realtor.com®

FIRST-TIME HOMEBUYER RESOURCES

Looking to buy your first home?
You've come to the right place.

realtor.com®

GETTING STARTED

What's your price range? Let's find out. Discover what you can afford and the difference between prequalifying and pre-approval.

Buying your first home is likely the biggest financial decision you'll ever make, and so you should educate yourself as deeply as possible before you take that momentous step. Here's how to get started.

First, let's take a look at your financial situation: How much home can you afford? Which really means, how much money can you borrow? Which also really means, how much do you make and what do you already owe? The general rule of thumb is that you can get a mortgage only if your debt-to-income ratio is 40%* or better. That means, if your household income is, say, $100,000 a year, you'd better not owe more than $40,000 to credit cards, student loans, car loans, or other debts.

Next, plan for the house you can afford today, not five years from now, when you've sold your screenplay or IPO'd your tech startup. What kind of house might that be? Well, we have this handy affordability calculator to help you figure that out. **http://www.realtor.com/mortgage/tools/mortgage-calculator/**

Once you have a rough idea of what you can afford, you'll want to get a mortgage pre-qualification or pre-approval letter. A pre-qualification is a lender's basic overview of your ability to get a loan. You provide all the information to a lender, no backup paperwork necessary. You can do this online, on the phone, or in person—whichever makes you more comfortable. A pre-approval is more in-depth. It's the document that will prove you are a serious buyer. But it also means getting your ducks in a row to prove your financial worth to a lender. The lender will look at your bank statements, tax returns, credit score, and other financial information, while also checking to see if you qualify for any special programs such as government-backed FHA loans or VA home loans. While neither a pre-approval nor a pre-qualification guarantees you'll get a loan, they're much more reliable indicators of your ability to buy a home. What do you do with that letter? Include it when you're submitting a bid on a home—it'll make the offer that much stronger.

If you can't get pre-approved or pre-qualified for the loan (and home) you want, don't give up. Instead, look seriously at how much you're hoping to spend, when you're planning to buy, and how you can budget to put yourself in a stronger financial position.

Regardless of whether you get pre-approved or pre-qualified, it's worth speaking with a REALTOR® or other real estate professional to navigate these processes properly. You're at the beginning of a long, complicated, and ultimately rewarding journey—let's do things right!

*http://www.realtor.com/advice/are-you-ready-to-buy-a-home/

realtor.com®

BALANCING BUDGET AND HOME SIZE

Learn the trade-offs. All homebuyers must make decisions about priorities and budget.

The point of all this financial self-reflection is that first-time homebuyers should live within their means. The house that's right for your budget requires careful thought beyond simply asking yourself, "Can I meet that asking price?"

Here's what to consider:

Size Matters:
For much of America, bigger is seen as better when it comes to housing—and bigger is, often, more expensive. But you should really be looking for the right size for the coming years: Will you get married? Have kids? Have frequent guests? House a parent? Don't pay for what you don't need (but see No. 5 below).

A Real Piece of Work:
Homes that need work can be more affordable—but, of course, someone has to do that work. Do you have the skills to do it yourself? Can you afford to hire contractors or handymen? Is this the kind of place you can live in while you upgrade it? If you answered "no," then your magic home-listing words are "move-in ready."

You've Got Bills:
You're going to be paying utility bills, most important among them electricity, gas, and water—all of which are determined by where the house is and how it's built. In wintry locales, you need good insulation and modern windows, while in warmer climates you'll want air-conditioning or, better, a home designed to stay cool.

You've Got Needs:
Does this home—and its location—actually fit your lifestyle? Can you handle a long commute? How are the nearby schools? Are you a weekend lawn mower, a gardener, a nightclubber, a day hiker? Is there room to park your bike and your motorcycle? Do you need a quiet corner to knit?

The Day After Tomorrow:
Let's be realistic about the future—things change. Write down the variables you can at least try to plan for (career? kids? kids' schools?), as well as those you can't, and figure out how long this first home might last you—years? decades?—and what it might sell for down the road. This would be a fantastic time to talk again with your REALTOR®—figuring these things out is precisely what he or she is trained to do.

Other factors that come into play are location and commute time. It's a balancing act between time, money, amenities, and environment. Decide what matters most to you, and then plan a home purchase that meets as many of your needs as possible. A professional REALTOR® is a valuable guide through these real-life considerations, and can be a great resource to help you make an objective, educated decision.

