

The Complete Guide to

*Becoming a*

# First-Time Homebuyer

Are you dreaming of buying your own home for the first time? Have you spent years moving from rental to rental, but now you're looking to settle down somewhere?

***That's fantastic!***

Becoming a first-time homebuyer is a wonderful goal, and with time, proper preparation, and knowledge of what you can afford, you'll be able to achieve that goal.

If you're not sure where to start, we've provided tips to help you throughout the homebuying process. We start with an assessment of your readiness and cover just about everything you need to know up to closing on your new house!





# Assess Your Readiness

Owning a home is a big responsibility, so you'll want to make sure you're well-prepared mentally, physically, and financially before you begin your search.

## **Mental Readiness**

To determine your mental readiness, ask yourself if you're prepared to own a home. Don't think about the money for a moment. Just think about you and your family. Is this the best next step in your lives? Can you feasibly budget for a potential down payment, monthly mortgage payments, homeowner's insurance, property taxes, and more? If the answer is yes, *congratulations!* Homeownership is a rewarding journey and we're excited to help you learn about it.

## **Physical Readiness**

Next, familiarize yourself with the responsibilities that come along with homeownership. Your current landlord is likely responsible for lawn care, snow removal, maintenance, and repair services. Once you own a house, those become your responsibilities. Are you ready to take on those tasks by yourself? If not, are you willing to pay someone to do them for you?

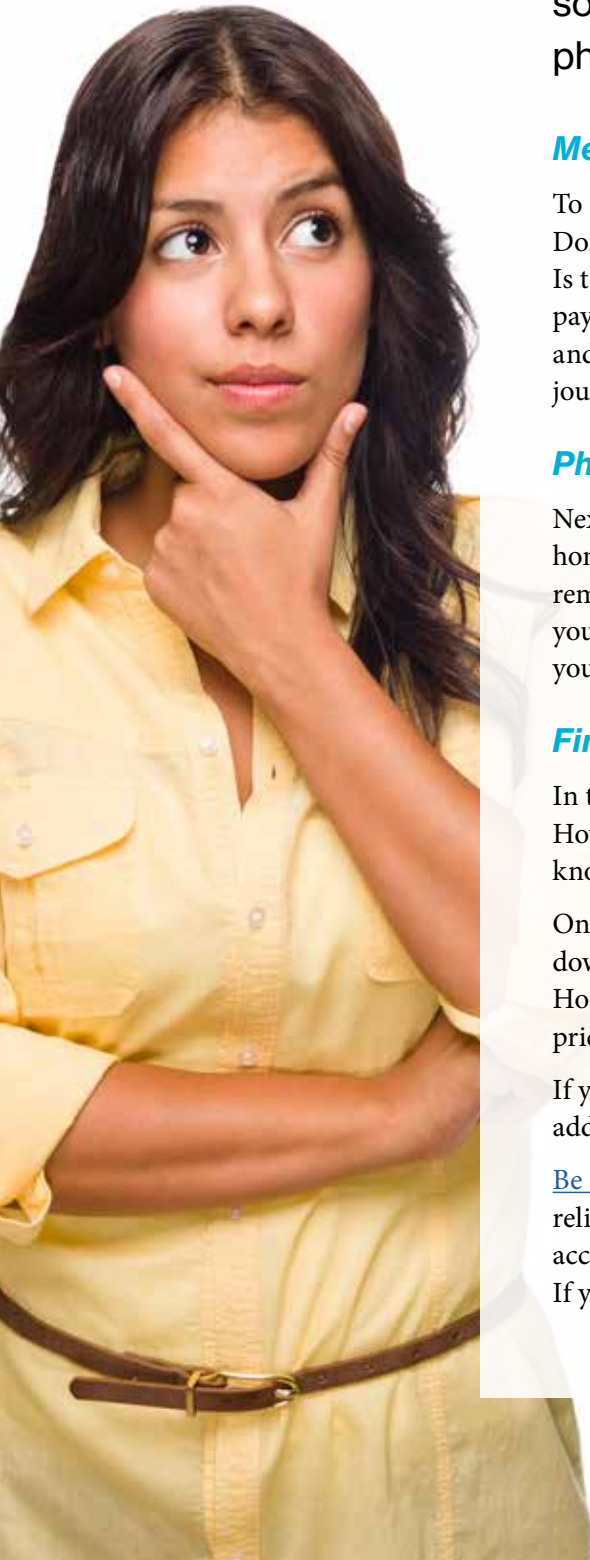
## **Financial Readiness**

In terms of finances, it's important to know your numbers. What is your income? How much debt do you have? And what is your debt-to-income ratio? If you don't know, this article may help you answer those questions.

