of additional expenses when budgeting for a home in an HOA. Before buying the home, request and review the HOA bylaws and fees thoroughly.

HOAs have monthly, quarterly, or annual fees that each homeowner in the HOA area pays, which adds to your ongoing housing costs. If you don't abide by the HOA's rules, the HOA may also fine you.

Q: Do I Want to Have an HOA?

A: An HOA may be a benefit or drawback, depending on your preferences. To help you decide, here are some pros and cons to consider:

HOA Pros:

+ An HOA may help maintain or increase your home's property value.
+ An HOA may encourage community connections and friendship.
+ An HOA may come with community amenities/perks.

HOA Cons:

× You have to pay monthly, quarterly, or annual dues.
× You might have to pay special assessments for unexpected costs.
× You may be subject to property and activity restrictions.

HOAs aren't right for everyone, but some homeowners see tangible benefits from them.

Financing Your Dream Home

With an idea of the costs associated with owning a home, it's time to find the financing that's best for your situation. To start, let's cover some mortgage basics.

WHAT IS A MORTGAGE?

A loan you get to finance the purchase of a home is called a mortgage, a word you've probably heard a lot at this point. Essentially, a mortgage is a sizeable loan given by a lender specifically to facilitate the purchase of a home. The lender disburses the funds directly to the selling party, and you agree to the established payment schedule and terms. Common home loan types include:

Conventional (conforming): This is any home loan that isn't backed or regulated by a government agency. Conforming conventional loans follow guidelines and regulations established by Fannie Mae or Freddie Mac (government-sponsored enterprises that buy and guarantee mortgages), while nonconforming loans do not.

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Jumbo (nonconforming): When it comes to purchasing a home that exceeds the local conforming loan limit, a jumbo loan may be necessary. Unlike conventional conforming loans, which cap out at $726,200 in most counties (as determined by the Federal Housing Finance Agency), jumbo loans provide funding for properties that are simply too expensive for a conforming loan. While jumbo loans offer flexible terms and interest rates, they are also considered riskier for lenders. Without the guarantee provided by Fannie Mae and Freddie Mac, lenders may be unprotected in the event of a borrower default. However, for those seeking financing for high-value properties, a jumbo loan may be the solution they need.

Adjustable-rate mortgage (ARM): An adjustable-rate mortgage (ARM) is a type of home loan that allows you to benefit from a lower initial interest rate than a comparable fixed-rate mortgage. This means that the monthly payments can be lower at the beginning of the loan term.

While interest rates are unpredictable, they tend to trend up and down over multiyear cycles. If interest rates are currently high, an ARM can be a smart choice since it lets you lock in a lower initial rate and potentially save money in the early days of your loan.

Keep in mind that the interest rate can change periodically after the initial period ends, leading to fluctuations in your monthly payments. However, with careful planning, an ARM can be a great option for those looking to buy a home and save money on the mortgage.

Construction/construction to permanent: Construction loans can help you cover material and labor costs – and sometimes buy land – to build a new home. They're short-term loans that average 12–18 months, and payments are distributed directly to your builder according to the construction timeline. Some lenders allow the loan to convert to a long-term mortgage, which is known as a construction-to-permanent loan.

Government-Backed Loans

- **FHA loans:** FHA loans are mortgage loans from private lenders that are insured by the Federal Housing Administration (FHA), part of the U.S. Department of Housing and Urban Development (HUD). These loans are designed to make it easier for first-time homebuyers and those with limited credit histories or lower incomes to qualify for a mortgage, with more accessible down payment and credit requirements than most conventional loans.

- **VA loans:** Loans that are guaranteed by the U.S. Department of Veterans Affairs offer better interest rates and have no requirements for down payment or private mortgage insurance (though individual lenders that provide VA loans might). Active-duty military members, veterans, and their spouses may be eligible for VA purchase loans.

- **USDA loans:** A USDA home loan is a zero-down-payment mortgage for homebuyers in eligible towns and rural areas. USDA loans are guaranteed by the USDA Rural Development Guaranteed Housing Loan Program, a part of the U.S. Department of Agriculture. Most USDA loans are issued by partner lenders, though the department can grant them directly to qualified borrowers with incomes below a certain limit.

  In addition to having no down payment requirements, USDA home loans often also have lower rates than conventional mortgages because the government is taking on the risks associated with lending. This is true even when the USDA issues the loans. For example, on Dec. 1, 2022, the government agency set the interest rate for mortgages issued directly by the USDA at 3.75%. By comparison, the average interest rate for a conventional 30-year mortgage was about 6.3% that day. And USDA loans don't require borrowers to pay for traditional private mortgage insurance (PMI).

FHA loans are designed to make it easier for first-time homebuyers and those with limited credit histories or lower incomes to qualify for a mortgage, with more accessible down payment and credit requirements than most conventional loans.

PRE-QUALIFIED VS. PREAPPROVED: THE DIFFERENCE MATTERS

An essential part of the homebuying process is learning what financing is available to you. To do this, you'll go through pre-qualification or preapproval. Though they sound the same, one option can give you a leg up when making an offer on a home.

+ **Pre-qualification** is a process where a lender provides you with an estimate of what loan option(s) you may be eligible for based on the information you provide them. Pre-qualification isn't a guarantee that you'll be able to secure the terms shown, but it can help you understand the terms different lenders might be willing to extend to you. With pre-qualification, lenders use something called a "soft credit check," which doesn't affect your credit score. If you're able to apply for pre-qualification, it's generally a good idea. If you get denied at this stage, you'll know you can move on and avoid the hard credit check that accompanies a formal application.
+ **Preapproval** is a more rigorous, comprehensive evaluation of your financial situation and credit history that leads to definitive approval for financing. Unlike with pre-qualification, where the lender does a soft credit check, preapprovals require a hard credit check, which will impact your credit score to at least some degree. The lender will verify your income, employment, credit history, and other financial information to determine the maximum amount they're willing to lend you. Then, the lender will provide you with a letter of preapproval, which is a conditional commitment to lend a specific amount of money at a specific interest rate and that states the maximum loan amount you qualify for and for how long the offer is valid (usually 60–90 days).

  In short, **preapproval means you're prepared to make an offer when you find a home that you want to buy**. It shows sellers that you're serious and have the financial backing to complete a home purchase, giving you an advantage over buyers who haven't yet been approved for financing. It also helps speed up the homebuying process, as part of it was completed in advance.

Preapproval means you're prepared to make an offer when you find a home want to buy. It shows sellers that you're serious and have the financial backing to complete a home purchase, giving you an advantage over buyers who haven't yet been approved for financing.

Credit Know-How

As financial institutions complete the preapproval process, they'll perform a credit check. This will appear on your report as a *hard inquiry*, which may drop your credit score by a couple of points for a short time.

However, you can still shop around without tanking your credit score. **Your FICO score will only be impacted once within a 45-day period, even if multiple hard inquiries are made.** This means you can get multiple mortgage preapprovals to find the best offer without it greatly affecting your credit standing.

INTEREST RATES & AMORTIZATION

Your interest rate is the percentage of your loan amount that you agree to pay as the cost of borrowing money. The interest rate you're approved for may vary by lender and your creditworthiness, and it has a big influence on your monthly payments and the total cost of your home purchase. If you want to avoid uncertainty and preserve the rate in your mortgage loan offer, talk to your lender about locking in your mortgage interest rate. Interest rate locks can offer peace of mind to borrowers, but they are not foolproof – you could miss out on a lower interest rate after you lock, and your loan might not close before the lock expires.

If you want to avoid uncertainty and preserve the rate in your mortgage loan offer, talk to your lender about locking in your mortgage interest rate.

Q: What Is a Fixed-Rate Mortgage?

