HOME BUYER'S GUIDE

Considerations Before You Buy

The first thing you'll need to determine is what your long-term goals are. Then, consider how home ownership fits in with those plans. Some folks are simply looking to transform all those "wasted" rent payments into mortgage payments that actually lead to owning something tangible—equity, baby! Others see homeownership as a sign of their independence and enjoy the idea of being their own landlord. Then, there's the issue of thinking of buying a home as an investment.

Narrowing down your big-picture homeownership goals will point you in the right direction. Here are six questions to ask yourself:

1. **What Type of Home Best Suits Your Needs?**

You have several options when purchasing a residential property: a traditional single-family home, a townhouse, a condominium, a co-operative, or a multi-family building with two to four units. Each option has its pros and cons, depending on your homeownership goals.

It's up to you to decide which type of property will help you reach those goals. You can also save on the purchase price in any category by choosing a fixer-upper (although the amount of time, sweat equity, and money involved to turn a fixer-upper into your dream home might be much more than you bargained for).

2. **What Specific Features Will Your Ideal Home Have?**

While it's good to retain some flexibility in this list, you're making perhaps the biggest purchase of your life; you deserve to have that purchase fit both your needs and wants as closely as possible. Your list should include basic desires, like neighborhood and size, all the way down to smaller details like bathroom layout and a kitchen that comes with trustworthy appliances. Real estate websites can be a valuable tool for researching properties that satisfy your desires and requirements for your new home.

3. **What Size of Mortgage Do You Qualify For?**

Before you start shopping, it's important to get an idea of how much a lender will actually be willing to lend you to purchase your first home. You may think you can afford a $300,000 place, but lenders may think you're only good for $200,000—depending on factors like how much other debt you have, your monthly income, and how long you've been at your current job.

Make sure to get preapproved for a loan before placing an offer on a home. In many instances, sellers will not even entertain an offer that's not accompanied by a mortgage preapproval. In addition, many realtors will not spend time with clients who haven't clarified how much they can afford to spend. Begin by researching lenders and comparing interest rates and fees. Then, submit your application for a mortgage and include the supporting documentation requested by your lender to verify your income and debt.

4. **What Kind of Home Can You Actually Afford?**

On the other hand, sometimes a bank will give you a loan for a more expensive house than you really want to pay for. Just because a bank says it will lend you $300,000, doesn't mean you should actually borrow that much. Many first-time homebuyers make this mistake and end up "house-poor"—meaning after they pay their monthly mortgage payment they have no funds left over for other costs, such as clothing, utilities, vacations, entertainment, or even food.

In deciding how big a loan to actually take, you'll want to look at the house's total cost, not just the monthly payment. Consider how high the property taxes are in your chosen neighborhood, how much homeowners insurance will cost, how much you anticipate spending to maintain or improve the house, and how much your closing costs will be.

5. **Do You Have Serious Savings?**

Even if you qualify for a sizeable mortgage, there will be a considerable upfront cash outlay that includes your down payment (3.5%–20% of the purchase price) and closing costs.

When it comes to investing with an eye toward purchasing a home—a short-term goal—one of the biggest challenges is keeping savings in an accessible, relatively safe vehicle that still affords a return. If you have one year to three years to realize your goal, then a certificate of deposit (CD) may be a viable option. It's not going to make you rich, but you aren't going to lose money either.

The same idea can be applied to purchasing a short-term bond or a fixed income portfolio—it will give you some growth but also protect you from the tumultuous nature of the stock markets.

If the home purchase happens in six months to a year, then you are going to want to keep the money liquid. A high-yield savings account could be the best option. It's important to make sure it is FDIC insured so that if the bank goes under you can still have access to your money up to $250,000.

6. **Who Will Help You Find a Home and Guide You Through the Purchase?**

A real estate agent will help you locate homes that meet your needs and are in your price range. Then, they will meet with you to view those homes. Once you've chosen a home to buy, these professionals can assist you in negotiating the entire purchase process, including making an offer, getting a loan, and completing paperwork.

A good real estate agent's expertise can protect you from any pitfalls you might encounter during the process. Most agents receive a commission, paid from the seller's proceeds.

The Buying Process

Now that you've decided to take the plunge, let's explore what you can expect from the home buying process itself. This is a chaotic time with offers and counteroffers flying furiously. But if you are prepared for the hassle (and the paperwork), you can get through the process with your sanity more-or-less intact. Here is the basic progression that you can expect:

HOME BUYER’S GUIDE

1. **Find a Home**

Make sure to take advantage of all the available options for finding homes on the market, including using your real estate agent, searching for listings online, and driving around the neighborhoods that interest you in search of for-sale signs. Also, put some feelers out there with your friends, family, and business contacts. You never know where a good reference or lead on a home might come from.