One of the biggest expenses when buying a home is the down payment. Many down payments are 10% to 20% of the home's purchase price. However, the Federal Housing Administration offers some loans that only require 3.5% of the purchase price and offers a loan with no down payment required.

If you don't have the money to cover a down payment yet, are you willing to skip additional spending for months, or even years to get there?

[Be sure to check your credit score, too.](#) This number tells lenders whether you're reliable in making payments and managing current debt. A credit score of 580 is acceptable for some lenders, but a score of 620 may get you a better mortgage rate. If your number is lower than 580, here are [six ways to improve your credit score.](#)



You'll also likely want to buy furniture and other items for your new home. It's important to consider those expenses when assessing your financial readiness.

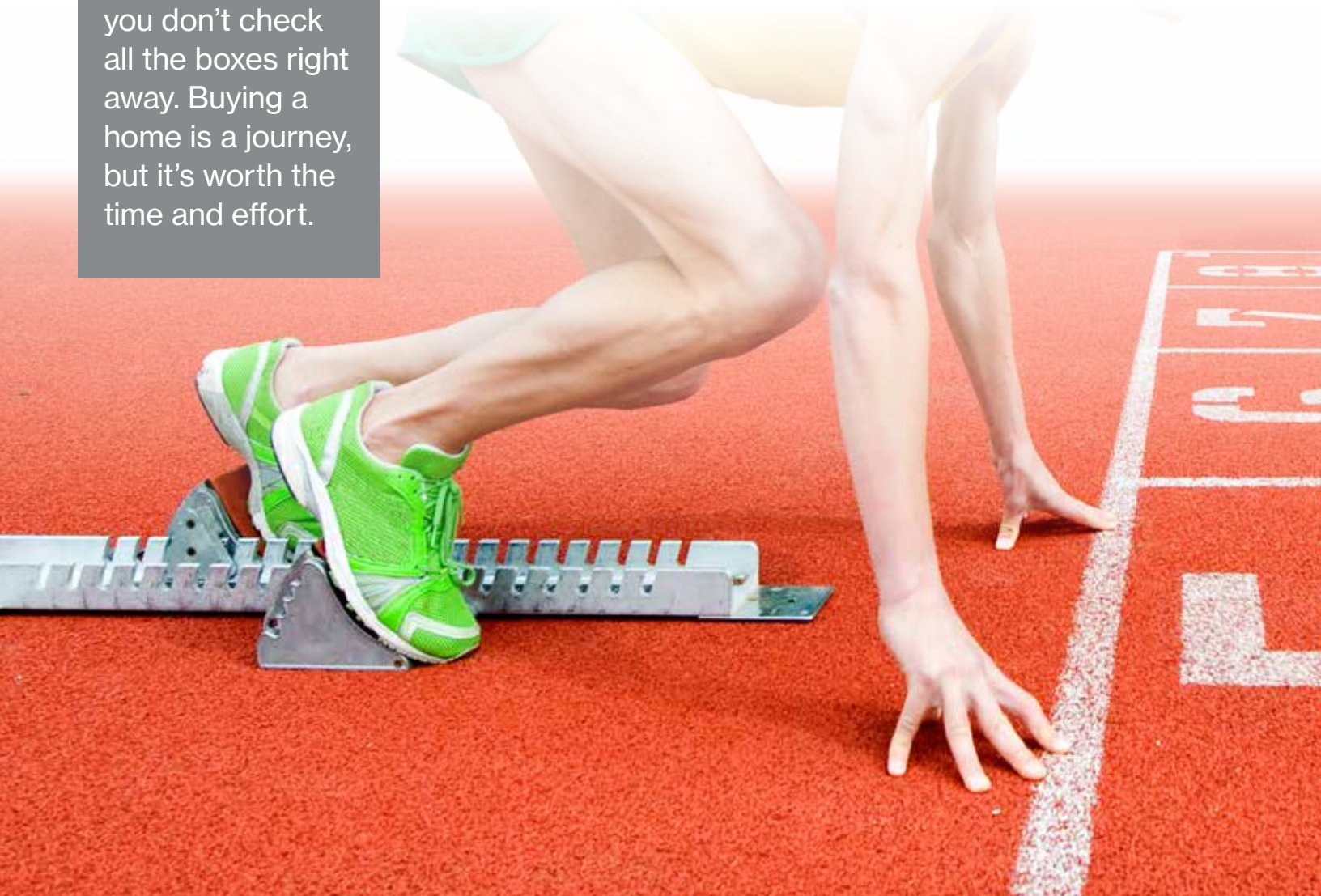
Remember, everyone starts somewhere. Don't get discouraged if you don't check all the boxes right away. Buying a home is a journey, but it's worth the time and effort. The more prepared you are up front, the easier the process will be along the way and the better you'll feel in the end.

