

Tips for First-Time Homebuyers

If you're just beginning the process of financing your first home, you might be unsure of all the costs or the decisions you'll have to make eventually. Months before applying for a loan, though, take some time to consider what you might not know. Below are some tips to help you sort out the issues and options of home financing:

1. Start saving for a down payment early

It's common to put 20% down, but many lenders now permit much less, and first-time home buyer programs allow as little as 3% down. But putting down less than 20% may mean higher costs and paying for private mortgage insurance, and even a small down payment can still be hefty. For example, a 5% down payment on a \$200,000 home is \$10,000.

Play around with a [down payment calculator](#) to help you land on a goal amount. Some tips for saving for a down payment include setting aside tax refunds and work bonuses, setting up an automatic savings plan and using an app to track your progress.

2. Determine how much home you can afford

Before you start looking for your dream home, you need to know what's actually within your price range. Use a [home affordability calculator](#) to determine how much you can safely afford to spend.

3. Check your credit

When you're taking out a mortgage loan, your credit will be one of the key factors in whether you're approved, and it will help determine your interest rate and possibly the loan terms.

So [check your credit](#) before you begin the home buying process. Dispute any errors that could be dragging down your credit score and look for opportunities to improve your credit, such as making a dent in any outstanding debts.

4. Pause any new credit activity

Any time you open a new credit account, whether to take out an auto loan or get a new credit card, the lender runs a hard inquiry, which can temporarily ding your credit score. If you're applying for a mortgage soon, avoid opening new credit accounts to keep your score from dipping.

5. Explore your down payment options

Struggling to come up with enough money for a down payment? First-time home buyer programs are plentiful, including federal mortgage programs with Fannie Mae and Freddie Mac that allow loans with only 3% down.

Other low down payment options include:

- Federal Housing Administration loans, which permit down payments as low as 3.5%.
- Veterans Affairs loans, which sometimes require no down payment at all.
- You could also try crowdfunding or asking if family members are willing to pitch in with a gift.

6. Research state and local assistance programs

In addition to federal programs, many states offer assistance programs for first-time home buyers with perks such as tax credits, low down payment loans and interest free loans up to a certain amount. Your county or municipality may also have first-time home buyer programs.

7. Budget for closing costs

In addition to saving for a down payment, you'll need to budget for the money required to close your mortgage, which can be significant. Closing costs generally run between 2% and 5% of your loan amount. You can shop around and compare prices for certain closing expenses, such as homeowners insurance, home inspections and title searches. You can also defray costs by asking the seller to pay for a portion of your closing costs or negotiating your real estate agent's commission. Calculate your expected closing costs to help you set your budget.

8. Set aside more money for after move-in

Sorry, that's not all you need to save up for before home shopping. Once you've saved for your down payment and budgeted for closing costs, you should also set aside a buffer to pay for what will go inside the house. This includes furnishings, appliances, rugs, updated fixtures, new paint and any other touches you'll want to have when you move in.

9. Consider what type of property to buy

You may assume you'll buy a single-family home, and that could be ideal if you want a large lot or a lot of room. But if you're willing to sacrifice space for less maintenance and extra amenities, and you don't mind paying a homeowners association fee, a condo or townhome could be a better fit.

10. Research mortgage options

Is a 30-year, fixed rate mortgage a given, or is another loan type right for you? If you can afford larger monthly payments, you can get a lower interest rate with a 20-year or 15-year fixed loan. Ask us to help you to determine if a 15-year or 30-year fixed mortgage is a better fit for you. Or you may prefer an adjustable-rate mortgage, which is riskier but guarantees a low interest rate for the first few years of your mortgage.

11. Compare mortgage rates

Many homebuyers get a rate quote from only one lender, but this often leaves money on the table. Comparing mortgage rates from at least three lenders can save you more than \$3,500 over the first five years of your loan, according to the Consumer Financial Protection Bureau. Get at least three quotes and compare both rates and fees.

12. Decide if paying points makes sense

Lenders often allow you to buy discount points, which means prepaying interest upfront to secure a lower interest rate. There may also be an option for negative points, in which the lender pays some of your closing costs in exchange for a higher interest rate. How long you plan to stay in the house is one of the key factors in whether buying points makes sense. You'll need to do some calculations or speak to a mortgage broker or loan officer to help you decide if buying points is worth it for you.

