



 neighborhoods.com[®]

The Complete Homebuyers Guide

“It’s an amazing feeling to invest in a home, knowing it’s yours. I never really felt connected to any place we’ve lived until we purchased our own home.

-First Time Homebuyer, Cristina S.

This is Where You Start

Buying a home may well be one of the most important financial decisions you ever make, but the value of homeownership extends far beyond a strictly monetary investment.

For many people, buying a home signifies a new life stage, a foray into adulthood, or, at the very least, an exciting adventure. Not only are you choosing the walls that will shape your life, but you're also choosing the neighborhood that will define your community.

It's a big decision and it's no secret that the first steps can feel daunting, but with a little help from the experts and recent homebuyers, we're here to help you navigate the process with ease.

In this guide you'll find an overview of all the factors you need to consider when it comes time to purchase your new home, as well as resources for continued research. And since everyone knows making a list is the first step to tackling any project, here's a quick outline.

10 Steps to Buying a Home

1. Start saving for a downpayment and make sure your finances and credit history are in order.
2. Research homes and neighborhoods online.
3. Find the right real estate agent.
4. Shop mortgage rates and get pre-approved for a loan.
5. Tour homes in the neighborhoods you love.
6. Make an offer on your potential new home.
7. Order a home inspection.
8. Get your loan approved, which includes a home appraisal.
9. Show up on closing day with the appropriate payment and paperwork.
10. Receive your keys and officially become a brand-new homeowner.

Homeownership was important to me because I wanted to provide this for my children. I did not live in a home growing up. I lived apartment to apartment my entire childhood. I am the first homeowner in my family.

-Olga C.

Time to Budget

It's hard to doubt the financial benefits of owning a home over renting. With every monthly mortgage payment you're building equity and net worth for yourself—not your landlord. And while you can't put a dollar amount on the feeling of freedom that homeownership brings, you could easily negate those benefits by buying a house you actually can't afford.

Besides the obvious costs of buying a home—the down payment and monthly mortgage payment—you'll also need to factor in insurance, property taxes, closing costs, inspection costs, and HOA fees (in some cases), plus all those other costs that creep up when you move, regardless of whether you rent or own.

The sooner you buy, the more equity you can build over the long term. If you can scrape together a couple extra hundred bucks a month to pay a mortgage versus paying rent (paying your landlord's mortgage), you can build wealth.

- Matt S.

Here Are The First Things to Think About When Starting to Set Your Budget:

How much you have saved. Saving for a downpayment can be a big barrier to homeownership, but it's one that can be overcome through careful planning and smart spending. And remember, it's a common misconception that you have to have 20 percent stashed away—there are programs available that accept as little as 3.5 percent down.

How much you can afford. This is a very personal decision to make, but most financial experts would suggest that your final mortgage be less than the number the bank gives you. A good rule of thumb is to stick to about 25 percent of your pre-tax pay.

Your credit score. Your credit score is going to give mortgage lenders an idea of how reliable you are when it comes to meeting financial obligations. A score of 700+ should give you access to the best interest rates for conventional mortgages.

Your debt-to-income ratio. Another thing lenders will look at is your debt-to-income ratio, or DTI. This is calculated by tallying how much you owe in car payments, student loans, credit cards, child support, and other obligations versus your income level. The higher your DTI, the more of a red flag you are to lenders.

Once you know your numbers, you can start playing with mortgage calculators to see what home price you can afford.

Neighborhoods.com has a [mortgage calculator](#) that will tell you the estimated monthly costs for a home based on how much you're planning to put down and the interest rate on your mortgage. This is a great tool for figuring out how much you should budget, but remember—it's just an estimate.

You should also keep an eye on the interest rate set by the Federal Reserve. They determine how much banks charge other banks for borrowing money, and if they decide to raise interest rates, the additional cost will be passed along to you, the consumer.

And remember, you still have to consider expenses like: property taxes, closing costs, HOA fees, [additional insurance](#), and [private mortgage insurance](#).

Put the Neighborhood at the Center of Your Search

You've figured out how much you might need to set aside for your home, and now it's time to look for it. It may seem overwhelming at first, but a few things can help narrow down your search. You might have a dream home in mind, but have you thought about your dream neighborhood? The latter might be more important.

It's no secret that we love neighborhoods at Neighborhoods.com, and there's a good reason for it. Imagine you've found a house with soaring ceilings and an open-concept layout that would make Chip and Joanna swoon, but it's in a neighborhood with nothing nearby. While you can probably re-create the dream home in another location, you can't control the neighborhood's growth, or lack thereof.

