

# Everything First-Time Home Buyers Need to Know

As you consider buying your first home, you undoubtedly have hundreds of questions about the process. These questions begin as soon as you start thinking about moving and continue far beyond the closing. What should I expect? How can I prepare? Am I ready to own a home? These questions are perfectly normal and are to be expected from first-time buyers.

In order to make the home-buying process as easy and smooth as possible, you need to know exactly what to expect. By reviewing the following information, you will be well prepared to begin the process of buying your first home.



## How Much Can You Afford?

The first step in buying a home for the first time is making sure that you can afford the home you plan to purchase. Even if you haven't already found the home of your dreams, you probably have a fairly good idea of the type of home you would like to purchase. However, you may or may not realize how much you can actually afford to spend on housing each month. Surprisingly, speaking to a lender about your financial situation may not be the best place to start.

Lenders look at your debt-to-income ratio and not necessarily at your day-to-day spending habits. Therefore, they will know if you have several credit cards that are responsibly maintained and a car loan that was paid off in full last month. But they may not realize that you opt to spend several hundred dollars each month on the latest fashions or videos. Begin tracking where and how your money is being spent and how much of that spending can or will be curtailed when you purchase a home.

## Financial Counseling and Pre-Qualification

A financial advisor can help you to assess your financial information and determine how much home you can afford to purchase. Speak with a financial advisor before beginning the search for your first home – and know that there is one other thing you can do to ensure that you are looking at the right homes for your price range.

Most mortgage lenders are happy to complete a pre-qualification process for potential buyers who need to find out ahead of time what size of mortgage they can qualify for. The pre-qualification process is not a guarantee that the lender will offer you funding, but it does take into consideration your credit score and income level in order to determine how much the lender might be willing to offer through a mortgage program. The process will also enable you to begin comparing the mortgage programs offered by different lenders.

## Shopping for Lenders


With interest rates declining, you need to make sure that lenders are giving you the most competitive

mortgage options and interest rates. Talking to several lenders will help you decide which one can best serve your interests.


Ask the lender about the details of each program that you are considering, including the closing-cost requirements, down-payment percentage, and any early-payoff costs that you might face. Mention that you are a first-time buyer, because this could potentially make a difference in the types of programs that a lender offers to you.

Once you have selected a lender, make sure that the specific mortgage program you are considering is right for your borrowing needs.

Here are two of the most common types of mortgage programs:



When a potential buyer works with a listing agent to purchase a home that is listed by that particular agent, the result is *double agency*. *Double agency* simply means that the buyer and seller have the same agent, who represents both parties and therefore cannot release information that could harm either party.



### **Traditional 15- or 30-Year Fixed-Rate Mortgage**

This type of mortgage loan usually has a 15- or 30-year payoff (amortization) schedule. Over the years, you make equal payments that are applied to the interest and principal in varying proportions until you completely pay off the loan. The interest rate does not change.

### **15- or 30-year Adjustable-Rate Mortgage (ARM)**

The ARM is declining in popularity as a result of better fixed-interest rates with traditional mortgage programs. However, sometimes a new homebuyer will want or need to purchase a home that is more expensive than what he or she can afford at the time of the purchase. ARMs, which come with low introductory interest rates that are almost always locked-in for the first five years, can be a good option. After the introductory period, the interest rate becomes variable and may drop or skyrocket, changing throughout the life of the loan according to a pre-defined time schedule and market interest rates.

## **Finding an Agent**

First-time buyers often call the listing agent for homes that interest them, but this may not be the best way to protect your interests throughout the purchase process. When a potential buyer works with a listing agent to purchase a home that is listed by that particular agent, the result is *double agency*. *Double agency* simply means that the buyer and seller have the same agent, who represents both parties and therefore cannot release information that could harm either party.

To find an agent, consider the area in which you want to buy. A local agent will be familiar with the area and can recommend specific neighborhoods for people with your particular lifestyle. You can also request recommendations from friends and family members.

Before signing a contract with an agent, ask about the commission rate, although this cost is generally covered by the seller's portion of the closing expenses.

Make sure that your agent understands what you are looking for and how much you are prepared to spend on your home. As a first-time buyer, you need to work with an agent who is familiar with programs and lenders who specialize in working with first-time buyers.

## **First-Time Homebuyer Programs**

Many programs are designed specifically to assist first-time homebuyers with benefits like down-payment assistance and no closing costs. Others offer first-time buyers competitive interest rates designed to make borrowing easier. First-time homebuyer assistance programs almost always apply to anyone who has not purchased a home within the past three years. Therefore, even if you are not a true first-time buyer but you have not bought a home in the past three years, you may qualify for these programs.

## **Conclusion**

First-time homebuyers who approach the home-buying process with adequate preparation can be some of the best customers for lenders and agents. If you are thinking of buying a home for the first time, do your research and plan for your home purchase. Doing so will make you an educated consumer and give you a good chance of finding the best home for the best price.