13. Get a preapproval letter

You can get prequalified, which simply gives you an estimate of how much a lender may be willing to lend based on your income and debts. But as you get closer to buying a home, it's smart to get a preapproval, where the lender thoroughly examines your finances and confirms in writing how much it's willing to lend you and at what terms. Having a preapproval letter in hand makes you look much more serious to a seller and can give you an upper hand over buyers who haven't taken this step.

14. Hire the right buyers agent

You'll be working closely with your real estate agent, so it's essential that you find someone you get along with well. The right buyers agent should be highly skilled, motivated and knowledgeable about the area.

15. Stay under your preapproval limit

As your agent shows you homes, look for properties that cost a little less than the amount you were approved for. While you can technically afford that amount, it's the ceiling — and it doesn't account for a broken washer or dryer or any other expenses that arise during homeownership, especially right after you buy. Rather than maxing out that amount, set a lower purchase budget to leave yourself wiggle room for unexpected costs.

16. Pick the right neighborhood

Finding the right neighborhood is just as important as locating the right house. Research the schools, even if you don't have kids, since that affects a home's value. Look at local safety and crime statistics. How close are the nearest hospital, pharmacy, grocery store and other amenities you'll use? Also, drive through the neighborhood on various days and at different times to check out traffic, noise and activity levels.

17. Make the most of an open house

Use this as another opportunity to scope out the neighborhood and your potential neighbors. During the open house, pay close attention to the home's overall condition and look for any smells, stains or items in disrepair. Ask a lot of questions about the home, such as when it was built, when items were last replaced and how old key

systems like the air conditioning and the heating are. If several other potential buyers are viewing the home at the same time as you, don't hesitate to schedule a second or third visit to get a closer look and ask more questions.

18. Buy a home for tomorrow

It's easy to look at properties that meet your current needs. But if you plan to start or expand your family, it may be preferable to buy a larger home you can grow into. Consider your future needs and wants and whether this home will suit them.

19. Let little things go

When you're looking at a home, it's easy to get caught up on superficial details like paint color, fixtures and carpets. These features are easy to change once the home is yours, so don't let those little details get in the way.

20. Be prepared to compromise

It's rare to find a house that's perfect in every way, so think carefully about what you're willing to compromise on and what you're not. Perhaps no walk-in closet in the master bedroom is a deal breaker, but an outdated guest bathroom will be tolerable until you can renovate it.

21. Make a strong offer

Your real estate agent can help you with this, but consider how much under or over the asking price you're willing to pay to obtain your dream home. If there are multiple bids, think about tactics to win over the seller, such as a personalized letter.

22. Avoid a bidding war that blows your budget

In a competitive real estate market with limited inventory, it's likely you'll be bidding on houses that get multiple offers. When you find a home you love, it's tempting to make a high-priced offer that's sure to win. But don't let your emotions take over; stick to your purchase budget to avoid getting stuck with a mortgage payment you can't afford.

23. Negotiate

A lot can be up for negotiation in the homebuying process, which can result in major savings. Are there any major repairs you can get the seller to cover, either by fully handling them or by giving you a credit adjustment at closing? Is the seller willing to pay for any of the closing costs? If you're in a buyers market, you may find the seller will bargain with you to get the house off the market.

24. Buy homeowners insurance

Before you close on your new house, your lender will require you to buy homeowners insurance. Shop around and compare rates to find the best price. Look closely at what's covered in the policies; going with a less expensive policy usually means fewer protections and more out-of-pocket expenses if you file a claim. Be aware that your insurer can drop your property if it thinks the home's condition isn't up to snuff, so you may have to be prepared to find a new policy quickly if it sends someone out to look at the property and isn't happy with what it finds. Also, flood damage isn't covered by homeowners insurance, so if your new home is in a flood-prone area, you may want to buy separate flood insurance.

25. Know the limits of a home inspection

Once your offer is accepted, you'll pay for a home inspection to examine the property's condition inside and out. But not all inspections test for things like radon, mold or pests, so be sure you know what's included. Make sure the inspector can access every part of the home, such as the roof and any crawl spaces. Attend the inspection and pay close attention. Don't be afraid to ask your inspector to take a look — or a closer look — at something and ask questions. No inspector will answer the question, "Should I buy this house?", so you'll have to make this decision after reviewing the reports and seeing what the seller is willing to fix.