Once you're prepared to buy a home, it's time to start researching.

READ

## [8 Signs You're Ready to Buy a House](#)

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# Research

Now that you know you're ready for homeownership, take the time to research how much you can afford to pay for your home.

You may come across some terms you're unfamiliar with. That's normal for someone who's never bought a house before. So, here's a resource to help you [get acquainted with buyer terminology](#).

## **Budgeting Your Monthly Mortgage**

To [determine how much you can afford](#) each month on your mortgage, you first need to know how much money you earn each month or year. Experts recommend that you spend no more than 28% of your gross income on your mortgage. Your gross income is the amount of money you earn before taxes are taken out. But not everyone is comfortable spending that much. So, ask yourself how much you want to spend on housing.

Remember, there's more to pay for than just your mortgage. You will also need to pay property taxes, homeowner's insurance, closing costs, and utilities. In some cases, you will also have to pay Homeowner's Association (HOA) fees.

Once you've determined what you're comfortable paying, look at your mortgage options.

## **Mortgage Options**

When you buy a house, it's very likely that you'll need to take out a mortgage. A mortgage is a loan that a bank or a [mortgage lender](#) gives you to help pay for a house. You'll be responsible to pay back the loan over the term of the loan, typically 15 to 30 years. There are different types of mortgages, so you'll need to choose the one that works best for you.

- **Fixed-rate mortgages** have the same [monthly interest rate](#) until the total amount is paid off. So, if you take out a 30-year, fixed-rate mortgage at 5% interest, you will pay 5% interest for 30 years. No more, no less.
- **Adjustable-rate mortgages**, often abbreviated as ARMs, have interest rates that change over time. The rates could change after one year, then again after three years, five years, etc. The rates adjust with the market, but typically start with a low rate for the first few years and then adjust to match the current market rates. Most adjustable-rate mortgages include a "cap," meaning that the interest rate cannot go any higher than that amount.

Alternatively, there are several [other affordable payment options](#) for you to choose from that allow for a much smaller downpayment, if certain criteria are met.



READ

## [Fixed- vs. Adjustable-rate Mortgages](#)

Ask yourself how much you want to spend on housing. Remember, there's more to pay for than just your mortgage.



# Get Pre-Approved for a Mortgage

This might be the most important thing you can do when looking to buy a new home.

[Getting pre-approved for a mortgage](#) tells you how much you can afford to buy. It also informs the lender you can be trusted to pay back your mortgage.

First, you'll need to [find a mortgage lender](#). This is an organization that will help you get a mortgage. You can find mortgage lenders through banks, mortgage businesses, credit unions, or online. And it's a good idea to talk to multiple lenders to compare services and prices.