Once you're seriously shopping for a home, don't walk into an open house without having an agent (or at least being prepared to throw out the name of someone you're supposedly working with). You can see how it might not work in your best interest to start dealing with a seller's agent before contacting one of your own.

If you're on a budget, look for homes whose full potential has yet to be realized. Even if you can't afford to replace the hideous wallpaper in the bathroom now, it might be worth it to live with the ugliness for a while in exchange for getting into a house you can afford. If the home otherwise meets your needs (in terms of the big things that are difficult to change), such as location and size, don't let physical imperfections turn you away.

First-time homebuyers should look for a house they can add value to, as this ensures a bump in equity to help them up the property ladder.

2. **Consider Your Financing Options and Secure Financing**

It'll behoove you to make sure your personal finances are in order. Generally, in order to qualify for a home loan, you have to have good credit, a history of paying your bills on time, and a maximum debt-to-income ratio of 43%.

Lenders these days generally prefer to limit housing expenses (principal, interest, taxes, and homeowners' insurance) to about 28% of the borrowers' monthly gross income, though this figure can vary widely, depending on the local real estate market.

Once you've settled on a lender and applied, the lender will verify all of the financial information provided (checking credit scores, verifying employment information, calculating debt-to-income ratios, etc.). The lender can preapprove the borrower for a certain amount. Be aware that even if you have been preapproved for a mortgage, your loan can fall through at the last minute if you do something to alter your credit score, like financing a car purchase.

Mortgage lending discrimination is illegal. If you think you've been discriminated against based on race, religion, sex, marital status, use of public assistance, national origin, disability, or age, there are steps you can take. One such step is to file a report to the Consumer Financial Protection Bureau or with the U.S. Department of Housing and Urban Development (HUD).

Don’t be bound by loyalty to your current financial institution when seeking a pre-approval or searching for a mortgage: Shop around, even if you only qualify for one type of loan. Fees can be surprisingly varied, as can mortgage interest rates (which, of course, have a major impact on the total price you pay for your home).

HOME BUYER’S GUIDE

Some authorities also recommend you have a backup lender. Qualifying for a loan isn’t a guarantee your loan will eventually be funded: Underwriting guidelines shift, lender risk-analysis changes, and investor markets can alter. There can be cases of clients signing loan and escrow documents, and then getting notified 24 to 48 hours before the closing that the lender froze funding on their loan program. Having a second lender that has already qualified you for a mortgage gives you an alternate way to keep the process on, or close to, schedule.

3. **Make an Offer**

Your real estate agent will help you decide how much money you want to offer for the house, along with any conditions you want to ask for, like having the buyer pay for your closing costs. Your agent will then present the offer to the seller's agent; the seller will either accept your offer or issue a counteroffer. You can then accept, or continue to go back and forth until you either reach a deal or decide to call it quits.

Before submitting your offer, take another look at your budget. This time factor in estimated closing costs (which can total anywhere from 2% to 5% of the purchase price), commuting costs, and any immediate repairs and mandatory appliances you may need before you can move in.

Also, think ahead: It is easy to be ambushed by higher or unexpected utility costs, property taxes, or neighborhood association fees, especially if you're moving from a rental or an apartment situation where you haven't encountered these things before. You might request the water and energy bills from the past 12 months to get an idea of the average monthly outlay.

If you reach an agreement, you'll make a good-faith deposit and the process then transitions into escrow. Escrow is a short period of time (often about 30 days) where the seller takes the house off the market with the contractual expectation that you will buy the house—provided you don't find any serious problems with it when you inspect it.

4. **Obtain a Home Inspection**

Even if the home you plan to purchase appears to be flawless, there's no substitute for having a trained professional inspect your potential new home for the quality, safety, and overall condition. If the home inspection reveals serious defects that the seller did not disclose, you'll generally be able to rescind your offer and get your deposit back. Negotiating to have the seller make the repairs or discount the selling price are other options if you find yourself in this situation.

5. **Close or Move On**

If you're able to work out a deal with the seller, or better yet, if the inspection didn't reveal any significant problems, you should be ready to close. Closing basically involves signing a ton of paperwork in a very short time period and hoping that nothing falls through at the last minute.

Things you'll be dealing with and paying for in the final stages of your purchase may include: having the home appraised (mortgage companies require this to protect their interest in the house), doing a title search to make sure that no one other than the seller has a claim to the property, obtaining private mortgage insurance or a piggyback loan if your down payment is less than 20%, and completing mortgage paperwork.

Source: https://www.investopedia.com/homebuying-guide-4776300