A: A fixed-rate mortgage (FRM) means your interest rate and monthly payments will stay the same for the life of the loan. Approximately 90% of homebuyers choose FRMs; 30-year is the most common, but 15-year is a good choice for some. An FRM is easy to budget for and helps ensure that your housing costs don't rise with market changes, but if you get the mortgage when interest rates are high, you'll be stuck with that rate unless you decide to refinance.

Q: What Is an Adjustable-Rate Mortgage?

A: An adjustable-rate mortgage (ARM) means your interest rate – and therefore your monthly payments – may change over time. ARMs are split into an initial period, when your rate will remain constant for a set number of years – sometimes called a 10/1, which means your interest rate remains fixed for 10 years and is adjustable for the remaining 20 years of the loan term – and an adjustment period, when your rate can change with market conditions.

ARMs offer lower monthly payments than FRMs during the initial period, but they can increase dramatically once the adjustment period begins. When and how often your rate adjusts – and if there's a limit on how high it can go – should be established in your loan contract.

Q: What Is Amortization?

A: Mortgage amortization is the process of paying off a home loan over time through regular payments that include both principal and interest. Initially, the bulk of each payment will go toward interest costs, but by the end of the loan term, the majority of each payment will go toward paying down the principal. Because your early payments are primarily paying interest, the principal decreases slowly at the beginning of the loan term.

If you have an adjustable-rate mortgage, you'll need to watch for negative amortization. This can happen if your monthly payment does not cover the interest being accrued, such as after a rate increase.

Interest & Your Monthly Payments

This chart shows approximate monthly payments for a **30-year, fixed-rate mortgage with a 3% down payment**. Use it to help guide your budget and estimate your costs.

Interest Rate	$150,000	$200,000	$250,000	$300,000	$350,000	$400,000
3.5%	$653	$871	$1,089	$1,307	$1,525	$1,742
4.0%	$695	$926	$1,158	$1,389	$1,621	$1,852
4.5%	$737	$983	$1,229	$1,474	$1,720	$1,966
5.0%	$781	$1,041	$1,302	$1,562	$1,823	$2,083
5.5%	$826	$1,102	$1,377	$1,652	$1,928	$2,203
6.0%	$872	$1,163	$1,454	$1,745	$2,035	$2,326
6.5%	$920	$1,226	$1,533	$1,839	$2,146	$2,452
7.0%	$968	$1,291	$1,613	$1,936	$2,259	$2,581
7.5%	$1,017	$1,356	$1,696	$2,035	$2,374	$2,713

Estimates are rounded up to the nearest whole dollar. They don't include property taxes, private mortgage insurance, or homeowners insurance, which could add hundreds to the monthly payment.

MORTGAGE DO'S & DON'TS

DO:

+ **Compare mortgage options** – loan types (such as 15-year FRM vs. 30-year FRM), interest rates, terms, down payment, and so on – to find the one that's best for you.
+ **Get pre-qualified and/or preapproved** before shopping for a home.
+ **Find out what your monthly payments could go up to** during the adjustment period, if you get an ARM.

DON'T:

- × **Count on refinancing** to a lower rate before the adjustment period of an ARM kicks in, as it may not always be possible.
- × **Make major financial changes** in the months leading up to your mortgage application – or at any point before you've officially closed on the home – such as changing jobs, consolidating debt, closing a credit account, or opening a new line of credit.
- × **Buy a home for the full amount you've been approved for**, unless it's feasible for your budget.

Don't make major financial changes in the months leading up to your mortgage application – or at any point before you've officially closed on the home – such as changing jobs, consolidating debt, closing a credit account, or opening a new line of credit.

Popular Financing Options for First-Time Homebuyers

Now that you have a better understanding of the basics, you're ready to take a closer look at some popular financing options for first-time homebuyers.

Federal Housing Administration (FHA)

FHA loans are issued by private financial institutions but are insured by the Federal Housing Administration. This reduces the risk for lenders, so they're able to offer better terms. FHA loans are among the most popular mortgage options for first-time homebuyers, and they're a solid choice for homebuyers with a smaller down payment or less robust credit.

FHA loans are among the most popular mortgage options for first-time homebuyers.

PROS:

+ Down payments can be as low as 3.5%.
+ Credit requirements are more accessible than many conventional loans.
+ Closing costs may be lower than with conventional loans.

CONS:

× An FHA loan may not be the most cost-effective option if you have good credit and 10% or greater down payment.
× Mortgage insurance is required for FHA loans, which increases your monthly payment.
× FHA loans have established borrowing limits that vary by county.

Conventional 97

Offered by Fannie Mae, a Conventional 97 loan is a 97% loan-to-value mortgage that requires only 3% down and is designed to help lenders better serve first-time homebuyers. The benefits of the Conventional 97 loan include a low down payment, flexible terms, and no prepayment penalty. With this type of loan, monthly PMI payments are required (though these payments are cancelable once you have enough equity in the home), your debt-to-income ratio cannot exceed 43%, and you must plan to live in the home.

The benefits of the Conventional 97 loan include a low down payment, flexible terms, and no prepayment penalty.

HomeReady™/Home Possible®

The Fannie Mae HomeReady™ and Freddie Mac Home Possible® loans are two similar options for low- and moderate-income homebuyers. Both loans offer down payments as low as 3% and allow you to use multiple sources to cover the down payment (like gifts, grants, and second mortgages). You can also have a non-occupant co-borrower. You typically need decent credit (minimum score of 660) to qualify, and as a first-time homebuyer, you'll be required to complete homeownership education.

For Home Possible loans, you must make 80% or less of the Area Median Income (AMI), and the education requirement can be satisfied by Freddie Mac's free online course called CreditSmart®. For HomeReady loans, you must make below 100% of the AMI and will have to take a homebuyer education course.

For HomeReady loans, you must make below 100% of the AMI and will have to take a homebuyer education course.

U.S. Department of Agriculture (USDA)

The U.S. Department of Agriculture offers direct home loans and home loan guarantees for eligible properties and borrowers to encourage thriving communities in rural areas. In the case of a USDA Direct Home Loan, the USDA itself acts as the lender and provides the funds to purchase the property directly to the homebuyer. With a USDA Guaranteed loan, the agency backs the loan to protect against default, but the funds are provided by a private lender. While there are no established credit limits, your history should show that you're willing and able to repay debts.

With a USDA Guaranteed loan, the agency backs the loan to protect against default, but the funds are provided by a private lender.

To qualify for **USDA Single Family Direct Home Loans**, you must be considered low-income in your area, be unable to secure other financing with reasonable terms, and be without safe, sanitary housing. The loans are 33- or 38-year fixed-rate mortgages with no down payment requirement and with payment assistance subsidies that can temporarily lower your monthly payments.

To qualify for **USDA Single Family Home Loan Guarantees**, your household income can't exceed 115% of the AMI, and your debt-to-income ratio must be 41% or below. You must be unable to secure conventional financing without private mortgage insurance and must have a stable, dependable source of income. The mortgage itself is a 30-year FRM with a monthly payment that is recommended to be less than 30% of your monthly income. No down payment is required, and you may be able to use the financing to cover closing costs, home repairs, and other expenses.

Veterans Affairs (VA)

Loans guaranteed by the U.S. Department of Veterans Affairs are called VA loans, and they offer perks that make buying a home more attainable for those who qualify. To be eligible, you must:

- ✓ Be a veteran, active-duty military personnel (including National Guard or Reserves), or a surviving spouse
- ✓ Receive a Certificate of Eligibility (COE) from the VA
- ✓ Have good credit with a dependable, stable income
- ✓ Have zero debt with the federal government or its agencies

VA loans don't require a down payment or private mortgage insurance.

VA loans don't require a down payment or private mortgage insurance and they often have lower credit requirements and interest rates than traditional financing options. There are also no prepayment penalties for paying off the mortgage early.