PROCESS DETAILS

Home warranties, contingencies, insurance. An overview of the process.

Once you've found a home you love (and can afford), the next step is writing an offer. This is tricky territory. Depending on where you live and how the economy's doing, you could be competing with other buyers for the same property—a bidding war that will tempt you to bust your budget. Keep a cool head and discuss things with your REALTOR®.

Before you even write down a number, though, you'll want to review comparable sales, or "comps," with your REALTOR®. Comps are similar-size homes that have sold in the area. These will help you determine a baseline offer. Whether you go above or below the asking price will depend on a number of factors, including the neighborhood and market conditions, other potential buyers, and seller requirements. Sellers might also be swayed if you can pay all cash, instead of getting a mortgage. Again: Discuss it with your REALTOR®.

Next, don't be surprised if you're asked to write a check for **earnest money**. The size of this deposit will depend on factors like state regulations and market trends, but it's usually about 1% to 3% of the total purchase price. That money is held in escrow until settlement and applied toward your down payment and closing costs. Earnest money is an act of good faith. It shows that you're serious, not just a tire kicker. If for whatever reason you have to back out, the seller keeps that money as compensation for the time he or she could have spent courting other buyers.

Most offers will include contingencies, which are terms that safeguard the buyer, giving you opportunities to back out of a purchase.

Some common contingencies:

- **Financing**. This outlines how you'll pay for the home—and provides a way out if you fail to secure a mortgage.
- **Appraisal.** A third party hired by the lender evaluates the fair market value of the home. This lets you back out of the deal if the appraised value is less than the sale price, and it also protects the lender, which wants to make sure the house is actually worth what it's lending you.
- **Home Inspection.**This gives you the right to have the home professionally inspected. If something is wrong, you can request it be fixedost-of-your-home-inssale.
- **Termite Inspection.**
- **Homeowners Association.**This lets you review the homeowner association's budget and rules prior to finalizing the purchase.
- **Walk-through:** This typically happens after escrow (don't worry, we'll get to that in a minute). The walk-through is your opportunity to, well, walk through the home with your Realtor® and make sure nothing's amiss before you sign on the dotted line.

Working with a REALTOR® will take the guesswork out of writing an offer. In the meantime, here are some strategies to consider:

- Include your mortgage pre-approval letter to show that you're qualified to purchase this house.
- Increase the amount of earnest money you include with your offer to show that you're willing to go above and beyond to secure the place.
- Be flexible with a settlement date as it can sometimes sway a seller's decision. But make sure your lender and escrow agency can accommodate the suggested date before you submit your offer.
- Ask for seller assistance with closing costs in order to offset some of your out-of-pocket expenses at settlement.
- Write a personal letter about why this is your dream home.

After your offer has been submitted, a couple of things can happen:

- Ideally, the seller accepts your offer. Yay! Now you've got an executed contract and you're on the way to actually buying the place.
- Or, the seller may present a counteroffer, suggesting changes to some of your terms. This is your chance to continue negotiations—or reject the offer, walk away, and keep searching for that dream home.

Once the home is under contract, you'll move to the next step in the buying process: escrow.

realtor.com®

THE CLOSING PROCESS

The closing process (or escrow) begins when your offer is accepted—and ends when you move in. Let's look at the steps:

First, select an escrow agent (attorney in some states) / title company.

Escrow agents are neutral third parties who assist in handling title and escrow work, financing, transaction instructions, and other paperwork related to the home purchase. They collect and hold documents and funds in "trust" for all parties until the transaction is complete.

Title companies provide insurance that a title is satisfactorily clear of liens, judgments, and other encumbrances or title defects.

The next step is home inspections.

Inspections are sometimes optional, but don't be fooled—this is not something you want to skip. The home inspection helps buyers get a better understanding of the ins and outs of the property being purchased.

Some common examples:

- Inspections may include checks for termites, water leaks, or compliance with housing codes. You might also need to consider surveys to determine property boundaries, title reviews, and structural inspections. Feel free to be present for this and ask the seller questions about repairs. At the end, you'll receive a report on any significant defects and issues.

After the inspection, it's time to clear title and order insurance.

Once the title company determines the title is clear, you need to buy title insurance. Usually your closing agent or attorney will choose your title insurer from one of the five major U.S. title insurance underwriters. This protects both buyer and lender from possible future disputes over the property.

But there are other types of insurance you'll want to consider:

Homeowner insurance: This covers fire, theft, and liability, and is often required by lenders.