Your mortgage lender will ask you to provide several documents for the pre-approval process. These documents include:

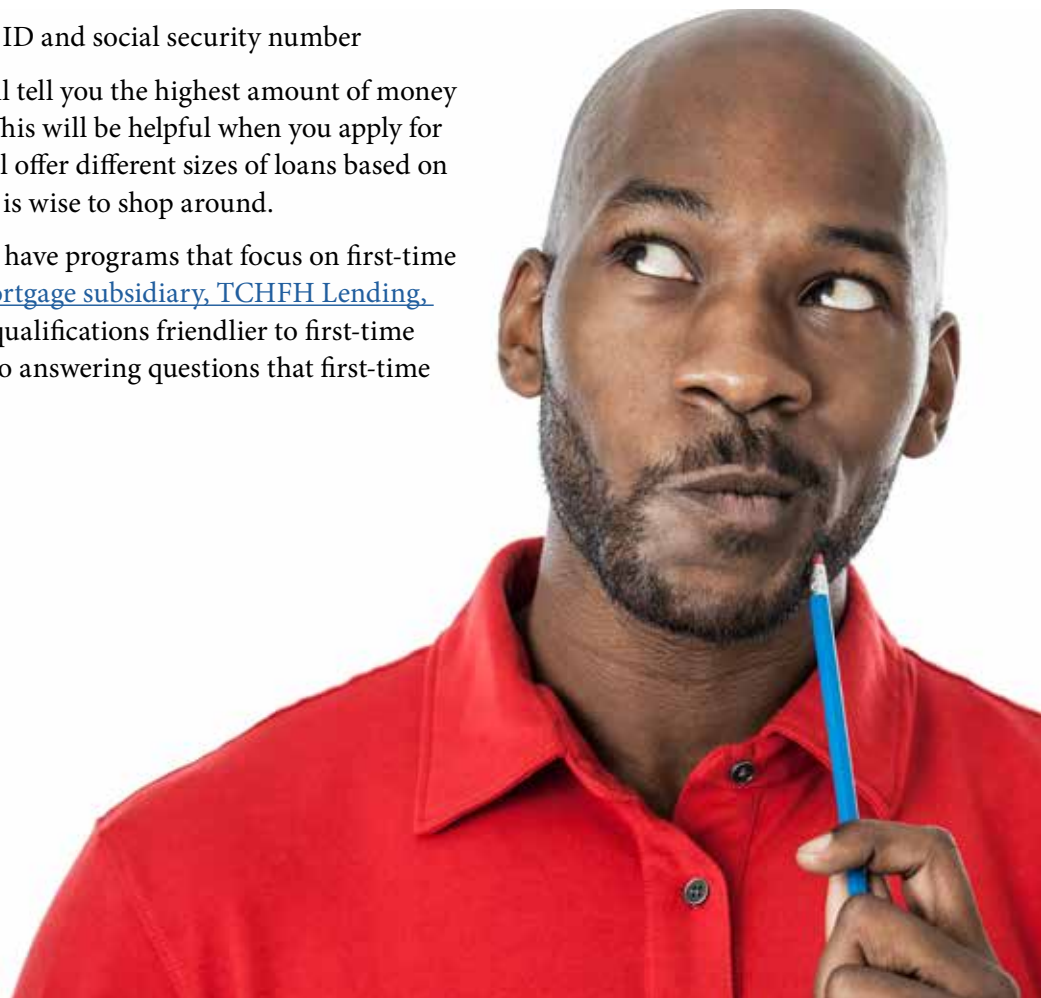
- Pay stubs, tax returns, W-2 forms, and any other **proof of income** you earn
- A list of **unpaid debts**; car loans, student loans, or credit card statements, e.g.
- **Proof of your liquid assets**; checking, savings, and retirement accounts, or other investments, e.g.
- **Personal information**, like your photo ID and social security number

Once you're pre-approved, your lender will tell you the highest amount of money you're allowed to borrow for your home. This will be helpful when you apply for a loan later. However, different lenders will offer different sizes of loans based on their capabilities and what they offer, so it is wise to shop around.

There are also lenders that specialize in or have programs that focus on first-time homebuyers, like [Twin Cities Habitat's mortgage subsidiary, TCHFH Lending, Inc.](#) These types of lenders typically have qualifications friendlier to first-time homebuyers, and they put a lot of time into answering questions that first-time homebuyers inevitably have.

READ

[What's included in a mortgage payment?](#)



# 4

## Begin the Search

Searching for your new home might be the most fun part of your homebuying journey, but it does require some work.