Good Neighbor Next Door

Do you serve the public and want significant savings? The HUD's Good Neighbor Next Door program offers a 50% discount on the list price of eligible homes in "revitalization areas" for police, firefighters, teachers, and EMTs. There are no credit or income requirements – the only stipulations are that you meet employment criteria and will live in the home as your primary residence for at least three years.

The Good Neighbor Next Door program aims to encourage honorable community members to help breathe life back into struggling areas.

The program aims to encourage honorable community members to help breathe life back into struggling areas. Eligible properties are listed exclusively through this program's directory and stay on the market for a week. If you see a home you like, you can submit an offer. If multiple offers are received, a random lottery determines who gets the property.

When you close on the property, you'll be asked to sign a second mortgage and note for the amount discounted through the program. However, you won't make payments on the principal or interest unless you move out within three years of purchasing the home.

First-Time Homebuyer Assistance

Many financing options still require you to cover the down payment and closing costs, and if your credit or income aren't solid, you may struggle to find financing that works for you. Fortunately, you have options.

Down payment and closing cost assistance may be offered at the state, county, and city levels. These programs provide grants, low-interest second loans, or tax credits that help cover or offset your down payment and closing costs. Considering that these expenses can easily total tens of thousands of dollars, it's worth looking into assistance options in your area. Your lender should be able to help connect you with suitable programs.

Down payment gifts (money given to you to cover these costs) can also help, and you won't have to pay taxes on them. To help make sure the money is truly a gift and not a debt to be repaid, there are limits on where the funds can come from. Though the guidelines vary by lender, for most conventional loans, down payment gifts can come from family members, close friends, or other people you have a documented relationship with.

In all cases, the gift must be deposited into the homebuyer's account and be documented with a letter stating it's a gift with no repayment expectation and that the giver has no interest or involvement in the property you're purchasing. There should also be a paper trail to verify the gift, such as bank statements or a cashier's check. Note that some loans limit the amount of gift money that can be used for the down payment.

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Co-signers are another way to expand your buying power if you have credit or income that's lacking. Different that co-borrowing, when someone takes on the shared debt with you, a co-signer guarantees the debt in the event that you default on your loan. This added security strengthens your mortgage application. A co-signer should always be someone you trust, who has your best interests at heart, because having their name on the mortgage and deed could give them claim to the property.

THE LOAN APPLICATION CHECKLIST

Ready to secure your financing? Make sure you have all the information and documentation your lender may need so it goes off without a hitch.

Personal Information

- ✓ Government-issued ID (e.g., driver's license, passport, or state ID)
- ✓ Social Security number
- ✓ Date of birth
- ✓ Education level
- ✓ Marital status
- ✓ Dependents' ages (if applicable)
- ✓ Current contact information (address and phone number)
- ✓ Previous addresses (all within past seven years)
- ✓ Current rent amount
- ✓ Landlord contact information (all within past two years)
- ✓ Immigration status and supporting documentation, if applicable

Employment & Income Documents

- ✓ At least two years' employment history, with contact and payment information (like W-2s)
- ✓ Current employment and income information (including W-2s and recent pay stubs)
- ✓ Complete federal income tax returns for the past two years
- ✓ If self-employed, you'll also need:
  - Year-to-date profit and loss statement
  - Documentation of unpaid accounts receivable
- ✓ Records of other income, if applicable, such as:
  - Alimony payments
  - Child support payments
  - Rental income

Always be honest and upfront with your lender. Disclose any situations, income, liabilities, or assets that could impact your finances or mortgage, such as divorce or settlement proceedings. The process is thorough, and misrepresentations during the loan process could lead to denial or even legal action.

Financial Assets

- ✓ At least two months of financial statements for all of your existing checking and savings accounts
- ✓ Investment account statements, including for:
  - 401(k)s
  - IRAs
  - CDs
  - Brokerage accounts
- ✓ Records of interest and dividends received
- ✓ Value of life insurance policy
- ✓ Documentation for vehicles you own
- ✓ Documentation for any real estate you own
  - For rental properties, this includes a property appraisal and copy of the lease
- ✓ Down payment gift letters, if applicable

When in doubt, bring it out! It's better to be over-prepared than to be missing important documentation that your lender needs.

Financial Liabilities

- ✓ All account information (company, type, number, balance owed, and monthly payment) for each of the following:
  - Credit cards
  - Student loans
  - Personal loans
  - Auto loans
  - Medical bills
- ✓ Documentation of child support obligations
- ✓ Documentation of alimony obligations
- ✓ Documentation of job-related expenses

Choosing a Real Estate Agent

From finding a home to negotiating the sale, so many details go into homebuying that it can be overwhelming. Having a professional on your side can make the difference between snagging your dream home and watching it slip through your fingers. That's where real estate agents come in.

WHAT DO REAL ESTATE AGENTS DO?

Real estate agents are licensed professionals who help property buyers and sellers navigate their transaction journeys, from searching for or listing a property to closing the sale and everything in between. Agents go through extensive education and testing to obtain their licenses (though exact education specifications vary by state), and they work under or are sponsored by brokers, who have higher-level certifications and training.

Real estate agents are an integral part of the homebuying process. They'll help you find a home you love and will act as a liaison between you and the selling party, serving as your advocate throughout the process. Their duties often include, but aren't limited to:

+ Showing you appropriate listings
+ Getting answers to your questions
+ Delivering your official offer
+ Conveying the seller's counteroffers
+ Offering guidance for inspections and other services
+ Handling hiccups or obstacles that occur

Your agent will do most of the heavy lifting in your homebuying process, acting as both a resource for guidance and your representative. Their primary, overarching responsibility is to help match you with a home and do everything they can to get the deal to closing for you.

Real Estate Agents vs. REALTORS®

It's important to note that real estate agents and REALTORS® are not the same thing. Once real estate agents receive their licenses and join a local real estate association, they may also choose to join the National Association of Realtors (NAR) – a trade association with more than 1.5 million members – and earn the designation of REALTOR®.

The NAR has high standards and a strict code of ethics that REALTORS® must follow. In return, the NAR gives its members access to continued training, professional designations, insightful market data, and additional services to support their work.

Your agent will do most of the heavy lifting in your homebuying process, acting as both a resource for guidance and your representative.

WHO DOES THE REAL ESTATE AGENT WORK FOR?

In general, real estate agents can work for either buyers or sellers, with their role changing with each transaction. In a single transaction, the agent who represents the seller is known as the listing agent. The agent who represents the buyer is known as the buyer's agent. Your real estate agent will be working for you, so they'll be a buyer's agent.

But how do real estate agents get paid? Real estate agents are typically paid a commission for each property sale they're part of, often 3% of a home's purchase price. However, both the listing agent and the buyer's agent – your agent – are paid by the seller. That means you get all the benefits of working with a professional at zero cost.

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Vetting Your Real Estate Professional

You want a real estate agent who's well-equipped to help you find your dream home, which means you should look for qualities like local knowledge, experience, and success rate. The following questions can help you find the ideal representative:

+ How long have you been a real estate agent?
+ How many sales have you closed in that time?
+ How long have you been in this area?
+ What percentage of your business is spent working with homebuyers?
+ What's your experience working with first-time homebuyers?
+ Do you have any references from previous clients?
+ What's your availability? I'm available to view homes mostly in the afternoon/evening/weekends/lunch/etc. – does that fit your schedule?
+ What's your preferred form of communication? How often can I expect to hear from you?
+ What's your strategy when searching for homes or helping buyers secure a highly desired property?

Do your own research, too, such as reading online reviews or news about the agent. You can also check their license status on the website of your state's real estate commission.

The Truth About Dual Agency

In rare circumstances, one agent may represent both the buyer and the seller in a transaction. This is called "dual agency." For example, let's say you don't have a real estate agent yet and see a listing that you love. If you reach out to the listing agent directly and they help guide you through the sale, this is dual agency.