Flood insurance: Is the home in a high-risk, flood-prone area? Then this may be required.

Home warranty: For extra peace of mind after the closing, it helps to know an insurance company will offset or cover the costs of unforeseen defects and repairs.

Mortgage insurance: Certain loan types may require an insurance policy to protect lenders against an unexpected default.

Now, it's time for the walk-through. This is your last chance to view the property and confirm that the condition has not significantly changed since the sale agreement was signed.

Finally, it's settlement day.

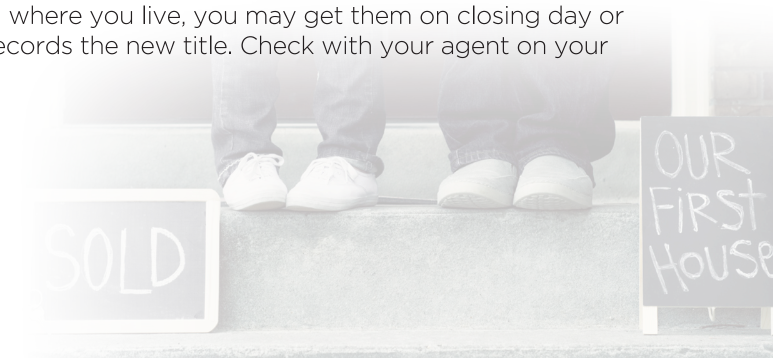
Sometimes called the closing, settlement is the last step, when the ownership of the home officially transfers—to you!

There's lots of paperwork to sign. You'll sign your name anywhere from 10-30 times on mortgage documents, legal disclosures, tax records and more.

There will also be a final distribution of funds on closing day. The home buyer will need to have a cashier's check to cover all closing costs. The sellers will receive a check for whatever proceeds they earned from the sale. And real estate agents will receive checks for their commissions, if applicable.

So when do you get keys to your new house? Depending on where you live, you may get them on closing day or you may need to wait a few days until the county officially records the new title. Check with your agent on your local laws.

Congratulations! You're now a homeowner!



realtor.com®

MYTHS & TRUTHS

Buyers do not pay REALTOR® fees! Learn what REALTORS® actually do and who pays for what.

Buying your first home is a big deal. For most of us, a home is the most expensive purchase we will ever make. Searching online is a great place to start, but buying a house is not like ordering a book online. Most buyers reach out to get professional guidance at some point. The sooner this is done, the sooner your dream can become reality. Don't let common myths you may have heard about home buying stand in the way of connecting with a helpful professional!

Mythbuster #1 – I can do this myself and save the 6%!

The truth is, your agent normally works without getting paid a dime until closing, and even then, the seller usually owes the 6% commission, which is based on 6% of the home's selling price and is negotiable. Additionally, that 6% commission is split between the buyer's agent and the seller's agent. A notable exception is when an agent handles both transactions in a process called dual-agency, and receives the full 6% commission. This is not the norm however.

Buying a home can be a complex and time consuming process. Making sure you work with a professional agent is important. They know the ins and outs of financing, property types, real estate procedures, trends in the market, dealing with negotiations, and much more. Why go it alone when their profession is to give you expert guidance through the process?

Mythbuster #2 – Agents just want a quick sale!
A good agent wants to find the right home for you, even if it takes a long time. Real estate professionals rely on referrals and repeat customers. If you're not happy, you might tell your friends, or worse, blog about it! While agents may want to make the sale, they really want to make you a satisfied client. That helps them too, since you might refer them more business.

Myth-buster #3 – My lease is up in 2 weeks. I can start house hunting now!
Buying a home typically takes months. Figure on giving yourself six months to go from renter to homeowner. While most buyers start searching for homes online, you'll need to get off the sofa and walk-through homes to find the right one for you. Before you begin looking at homes, you should get pre-approved to know what you could realistically afford. Pre-approval is also a sign to the seller that you are a serious buyer. Again, a good agent will walk you through this important process step-by-step.

Myth-buster #4 – The online calculator said I could afford a $200k home. I don't need to talk to a loan officer.
Online calculators are helpful. They can give you a general idea of how much you should budget for monthly payments, and what your mortgage payment might look like. But they cannot replace being pre-approved. Lenders take many factors into consideration — your credit score, job history, income, debt level, there is no way to know how much you will be pre-approved for without talking to someone who will run all of those numbers.

Arm yourself with the truth – and a great agent – when you embark on your home-finding adventure!