Especially when you are looking to stay within your budget. First, decide if you want to [work with a realtor](#). Realtors can educate you on the many financial complexities that come with buying a home, and they'll provide honest advice during your search.

Next, [determine where you want to live](#). Whether you already have a city or neighborhood in mind or you're starting from scratch, it's smart to check neighborhood safety, school district, the commute to work, restaurants in the area, culture, and nearby parks, walking paths, dog parks, grocery, pharmaceutical, and department stores.

Once you've decided on an area, start identifying what you want in a house. If you know how much square footage you'll need, great! If not, here's a [square footage calculator](#) to determine your needs.

Then, [make a list of needs and wants](#). For example, you may need at least three bedrooms and two bathrooms, but you probably don't need a walk-in closet or bonus room. Once you've listed your needs and wants, prioritize them. This will help you compare homes and decide which ranks highest

After answering the questions above, it's time to start touring houses. Before you plan your first visit, make sure you know what to look for during a house tour!

*The process for the Habitat Homeownership Program could be different. [Learn more about the program](#) and how searching differs within the program.*

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# 5

## Make an Offer

So, you've found the one, the house you hope to call yours! Now, you have to make an offer.

But how do you know what to offer? You don't want to offer too little and have the seller immediately reject it. However, you don't want to overpay, either.

There are a [few things to consider when determining your first offer](#) on a house such as:

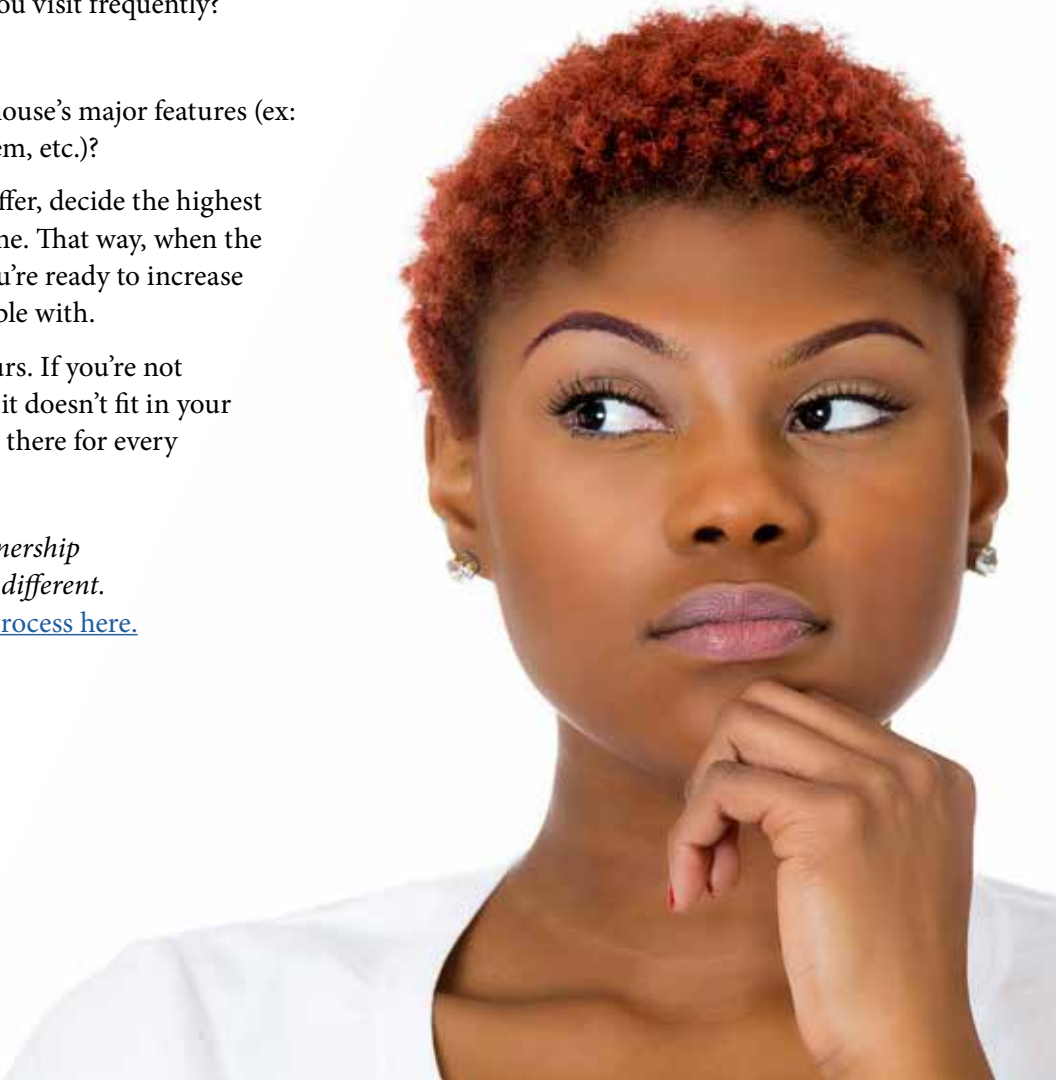
- How long has the house been on the market?
- Have there been other offers?
- Is the seller flexible on the asking price?
- What is the seller's timetable?
- Does the neighborhood appeal to you?
- Are there any planned changes to the neighborhood?
- Does the location compare to places you visit frequently?
- What are the house's drawbacks?
- What is the age and condition of the house's major features (ex: appliances, flooring, roof, HVAC system, etc.)?