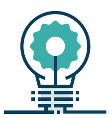
Dual agency presents obvious conflicts of interest, and it's illegal in several states. States that allow it have laws that dictate when dual agency must be disclosed, if the agent must explain what dual agency means, and whether the buyer and seller must provide written or verbal agreement.

If your agent discloses dual agency, you have the right to decide if you want to proceed with the transaction with your agent or another agent – or walk away from the purchase entirely.

If your agent discloses dual agency, you have the right to decide if you want to proceed with the transaction with your agent or another agent – or walk away from the purchase entirely.

WHAT ARE THE BENEFITS OF HIRING A REAL ESTATE AGENT?

Working with a real estate agent means you have an experienced industry professional on your side, likely at no cost to you. Beyond the fact that, in most cases, they won't cost you anything, working with a real estate agent offers you numerous other benefits, including:



Expertise and knowledge: Real estate agents have extensive knowledge of the local housing market and can guide you through the buying process, from searching for properties to making an offer. They may also have useful information about the area's schools, neighborhoods, attractions, and other factors that could influence your home search.

Saved time: With a real estate agent, you don't have to spend every free minute you have searching for properties, scheduling showings, or (when you find a home) having offer letters or contracts drafted. Your agent can handle all of that for you.

Negotiation skills: Agents have experience negotiating home purchases. Not only can they help you get a fair deal, but they may also suggest terms that you didn't know were available, such as including a home warranty or having the seller cover your closing costs.

Access to more properties: An agent may have access to listings that aren't yet available to the public, including properties that are about to hit the market.

Professional networks: If they've been working in the area for several years, your agent likely has relationships with other professionals in the industry, such as lenders, home inspectors, appraisers, and contractors. They can likely provide a few suggestions for each professional you need throughout your homebuying process.

Paperwork assistance: Real estate transactions involve a lot of paperwork that can be complex. Even minor mistakes can cause major headaches down the road. Your agent can help you navigate the process and ensure all documents are filled out correctly.

Guidance with financing: Your agent may be able to suggest reputable lenders in the area, help you understand financing options, and help guide you through the process of getting preapproved and then securing financing.

Market analysis: The average listing price, sale price, time spent on the market, and home size for the area you're interested in can set your expectations and help you recognize a fair deal. Experienced agents have access to market analytics and data to help you make an informed decision.

A second perspective: Agents' years of showing and selling homes means they may notice details or considerations you don't. They can also help add a fresh perspective or opinion on a home.

Finding the Perfect Home

Once you have financing preapproval and an experienced agent to support you, you're almost ready to start your home search. Before you begin, though, you should think hard about what you want from your home and what things to consider during your search.

THE HOMEBUYER'S CHECKLIST

Price Range: ______________________________

Cities/Counties: ______________________________

Desired Neighborhoods/School Districts/Other Area Features: ______________________________

____

Min. # of Bedrooms: _____ Min. # of Bathrooms: _____ Square Footage: _____

Preferred Style (Split-Level, Victorian, Ranch, etc.): ______________________________

Home Feature	Do Not Want	May Consider	Neutral	Would Like	Must Have
Gated Community					
Cul-de-Sac Street					
Two-Car Garage					
Covered Carport					
Fenced-In Yard					
Landscaping/Garden					
Shed/Outdoor Buildings					
Pool					
Deck/Patio					
Porch (Front or Wrap-Around)					
Security System					
Open Floor Plan					

Let this checklist guide your search, but be willing to compromise on some of your requests. Sometimes your dream home is hiding behind a little TLC.

Home Feature	Do Not Want	May Consider	Neutral	Would Like	Must Have
Finished Basement					
Home Office					
Dining Room					
Utility/Laundry Room					
Updated Bathrooms					
En-Suite Master Bath					
Eat-In Kitchen					
Granite/Marble Countertops					
Walk-In Pantry					
Kitchen Appliances Included					
Washer/Dryer Included					
Spa or Whirlpool Tub					
Walk-In Closets					
Hardwood Floors					
Carpeted Floors					
Central Heating & Air Conditioning					
Fireplace(s)					
Natural Gas					
Energy-Efficient Features					
Homeowners Association					

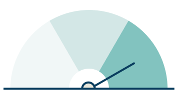
Notes/Considerations:

SEARCHING & SORTING MLS LISTINGS

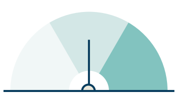
While your agent will gather listings they think you'll like, it will help if you do your own searches too. You may find homes that don't match your criteria but that you still love. Sending listings like these to your agent and explaining why you like them – be it the location, upscale finishes, or unique character – can help them better understand what you value most or may be willing to compromise on.

To get started, browse Multiple Listing Service (MLS) listings (the database of properties for sale, managed by real estate agents), and take advantage of search filters to narrow your results by price, location, age, home types, size, features, and more. Start with strict parameters that describe your dream home, then gradually broaden them. Loosen negotiable aspects first, like expanding the search radius or unchecking features like a pool or fenced-in yard.

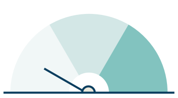
As you browse, sort homes you like into three categories:



High priority: These are the homes that you fall in love with, the ones that check virtually all the boxes on your homebuyer's checklist and appear to be in great condition. They're the ones you're super excited about, can picture yourself living in, and want to see in person ASAP.



Medium priority: Homes with promise go in this category. They should still check most of the boxes and be worth going to see, but they may be missing a feature you had your heart set on or are farther away from work than you'd hoped, for instance.



Low priority: These are the homes that could go either way but merit further investigation (particularly if the higher-priority homes don't work out). They may have vague descriptions but promising pictures (or vice versa), or they may have small details/features you don't like but the rest is fine.

Every time you browse MLS listings, send high-priority and medium-priority homes to your agent immediately, explaining which ones you're most excited to see. Your agent will begin scheduling viewings as soon as possible and may provide additional information, like seller's disclosures (the form where sellers note the general condition, age, and known problems of various aspects of the home). Send low-priority listings, too, when your home search hits a wall.

Every time you browse MLS listings, send high-priority and medium-priority homes to your agent immediately, explaining which ones you're most excited to see.

WHAT TO WATCH FOR DURING A SHOWING

So, you found a promising listing, your agent scheduled a viewing, and now you're walking through the door of what could be your first home. What should you consider as you look around?

+ **Remember that the seller's items won't stay there.** Listing agents go to great lengths to prepare a home for viewing, which can both help and hinder your search. While the seller's furnishings can help you see how your belongings might fit in a space, don't let them distract you from the structure itself. Pay attention to walls, floors, windows, layout, and other features.
+ **Be alert for signs of disrepair, damage, or neglect**. As a first-time homebuyer, you're unlikely to want to take on a huge renovation or repair project. Musty odors, water stains seeping through paint, uneven floors, warped wall paneling or doorframes, and even rugs in odd places can all be signs of deeper issues.
+ **Don't get hung up on cosmetics.** Looks aren't everything when it comes to homebuying. Aspects like landscaping, paint colors, and hardware (like cabinet handles) can all be changed. Don't let an unpleasant color scheme or odd sense of style sway you from an otherwise wonderful home.
+ **Focus on functionality.** Small details that are easily overlooked can have a big impact on your daily life in a home.
    - Are there enough outlets in the kitchen, living room, and bedrooms?
    - Does each room have an overhead light fixture with a light switch near the door?
    - Is the water pressure strong, and does it stay that way if multiple faucets are on?
    - Do all doors close and lock properly?
    - Are the spaces big enough to accommodate your household, furnishings, and favorite activities?
+ **Explore the outdoors.** Don't limit your walk-through to the interior alone. Look at the home's exterior – like the gutter system, siding, and roof (as viewed from the ground) – but also walk around the property. Check out any outdoor features like sheds, ponds, and fencing.
+ **Be respectful and be mindful.** Remember that this is still someone's home. Even if the homeowner or listing agent isn't there, there could be indoor security cameras or curious neighbors listening in. Avoid being overly critical, disparaging, or flat-out insulting, because the homeowner could refuse to sell to you. You should also avoid being overly enthusiastic – that won't help you with negotiations if the seller knows how much you want the home.