In a Neighborhoods.com survey, recent homebuyers ranked accessible amenities as the most important factor when considering a new neighborhood. Property value was the second most important factor, followed by school districts.

“Do your due diligence about what area you want to live in.

Everything about your home you can change except its location.

- Katherine T.

5 Questions to Ask Yourself When Considering a Neighborhood:

- 1. What will it be like going to and from work and/or school every day?** Test out your daily commute or other regular outings from the prospective neighborhood to see if it's doable every day. If you drive every day, is there space for your car? If you don't, are you near public transit?
- 2. Do you have kids? Do you want kids?** This will make a big difference in the neighborhood you choose. Are you close to parks? Schools? Do you see them playing in a backyard, or do you think a playroom will suffice?
- 3. Have you spent time in the neighborhood both day and night?** Take a few walks around the neighborhood both in the daytime and at night to truly get a sense for the area.
- 4. What are the neighbors like?** If you're the type who likes to go to block parties and have backyard drinks with the couple next door, you should consider a neighborhood where residents are more social. Check out the neighborhood's Facebook group or see if you can attend or see minutes from a homeowners association meeting.
- 5. What kinds of amenities are nearby?** Whether it's your office, a fully stocked grocery store, your gym, or just a good coffee shop, make sure you have access to the things that matter most to you. These are the considerations that will impact your daily life.

Just like you would make a list of “non-negotiables” for your future home, make sure you know what you must have in a neighborhood, and where you are willing to compromise. Remember to think long-term—some factors that are important to you now may not seem so essential in five years.

Take it to the Streets

While all your homebuying prepwork is an essential part of the process, eventually you have to take to the streets and start looking at houses. This is the most exciting part, when you get to evaluate how you feel walking the streets of your potential new neighborhood and test the toilet height in what could be your new bathroom (we're not kidding—**toilet height is just one of the unexpected things** you want to look out for during a home tour!)

But before you start hitting up every open house on the block, **consider finding a real estate agent** who can help you organize your thoughts and understand the process. A good real estate agent's entire job is to advocate for your best interest in the homebuying process. And despite a common misconception, they won't cost you anything, but it could end up costing you if you don't have one.

What Qualities Do You Want in an Agent?

Connection. This imperceptible quality is the most important. If you don't "click," this whole process will be a lot harder.

Knowledge. Do they really know the market? This knowledge will give you insight on neighborhood trends, placing offers, when to move on a property, or when to hold out. When it comes to buying a home, the biggest value a real estate agent brings is their expertise and experience.

Timeliness. Are they punctual? Do they answer your calls on time? In the fast-paced real estate market, you don't want to work with someone who's not going to pick up the phone when you find your dream home.

Trustworthiness. Do you trust this person to work in your best interest? This is a huge decision you're making, and you're putting a lot in their hands.

Once you've found your agent, you're ready to start touring houses.

What Should You Look For at an Open House?

Huge structural issues. A dilapidated roof, crumbling interiors, or foundation issues may be red flags. Many flaws with a home can be fixed, but issues like these would mean costly, frustrating renovations.

Signs of mold or water damage. Be on the lookout for stains on ceilings, near pipes, and on caulking near tubs and faucets; water lines on walls, and a musty odor. (In general, take note of any weird smells.)

Window issues. Make sure the windows open and close properly; reinstalling windows is a costly fix (albeit a good investment). Also, look for signs of moisture on or around windows, which can indicate improper ventilation and air leaks, which can drive up utility bills.

The electrical system. Ask about how old the home's electrical system is. Older homes can often have outdated wiring that can be dangerous and expensive to fix.

Water pressure. While low water pressure can be fixed, it's something you want to be aware of before you move in and take your first shower, so turn on the faucets to check.

Natural light. Not having enough natural light can negatively affect your quality of life.

Lead paint. If the house was built after 1978, it won't have lead paint, but for older homes, buyers are responsible for removing it. Check for it so you can budget for its removal, if necessary.

Remember: Cosmetic changes are easy to fix, so when looking for your future home, pay attention to the structural integrity and property value.

Financing Your Home

You've started researching neighborhoods and you have an idea of what you're looking for in a dream home. Now it's time to start getting your finances in order and planning out how you'll pay for your potential new home.

Shop your mortgage. Before you shop for your perfect home, start shopping your mortgage lenders. While your initial inclination may be to get this part of the process over and done with, taking the time to shop different lenders can end up saving you thousands of dollars. You may also consider using a **mortgage broker** who can help you determine your options.