In addition to determining your initial offer, decide the highest amount you're willing to pay for this home. That way, when the seller comes back with a counteroffer, you're ready to increase your offer to an amount you're comfortable with.

Remember, the decision is ultimately yours. If you're not comfortable paying the asking price and it doesn't fit in your budget, keep looking. There's a home out there for every budget.

*If you're working with Habitat's Homeownership Program, your offer process could be very different.*  
[Learn more about the Homeownership process here.](#)

Remember, the decision is ultimately yours. If you're not comfortable paying the asking price and it doesn't fit in your budget, keep looking.





# Pre-Closing Tasks

Your offer was accepted! But the house isn't officially yours until you sign the closing documents.

You'll need to [complete several more steps](#) before closing on your house.

## **Apply for a Loan**

If you were pre-approved by your lender, now is the time to apply for a mortgage loan. If you did not receive pre-approval, it's best to compare a variety of mortgage rates now.

## **Get a Home Appraisal**

Before you close the deal, your lender will hire an unbiased professional to determine the value of the home. If the home is worth at least what you offered to pay for it, the lender will feel more comfortable lending you the money. The appraisal can also help buyers know if they're overpaying for the home.

## **Schedule a Home Inspection**

A home inspector can identify any issues with the house such as low water pressure, electrical concerns, cracked foundation, mold and more. In some cases, you can negotiate for the seller to fix the issue before closing, so you don't have to worry about it.

## **Get Homeowner's Insurance**

You won't be able to close on the house until you prove you have homeowner's insurance. Take this time to shop around for the best rate.

You'll also want to prepare for closing costs, examine the title of the home, transfer utilities, and take a final walk-through to ensure everything promised to you is there and functioning. Once you've completed these tasks, you're ready to close on your house!

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# 7

## Closing

You're a step away from owning your first home! Before you get the keys, you'll need to sign several documents.

You want to be sure you know what you're signing, but it can be difficult to understand some of the legal documents. We're here to help.

The three important [documents you'll sign when closing on your home](#) are the closing disclosure form, the note, and the mortgage.

- **The closing disclosure form** provides details about your mortgage, including interest rate, term, and projected monthly payment. It also breaks down the closing costs.
- **The note** explains everything you need to know about your mortgage, including the loan amount, payment due dates, grace period for late payments, and late charges.
- **The mortgage** secures the note. This allows the lender the legal right to take ownership of the home in the event that you don't honor the promise to pay what you signed in your note.

There will be many additional documents to sign along the way, but those vary depending on each homebuyer's individual situation and lender.

READ

[Everything you need to know about mortgage closing costs](#)





If you feel ready to take the next step towards your fulfilling your dream of homeownership, look no further than Twin Cities Habitat for Humanity.

As a part of our Homeownership Program, you'll be equipped with the education and support you need to be successful throughout the homebuying journey. Plus, we provide post-purchase support as you take on your new role as a homeowner.

[Click to learn more](#) about the program, qualifications, and mortgage product.