Small details that are easily overlooked can have a big impact on your daily life in a home.

Watch Out for Red Flags

Certain issues could mean significant expenses, massive projects, and tons of stress. If you see these red flags in any home, consider removing that home from your list:

- Uneven flooring and large cracks in exterior walls (indicate foundation problems)
- A roof that sags, has dark streaks, or has shingles that are curled, cracked, or missing
- An older HVAC system, furnace, or hot water heater
- Windows that are foggy, cracked, or won't close, the latter of which could be due to a shifting foundation
- Termite infestation
- Widespread water damage
- Very close bodies of water, including creeks, which could be prone to flooding
- Extended time on the market with multiple previous offers that were later withdrawn (could indicate major issues uncovered during inspections)

Watch out for red flags. Certain issues could mean significant expenses, massive projects, and tons of stress.

Building a Safety Net Into the Sale

A home warranty can help protect your new home after purchase, and it can be negotiated into the terms of your home purchase. While home warranties vary by provider, they tend to cover most major systems and appliances, including plumbing and electrical components, roofing, refrigerators, hot water heaters, and more.

When something breaks, you simply pay a fixed service fee, and the warranty company sends a vetted professional to perform repairs or, if necessary, recommend replacement. The warranty should cover the majority, if not all, of costs beyond the service fee. Just be sure you understand the terms of your coverage.

While you shouldn't depend on a warranty alone, it can offer considerable peace of mind and take some of the stress out of your homebuying experience. Just be sure you understand the terms of your coverage.

While home warranties vary by provider, they tend to cover most major systems and appliances, including plumbing and electrical components, roofing, refrigerators, hot water heaters, and more.

The Home Purchase Process: What to Expect

From finding a suitable home to sealing the deal at closing, here's a brief timeline of the entire homebuying process and what to expect at each stage.

1 STEP 1: FIND THE HOME YOU WANT

Average Time to Expect: 10 Weeks

This is often the longest part of the homebuying process. Aspects like market conditions and the features you want in a home will influence how long it takes to find a suitable home. You may get lucky and find an ideal home within a week, or you may search for several months before finding one that meets your needs. High competition, short supply, or wanting hard-to-come-by features can all prolong your search.

You may get lucky and find an ideal home within a week, or you may search for several months before finding one that meets your needs.

Your real estate agent should help you find promising listings and set your expectations based on your requests, budget, and current market conditions.

2 STEP 2: MAKE AN OFFER

Average Time to Expect: 1 Day

It finally happened – you found a home you love, and you want to make it yours. After viewing the home, let your real estate agent know that you'd like to make an offer. They'll help draw up the appropriate documentation, which will serve as a blueprint for the final terms of the sale. Your offer should include details like:

- ✓ How much you're offering for the home
- ✓ When your offer will expire
- ✓ How much earnest money you'll put down
- ✓ Who will pay for surveys, inspections, title insurance, and other sale and closing costs
- ✓ When you'd like to close
- ✓ Contingencies and provisions

A real estate agent can often draw up and submit your formal offer the same day you decide to make it, which can make all the difference in a competitive market. Without a real estate agent, you may spend days creating the contract and ensuring it abides by all state and local requirements before you can submit it. The longer it takes for your offer to be submitted, the higher the risk that the seller will accept another offer before you're able to throw your hat in the ring.

A real estate agent can often draw up and submit your formal offer the same day you decide to make it, which can make all the difference in a competitive market.

Concentrate on Contingencies!

Contingencies are the conditions that must be met for you to go through with the sale, and they're an essential part of your offer. If you don't include contingencies, you may be contractually bound to complete the sale no matter what, and if you back out, you could lose your earnest money deposit or face additional fees.

The most common – and important – contingencies to include in your offer relate to financing and the home's condition. A financing contingency simply states that the sale is dependent on your ability to secure the required financing from your lender, so you won't be in breach of contract if your financing doesn't go as planned (like if the appraised value is too low).

The most common – and important – contingencies to include in your offer relate to financing and the home's condition.

Contingencies regarding the home's condition typically specify that your offer may be adjusted or withdrawn if the home inspection or survey reveals a major concern. It's also often stipulated that you'll perform a final walk-through shortly before closing to ensure the home is in order (no new damage, agreed-upon repairs have been made, etc.).

3 STEP 3: SELLER ACCEPTS OR COUNTERS

Average Time to Expect: 2–3 Days

The next step is less fun: waiting for a response from the seller. Sellers need time to consider offer terms, and if they have multiple offers to review, it could take some time. Typically, they'll respond within 48 hours, but they have until the deadline stipulated in your offer.

Sellers need time to consider offer terms, and if they have multiple offers to review, it could take some time.

When the seller does respond, they may:

+ **Reject your offer.** You may choose to submit another, better offer if the seller hasn't gone under contract with another buyer, but most homebuyers choose to resume their house search after having an offer rejected.
+ **Accept it as-is.** Congratulations! This means you're officially under contract, and you'll need to make your earnest money deposit. If your contingencies are met and all goes well, you'll become the proud owner of your new home!
+ **Make a counteroffer.** This means they've revised some of the terms of the contract, like the sale price, contingencies, timeline, or fixtures or appliances included in the sale. This will begin a negotiation process where you can continue revising the terms of the offer until both parties are satisfied – or one chooses to walk away.

Time Is of the Essence

In some cases, a "time is of the essence" (TIOTE) clause may be included in the offer contract. This clause establishes a hard and fast closing date that is non-negotiable and contractually binding. If either party is unable to close on that date for any reason, they're considered in breach of contract and may be required to pay damages or fees as outlined in the contract. The sale could also fall through.

This clause isn't necessary in offer contracts, and many people avoid it. Without the clause, both parties still agree to a closing date, but reasonable allowances are made if unexpected or uncontrollable circumstances require the date to be moved, like a delay in mortgage processing or a personal emergency.

If you see a TIOTE clause in your contract, consult with your real estate agent or a real estate lawyer for guidance.

If you see a TIOTE clause in your contract, consult with your real estate agent or a real estate lawyer for guidance. If you decide to proceed, make sure the closing date is realistic and includes enough time to account for unexpected delays.

4 STEP 4: APPRAISAL & INSPECTION

Average Time to Expect: 1 Week

With your offer accepted, your lender will want to schedule an appraisal of the home to make sure the purchase price reflects the home's real and current value. An appraiser will assess the value of the home using methods like comparative market analysis (CMA). If the home appraises for less than the agreed-upon price, you may not be able to secure financing for the full purchase price. In that case, the seller can agree to reduce the purchase price, or you may have to cover the difference – or walk away from the sale entirely. This is an uncommon occurrence, but it's one you should be aware of.

The cost of a home appraisal averages about $300 to $500. When the lender orders the home appraisal, the buyer pays for it.

The cost of a home appraisal averages about $300 to $600. When the lender orders the home appraisal, the buyer pays for it.

You'll also want to schedule a home inspection to make sure there are no significant issues with the structure. This should be done by a licensed home inspector and will typically cost between $200 and $400. The inspector will check all major features of the house, including:

- ✓ **Exterior:** Roofing, siding, crawl space/foundation, gutters, porch, etc.
- ✓ **Interior:** Flooring, walls, attic space, cosmetic damages, appliances, water and light fixtures, etc.
- ✓ **Systems:** Electrical, plumbing, heating, cooling, ventilation, drainage, etc.

Once you've chosen an inspector, your real estate agent can coordinate with them and the seller to schedule the inspection. It may take a week or more for the inspector to have time to evaluate the home, and it generally takes a few more days to receive the report of their findings.