A note on down payments: While putting down 20 percent can give you the edge in a competitive market, meeting that minimum can be a pretty high bar for most buyers. A **20 percent down payment** became the homebuying golden rule because it's the minimum threshold needed to avoid paying private mortgage insurance (PMI), but many buyers find it worthwhile to explore other options.

Get pre-approved. Potential sellers take pre-approval seriously, so you should too. When you're ready to take your home search offline and start seriously considering a home, it's essential to have your **letter of pre-approval** on hand. A letter of pre-approval from your lender not only helps you understand exactly what loan you qualify for, and therefore where to set your budget, but also validates you as a serious home shopper in the eyes of a seller. To become pre-qualified, be prepared to show extensive documentation of your financial history. This could include items like: your credit score, W2, pay stubs, federal tax returns, and bank account statements.

The appraisal process. Once you've made an offer on a home, it's time to get your loan fully approved. This will require an appraisal process to determine the home's value and the lender may adjust the

loan amount depending on the results. You may also be asked to put earnest money towards the house. This is typically one to three percent of the total cost that is offered in good faith to show the seller that you're serious. When you close on the home, this money goes towards your down payment and closing costs.

Escrow. Assuming all goes according to plan, now is when you enter **escrow**, the period between when you have made an offer and your closing day. Once you have closed on your home, you'll likely open an escrow account through your lender, which covers expenses like homeowners insurance, property taxes, and private mortgage insurance, which is required if you put less than 20 percent down on a home, as part of your monthly mortgage payment.

“Understand the full cost of home ownership before you make the decision”

- John B.

Closing Day

Congratulations — you're days away from closing on your first home. But before the keys are officially placed in your palm, there are a handful of steps you need to take to ensure that you don't face any surprises on that fateful day.

Before You Close:

Take care of any contingencies. Before you even start planning for **closing day**, make sure you have resolved any relevant **contingencies**, such as home inspection, appraisal, or financial contingencies.

Don't make any dramatic financial decisions. In the weeks leading up to your closing date, make sure to avoid any large financial changes. Quitting your job, making large purchases, opening new lines of credit, or even receiving large cash gifts can prompt your lender to withdraw their offer or increase your mortgage.

Receive and review your closing disclosure document. As the buyer, you're entitled to your closing disclosure at least three days before your closing date. This document outlines the terms of your loan and your final closing costs. It should closely align with the initial loan estimate you received.

Take your final walk-through. 24 hours before you close, you have the right to walk through the home and make sure that all your expectations and pre-established arrangements have been met. Look for any undisclosed damage, check to see that all agreed-upon repairs have been made, and keep an eye out for any appliances, light fixtures, or the like that should be included with the sale of the home.

The Big Day:

Where does it happen? All official paperwork gets signed and the transfer of ownership typically occurs at the title company's office.

Who should be there? As it turns out, closing on a house requires the help of a small army. You can expect to see: the title company representative, the seller, the seller's agent, your agent, the lender or loan officer, and an attorney, when applicable.

What should you bring? This may vary a bit state to state, but be sure to bring at least one form of government-issued ID, the appropriate form of payment, such as a cashier's check or wire transfer documentation, and other relevant documents such as proof of homeowners insurance.

What will you do? The short answer is: sign a lot of paperwork. You'll likely look at your loan estimate, closing disclosure, initial escrow statement, mortgage terms and conditions, mortgage note, mortgage deed or trust, transfer of ownership documentation, and a certificate of occupancy when applicable. Remember: This is also the time when you'll pay all relevant closing costs.

And with that, you're a brand-new homeowner!

Advice From Homebuyers

While it's certainly essential to have an expert advising you through the homebuying process, sometimes the most helpful suggestions can come from those who were recently in your shoes. Here's some advice from recent homebuyers like you.

Find out about any and all free money that may be available in your state for buying your first home. You might be surprised! I wish I had done more research around that. And most definitely shop your interest rates.

- Moses I.

Make a list of your must-haves, nice-to-haves, and deal breakers. It's great to have this on paper so when you're out looking at homes you can ensure that it meets your needs. Give this to your real estate agent to help them find the right homes to show you.

- Kelsey E.

Be patient. This is a big decision that requires a lot of careful thought and planning.

- Jack S.

Trust your gut when it comes to picking an agent. Interview them and get a feel for their personality.

- Matt S.

Speak with a couple lenders, not just one. Have a good idea about what you can afford.

- John B.

Know going in that it's going to be stressful, that things aren't going to all work out the way you want them to, and that you owe it to yourself to take your time and emphasize self-care during the process.

- Sophie J.