If the inspector finds concerns, you may request the seller make repairs, renegotiate the home's sale price or coverage of closing costs, or choose to walk away from the purchase altogether.

If the inspector finds concerns, you may request the seller make repairs, renegotiate the home's sale price or coverage of closing costs, or choose to walk away from the purchase altogether. Inspections should be completed as soon as possible to ensure there's enough time to renegotiate or for the seller to complete requested repairs before closing.

5 STEP 5: TITLE & ESCROW

Average Time to Expect: 2 Weeks

When it comes to homebuying, "title" is used to describe who has the legal rights to a piece of property.

When it comes to homebuying, "title" is used to describe who has the legal rights to a piece of property. To verify that the seller has the undisputed legal right to sell the property – and that the property isn't tangled up in financial or legal concerns – your agent or lender will order a title inspection.

Property liens, unpaid taxes, or names of people on the deed who aren't part of the transaction all present title concerns. When discovered by title inspection, these issues will need to be resolved by the seller before you can close on the home. Your agent or lender will also require the purchase of title insurance, which helps cover legal costs if additional title issues or ownership disputes arise.

Another function the title company may serve is the handling of the escrow account. The escrow account will hold all funds that will be exchanged by the parties during the transaction, including your earnest money deposit, the seller's deed and other paperwork. The escrow account should always be managed by a third party. If the title company isn't responsible for it, then a lawyer or settlement company may manage the escrow account instead.

Pre-Closing Homebuying Escrow vs. Taxes and Insurance Escrow

The escrow account that holds the home transaction's funds up until closing is not the same as the escrow account you'll have after closing.

Most loan types require your lender to establish an escrow account for you after closing. Part of your monthly mortgage payments will be deposited into this account, and the funds will be used to cover your property tax and home insurance payments. This helps ensure you remain compliant with insurance requirements and that the home's title isn't affected by unpaid taxes.

Your escrow account costs may be reviewed periodically and adjusted as tax or insurance rates fluctuate.

6 STEP 6: UNDERWRITING

Average Time to Expect: 2–3 Weeks

As soon as your offer is accepted, your lender will begin the underwriting process. This involves a meticulous review of all financial and personal information you've provided so your lender can finalize your mortgage approval and begin drafting the official loan documents.

Underwriting involves a meticulous review of all financial and personal information you've provided so your lender can finalize your mortgage approval and begin drafting the official loan documents.

Your lender is likely to request additional documentation or information to help move things along. They may also send you revised loan estimates if details uncovered during this process affect your financing terms or amounts. If you have a complex financial situation – like numerous recent employers or non-employment sources of income (like alimony) – underwriting may take longer than usual.

When the process is complete and everything's in order, your lender will send you a "clear to close" notice, which means your financing is finalized and approved – and you're ready to close!

STEP 7: CLOSING

Average Time to Expect: 2–3 Hours

A few days before closing, you should perform your final walk-through to make sure the home is as expected – complete with finished repairs and any items you requested the seller leave behind. You'll also receive a closing disclosure from your lender that outlines the final terms of your mortgage, including your monthly payment and the amount you'll need at closing. Go through this document thoroughly and ask your lender any questions you have.

At closing, your real estate agent, loan officer, and a representative from the title company should be present to walk you through each document and answer your questions.

With everything in order, it's finally time for the big day! Closing should only take a few hours. You'll go to your closing appointment and sign a mound of paperwork. Your real estate agent, loan officer, and a representative from the title company should be present to walk you through each document and answer your questions. Once you've signed all the paperwork, your lender will disburse the funds to the home seller, and your loan will officially begin. You'll receive the keys to your new home (as well as copies of everything you signed) and walk out an official homeowner!

A Closer Look
From Offer to Closing

On average, it takes roughly 50 days to reach closing after making an offer. Let's take a deeper dive into what happens during that time.

Here's what to expect when you make an offer on a home.

- ✓ Make an offer
- ✓ Seller accepts or counters
- ✓ Pay earnest money
- ✓ Get inspection, appraisal, and title reports
- ✓ Provide final documentation to lender
- ✓ Receive clear to close notice
- ✓ Conduct final walk-through
- ✓ Receive closing disclosure
- ✓ Attend closing
- ✓ Enjoy homeownership!

LENDER REQUIREMENTS

For the sale to go through, additional requirements from your lender may need to be met, beyond a down payment, good credit standing, sufficient appraisal value, and no title issues. These include:

- ✓ **Home condition:** Many loan types and lenders require a home to be in decent condition before issuing financing. At minimum, the home should meet local building regulations, but major issues revealed in inspections might also make your lender pause.
- ✓ **Money trail:** Lenders also need to know that you aren't taking on too much debt. To this end, they'll request documentation showing where the funds for your down payment and earnest money are coming from. If you've had a recent large deposit in one of your financial accounts, they'll want documentation to show the source of that, too, even if you aren't planning to use it for the home purchase.
- ✓ **Home insurance:** During underwriting, you'll be required to find home insurance that meets your lender's specifications. At minimum, your lender will require that you carry insurance to cover the amount of the mortgage. Some lenders may require additional specific coverages, like flood insurance. Get multiple quotes on appropriate policies, and when you find one you like, send the quote information to your lender.

At minimum, your lender will require that you carry insurance to cover the amount of the mortgage.

UNDERSTANDING THE REAL ESTATE AGENT'S ROLE

Your real estate agent will be your advocate, coach, and liaison, offering guidance every step of the way. From offer to closing, their role typically includes:

- ✓ Helping you create a fair, strategic offer with smart contingencies
- ✓ Coordinating inspections, surveys, and walk-throughs
- ✓ Checking that every single document is correct
- ✓ Making sure all conditions are met before closing
- ✓ Setting your expectations for closing
- ✓ Representing you at closing

At closing, your real estate agent will still represent you. If any last-minute disputes, concerns, or negotiations arise, your agent can help mediate the situation, talk through your concerns, and advocate for you.

Just as your agent plays their role, the listing agent will perform similar services for the seller. They'll provide guidance on offer pricing and terms, check the accuracy and fairness of all documents, coordinate with your real estate agent to schedule inspections and walk-throughs, and, in general, advocate for their seller throughout the process.

Each agent has a responsibility to act in their client's best interest until closing is final, helping ensure a fair, balanced home sale.

At closing, your real estate agent will still represent you. If any last-minute disputes, concerns, or negotiations arise, your agent can help mediate the situation, talk through your concerns, and advocate for you.

CLOSING

At closing, multiple parties could be present, including a lawyer, title or escrow agent, your mortgage lender, your real estate agent, the seller, and the seller's agent. You'll be presented with a stack of paperwork to review and sign, which should include:

You'll have plenty of confidence when it comes time for closing when you understand, in advance, all the documents you will be expected to sign.

Home loan documents, including:

- ✓ **Loan application:** This is a copy of your mortgage application, which you can review for accuracy.
- ✓ **Loan estimate:** Before closing, your lender will send you a loan estimate that includes information about the terms of your loan, like your mortgage payment, closing costs, appraisal, chosen homeowners insurance policy, interest rate, and overall cost of receiving a loan. At closing, you'll receive a copy of this again.
- ✓ **Closing disclosure:** Also known as the settlement statement, this should be the same document you received before closing. You may be required to sign it again, but look it over to make sure there haven't been any changes. It will include the financial details of your loan, including its interest rate, annual percentage rate, late fees, prepayment penalties, the amount you're borrowing, and how much you'll pay over the life of the loan.
- ✓ **Mortgage note:** The mortgage note is the legally binding document that describes the final details of your mortgage, including the amount borrowed, interest rates, payment due dates, if and how payment amounts can change, who you'll make payments to, and what happens if you don't pay. By signing it at closing, you agree to pay back your loan according to the terms listed.
- ✓ **Initial escrow disclosure:** This document outlines the property tax and homeowners insurance expenses that will be paid from your escrow account over the first year of your mortgage.
- ✓ **Transfer of tax declarations:** Depending on your state and local laws, you may be required to sign a document that lists the property's purchase price and the sales tax owed.
- ✓ **Title insurance commitment:** This document explains who owns the property and if any existing liens or conflicts exist on the title.
- ✓ **Proof of homeowners insurance:** Lenders typically require the mortgage borrower to provide proof of homeowners insurance before closing on the home. This confirms that the property being purchased is covered by an appropriate homeowners insurance policy, protecting the lender's investment in case of damage or loss to the home. The buyer's insurance company can provide proof of insurance, which discloses details of the coverage.

- ✓ **Deed:** The seller is responsible for signing this document, which signifies the official, legal transfer of the property into your name. It should include a detailed description of the property. Make absolutely sure all of your details are correct on the deed.

You may also have to sign documents attesting to your identity and that you received all inspection reports prior to closing. You should get copies of each document you sign or review at closing, which you should keep in a safe place.

When all the paperwork is done, you'll receive the keys to *your very first home*.

THE MOVING CHECKLIST FOR NEW HOMEOWNERS

For a seamless transition, use these checklists to help you plan and organize the process.

New Home Address: ____

Move-In Date: __________

Previous Residence To-Dos:

- ☐ Establish mail forwarding/change of address through the post office
- ☐ Arrange for utilities to be taken out of your name
- ☐ Give your landlord your new address (to send your deposit or wayward mail to)
- ☐ Donate, sell, or trash items you don't want to take with you
- ☐ Use up items that will be a hassle to move, such as perishables or aerosols
- ☐ Pack a bag of essentials/valuables to keep with you (one outfit, toiletries, snacks, water, laptop, phone charger, etc.)
- ☐ Find a safe place to store important documents so they aren't lost or damaged in the move
- ☐ Conduct a deep clean
- ☐ Take time-stamped photos to document its condition
- ☐ Double-check all cabinets, closets, cupboards, shelves, and appliances for forgotten items
- ☐ Lock it up and return the keys to your landlord as instructed

Working with a moving checklist can help you stay organized and ensure vital tasks get accomplished, and nothing gets misplaced or left behind.

Notes/Reminders: ____

New Home To-Dos:

- ☐ Reserve moving services at least one week in advance
- ☐ Put utilities in your name (internet, gas, electric, water, trash, cable, phone, etc.)
- ☐ Check that all systems are working (lights, toilets, faucets, appliances, locks, heating, air conditioning, etc.)
- ☐ Update your address with your employer, insurers, loan servicers, and other entities
- ☐ Update your address on your financial accounts, driver's license, vehicle registration, and voter registration
- ☐ Replace the locks on all outside doors
- ☐ Schedule installation of security system (if desired)
- ☐ Check and replace batteries in smoke and carbon monoxide detectors
- ☐ Unpack important documents and store them in a safe place
- ☐ Find manuals for appliances and put them somewhere safe and accessible
- ☐ Conduct a deep clean

Notes/Reminders:

MAKING MOVING MORE EFFICIENT

Moving can be chaos, but there are a few ways to make the most of the situation.

- ✓ If you have a few days between closing and moving, use that time to deep clean, paint, replace wallpaper, and complete other minor projects. They'll be much easier to do when the house is empty and not cluttered with boxes and furniture.
- ✓ Start planning your move as soon as your offer is accepted and a closing date is established. Begin collecting moving supplies, decluttering your home, and pricing moving services. When you book your moving services, look for a company that allows you to adjust your reserved date without penalty, just in case closing is delayed.
- ✓ Label your boxes with as much detail as possible for easier unpacking. For instance, write "Sam's Winter Coats" instead of just "Clothes."
- ✓ Start familiarizing yourself with the area up to two weeks before moving in. The day before you move, drive the route you'll take, and check for construction, road closures, or other concerns. If you come across obstacles, use your knowledge of the area to plot an alternate route.
- ✓ Plan to order takeout or delivery on your first night in the home. You'll likely be exhausted and may still have your necessary kitchen supplies boxed up.
- ✓ Arrange child or pet care for moving day, if possible. It will ease your stress, allow you to focus, and save your kids or pets the turmoil of non-stop moving activities.

Start planning your move as soon as your offer is accepted and a closing date is established.

Parting Thoughts

Buying your first home is an unforgettable experience that's likely to have lots of twists and turns – and a lot of information to learn. In truth, you can't expect yourself to remember every detail and definition of the homebuying process. That's why guides like this one are invaluable tools that can help you navigate each stage of your journey.

For a quick refresher, remember these 10 points:

- ✓ Always get financing preapproval before you begin house shopping.
- ✓ Not all financing solutions are created equal. Find the one that's best for your situation.
- ✓ You'll usually need at least 3.5% of the home's purchase price for a down payment.
- ✓ As a buyer, a real estate agent is the best no-cost resource at your disposal…
- ✓ …But a dual agent can be a major red flag.
- ✓ It can take months to find your ideal home (and it's worth it).
- ✓ Include appraisal, financing, and inspection contingencies in your formal offer!
- ✓ When your offer on a home is accepted, it can take 45+ days to reach closing.
- ✓ If your credit score or job changes before closing, your financing may be withdrawn.
- ✓ Closing only takes a few hours, but it's the grand finale of your journey. Try to enjoy it.

Owning your first home is undeniably special. Take the first step by reaching out to the team at First Bank to start the preapproval process. We'll help make your homeownership dream a beautiful reality.

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Personal Bankers. Real Relationships.

Glossary

The following glossary includes key terms you may come across during your homebuying experience.

2–1 Buydown
A mortgage option that offers a reduced interest rate for the first two years of the loan term. In the first year, the interest rate is typically two percentage points lower than the permanent rate, and in the second year, it is usually one percentage point lower than the permanent rate. The permanent rate takes effect in the third year.

Adjustable-Rate Mortgage (ARM)
A mortgage with an interest rate that can fluctuate periodically. It typically starts with a low fixed interest rate for five, seven, or 10 years, before adjusting intermittently according to current market rates. This option may offer lower payments initially, but your interest rate may increase in the future.

Amortization
Mortgage amortization is the process of paying off a home loan over time through regular payments. This term is used to describe both the repayment schedule of the loan and the breakdown of each payment into portions that go toward the principal and interest.

Appraised Value
The value of a property as determined by a licensed professional appraiser, who uses metrics like property location, size, and condition to determine its worth. Mortgage lenders look at the appraised value of a property when a borrower wants to purchase it or refinance their mortgage.

As-Is
A stipulation that the property is being purchased in its current condition, without the seller completing any repairs or work on the property before the sale.

Assessed Value
The dollar value of a home or property calculated for tax purposes, based on the value of similar homes in the area. Assessed value may be calculated as a percentage of the property's fair market value.

Closing
The final step in the homebuying process in which ownership of the property is officially transferred to the buyer. Closing procedures include signing paperwork and settling finances.

Closing Costs
Fees associated with finalizing a real estate transaction. These costs typically include things like application and inspection fees, homeowners insurance, property taxes, and real estate agents' commissions.

Commission
A percentage of the sale that is paid to the real estate professional. Typically, commissions for both the buyer's and the seller's agents are paid at closing by the seller of the property.

Comparative Market Analysis (CMA)
A process used to determine the value of a home based on the sale prices of similar properties in the area.

Construction Loan
A short-term loan that can be used to help cover the costs of building a new home, including materials and labor.

Contingency
A condition that must be met for a real estate contract to be finalized.

Conventional 97 Loan
A mortgage offered by government-sponsored entity Fannie Mae that requires only a 3% down payment and may offer more flexible terms than a conventional mortgage.

Conventional Mortgage
A mortgage loan not insured or guaranteed by the government. It is subject to conditions established by the lender and federal regulations.

Cosigner
An individual who chooses to take on the legal obligation of a loan with a primary borrower. They become responsible for paying the debt if the primary borrower is unable to make payments. A cosigner may help those with less-than-perfect credit qualify for a loan.

Counteroffer
The revised offer a seller submits in response to a formal offer from a prospective buyer. This begins the negotiating process in which terms are adjusted until both parties agree to them, or one party withdraws.

Credit Report
A detailed report of an individual's history as a borrower, compiled by a credit bureau.

Credit Score
A numerical representation of an individual's creditworthiness calculated based on their credit report.

Creditworthiness
An individual's assessed ability to repay debts, evaluated by lenders based on factors like credit reports and current financial situation.

Days on Market
The total time a property is actively listed for sale before being purchased or removed from the market. It can be used as a metric for market conditions.

Debt-to-Income (DTI) Ratio
A measurement of how much of a person's monthly income goes toward paying debts. It helps lenders calculate the risk associated with making a loan to a borrower. DTI ratio is the total of all monthly debt payments divided by monthly gross income.

Deed
A signed legal document that proves ownership of a property. It transfers the rights of the property from the old owner(s) to the new owner(s). Deeds include details about the parties involved and the property itself.

Down Payment
A percentage of a home's purchase price that the buyer pays upfront.

Earnest Money
Sometimes called a good faith deposit, this is a cash deposit paid by the buyer during a real estate contract to show that they are serious about buying the property.

Equity
A measure of ownership in a property calculated by taking the market value of a property and deducting the amount that is still owed on the mortgage.

Escrow
A process in a real estate transaction in which a neutral third party holds onto funds and important documents on behalf of the buyer and seller until certain conditions, as set out in the purchase agreement, are met.

Fair Market Value
The price a knowledgeable, neutral buyer would pay for an asset, like real estate, without external pressure or coercion.

Fannie Mae HomeReady™/ Freddie Mac Home Possible® Loans
Two programs offered by government-sponsored entities for homebuyers with low to moderate income that feature more accessible requirements for co-borrower, down payment, and credit. Both programs require buyers to complete some form of homeownership education.

FHA Loan
A mortgage insured by the Federal Housing Administration (FHA) that's designed to make homeownership more accessible, particularly for first-time homebuyers, with less stringent credit and down payment requirements than conventional mortgages.

Fixed-Rate Mortgage
A mortgage with an interest rate that does not fluctuate. The interest rate may be higher than the initial rate offered by an ARM, but it does not adjust according to market or economic conditions. This option offers more stable payments for the life of the loan and protects homebuyers against rate increases, but the interest rate will not decrease even if market rates do.

Foreclosure
A property seized by the mortgage lender due to a homeowner's failure to make full payments on their mortgage loan. The lender may sell the house to recover the balance of the loan.

Homeowners Association (HOA)
An organization that oversees and regulates a residential community or neighborhood, such as a condominium or subdivision. The HOA is responsible for maintaining common areas and amenities and enforcing HOA rules. Homeowners within the HOA's jurisdiction must pay dues or fees to support upkeep costs. A person who purchases a home within an HOA jurisdiction automatically becomes an HOA member.

Homeowners Insurance
An insurance policy that covers the cost of damage or loss to the home, property, or possessions. Lenders require proof of homeowners insurance before closing on your home.

HUD Good Neighbor Next Door Program
A program that aims to encourage honorable community members to buy real estate in struggling areas to rejuvenate the local community and economy. Eligible homes are listed exclusively through the program with a 50% discount on the list price.

Inspection
A thorough evaluation of the condition of a property, including major systems, structures, appliances, fixtures, and other property features. Inspections are typically performed by professional home inspectors and include internal and external components.

Interest
The cost of borrowing money from a lender, typically expressed as a percentage of the loan amount, or principal.

Jumbo Mortgage
A loan that exceeds the county's conventional loan limits, as set by the Federal Housing Administration, and therefore cannot go through government-sponsored entities Fannie Mae and Freddie Mac.

Loan-to-Value Ratio (LTV)
A numerical expression of how much of a property a homeowner owns when compared to how much they still owe on the mortgage, expressed as a percentage. If a person owns a home valued at $100,000 and has an outstanding mortgage balance of $75,000, their LTV is 75%.

Multiple Listing Service (MLS)
A digital database of current real estate listings that is operated by a group of agents or brokers. An MLS provides accurate, up-to-date information about the status of local listings.

Offer
A formal document that outlines a prospective homebuyer's offer and terms for the purchase of a property. It typically includes the sale price and terms like contingencies.

Option Period
A specified number of days during which a homebuyer has the right to have the property inspected and can withdraw from the purchase agreement for any reason.

Out-of-Pocket Cost
The amount a homebuyer will pay using their own money during the homebuying process, such as earnest money and inspection costs.

Preapproval
A comprehensive and rigorous evaluation by a lender that determines if a potential buyer qualifies for a mortgage loan and the maximum amount the lender would be willing to lend. The lender verifies the borrower's financial and personal information to provide an accurate determination.

Pre-Qualification
A less formal evaluation in which a lender provides a prospective borrower with an estimate of what loan option(s) they may be eligible for. Information provided by the prospective borrower is not usually verified, and pre-qualification is not a formal guarantee of securing a loan at the specified amount or terms.

Principal
The outstanding balance of a loan that does not include interest or fees.

Private Mortgage Insurance (PMI)
An insurance policy paid for by a borrower that protects a lender from financial disruption if the borrower defaults on their mortgage loan. PMI is typically required by lenders if the borrower's down payment is less than 20% of the home's purchase price.

Proof of Funds
A document or statement – such as an account statement or a letter from a financial institution – that verifies a buyer has the financial means to complete a property purchase.

Property Tax
A tax calculated and levied by the local government where a property is located, based on the property's value.

Purchase and Sale Agreement
A legal contract between a buyer and a seller that describes the terms and details of the real estate transaction, such as price, contingencies, and the rights and obligations of both parties.

Real Estate Agent
A real estate professional who helps individuals with buying or selling property.

REALTOR®
A licensed real estate agent who is a member of the National Association of Realtors, which maintains a strict code of ethics and provides exclusive access to numerous resources and training to support an agent's work.

Refinancing
The process of replacing an existing loan with a new one that often has more favorable terms. Homeowners may refinance their mortgage to lower their monthly payments, pay off the loan faster, switch from an adjustable-rate to a fixed-rate mortgage, or to tap into home equity.

Seller Concession
An expense that the seller of a property agrees to pay on behalf of the buyer of the property to facilitate the sale. Concessions may include closing costs, a home warranty, or prepaid property taxes.

Seller Disclosure
A statement where the seller of a property is legally required to disclose the property's known defects or details of its condition, including past repairs, frequent issues, previous contamination, and maintenance records.

Subject to Inspection
A stipulation in a purchase agreement that allows the buyer to modify or withdraw their offer without repercussion if a home inspection reveals problems with the property.

Termite Report
A formal document that discloses the detailed findings of a professional termite inspection, such as visible damage or other signs of infestation.

USDA Home Loan
A home loan or guaranteed loan offered by the U.S. Department of Agriculture to encourage thriving communities in rural areas. With USDA direct home loans, the USDA itself provides the funds to the homebuyer. With a USDA guaranteed loan, a private lender provides the funds, and the USDA backs the loan to protect against default.

VA Loan
A mortgage loan that's guaranteed by the U.S. Department of Veterans Affairs and typically offers favorable rates and terms for eligible borrowers. These loans are available exclusively to active-duty military and veterans and their spouses.

Warranty
A service contract that covers part or all of the costs to replace or repair a property's covered systems and appliances (like the roof, plumbing, HVAC, refrigerator, and stove) that fail because of normal wear and tear within a set time period. Home warranties differ from homeowners insurance, which protects against events like fire or storm damage, and from structural warranties, which cover newly built homes.

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