Start To Finish Guide To Buying A Home

Purchasing a home is a major milestone that tops many people's lifetime to-do lists—and maybe their list of financial fears too. But it certainly doesn't have to be a scary or stressful experience. With time, care, and research, you can take control of the home-buying process.

While house hunting for the first time can be exciting, tales of regretful home-buying mistakes and the not-so-distant housing market meltdown have also given it a bad rap for being a stressful and confusing process. It doesn't have to be—that's why we created this handy nine-step checklist, which helps explain how to prepare to buy a house—and help safeguard your finances in the process.

1. **Determine What You Can Truly Afford:** Well, there are no surprises here: Your first step in the home-buying process is to determine your budget, just as you'd likely do for any other major financial decision. But where should you start?

As a general rule of thumb, you should be looking at home prices that are two to three times your annual income. This helps ensure that you're not taking on a larger mortgage commitment than you can afford.

Speaking of mortgages, we recommend that payments generally not exceed 28% of your monthly gross income—but if you have other high costs, such as private school tuition, it can be wise to pare down this percentage even more. If you're not sure what's realistic, consider seeking help from a financial professional, who can help walk you through an appropriate breakdown, based on your individual situation.

Once you've defined your budget, it's time to look at your cash reserves. We suggests saving up a minimum of 20% for your down payment in order to avoid having to buy private mortgage insurance, plus another 3% for closing costs. (More on that later.)

You'll also want to make sure you have enough savings left over to help pay for any home improvements, decorations or miscellaneous moving and maintenance costs that may pop up—in full. Translation: You should not be using your emergency fund to cover these costs.

Being a homeowner often comes with surprises, like a burst pipe in the middle of the night that needs to be fixed right away. So you need to be financially ready for these surprises, which means you shouldn't deplete your emergency fund for expenses like furniture or remodeling.

2. **Figure out Which Mortgage is Right for You—and Get Pre-Approved:** Now that you've nailed down your numbers, it's time to start shopping for a mortgage lender with a reputation for good customer service and timely closings. You'll likely have a lot of questions—like how long the process will take and what the qualifying guidelines are—so choose a lender that answers them all satisfactorily.

Next, decide which mortgage makes the most sense for you. There are plenty of different options to consider. Although we advise choosing one of the most common two: a fixed-rate mortgage, in which your interest rate remains steady for the duration of the loan, or an adjustable rate mortgage (ARM), in which your rate fluctuates to reflect market changes.

[ARMs] can be a good option—but usually only if you plan to live in your home no longer than the original fixed period. Otherwise, if the interest rate rises, you could find yourself with a mortgage payment that's higher than you planned and, depending on your budget, may not be sustainable.

As for the length of your loan, we favor a 30-year term over 15—even if you think you can pay off your home faster.

Building equity in a home can be a good way to grow your wealth, but it's important that you do so in a way that doesn't stretch your finances too thin. Things can get really ugly when the housing market declines, so it may be a good idea to take out a 30-year mortgage but accelerate your monthly payments as if you had a 15-year mortgage. If you ever need to lower your payment in the future, you'll still have that option.

Next up on your to-do list: Apply for a pre-approval, the process in which a lender reviews your financial information—like your credit report, W2s and bank statements—and commits to giving you a mortgage for a specified interest rate. It's a good idea to consider doing this now because it can prove to a seller that you're a qualified buyer, and once an offer is made, the bank will just have to appraise the home—not the property and your finances.

But a word to the wise: A bank may approve you for a larger loan than you've determined you can afford. So don't be seduced by their findings—and stick with the number you landed on in step one.

3. **Consider a Financial Trial Run:** If the idea of not being able to afford your mortgage keeps you up at night, this step is all about assuaging those fears by simulating the experience of being a homeowner—before you buy.

Start by totaling up all of the monthly costs associated with a home purchase, including your projected mortgage payment, tax and insurance estimates, HOA fees and home maintenance

costs. And don't worry if you don't have concrete numbers—the point is to see if you can afford a ballpark amount.

If the sum of the expenses equals more than what you're paying for housing now, then subtract your rent from the total. The difference is what you should consider transferring to your savings account for a few months to simulate what you'd be paying out to cover your monthly new-home costs.

If you can comfortably pull this off, then rest assured that you can probably handle the typical expenses of being a homeowner. But if you can't—or you're making unpleasant trade-offs—consider readjusting your home price until these costs are feasible on your current income.

4. **Decide Which Features Are Must-Haves and Nice-to-Haves**: It's the rare lucky person who finds the perfect home within their budget, so before you go house hunting, brainstorm a list of what you absolutely must find in a home—and which features are simply nice extras.

Examples of must-haves might include the number of bedrooms and bathrooms, proximity to work and other places you frequent, and access to your preferred school districts. You might also have a strong preference on the amount of outdoor space a house offers, and whether it's move-in ready.

Things that shouldn't be on your must-have list? The way a house is decorated, well-manicured landscaping, a pool—or anything else you can easily fix or install yourself.

Refer to this list if you need help down the line making an objective decision between two or more houses—as well as to remind you of what's important, versus what could be luring you to pay more than necessary.

5. **Start House-Hunting, and Decide If You Need a Real-Estate Agent**: Now for the fun part: house hunting! Browsing online resources for available homes in your neighborhood is a good place to start, and can help confirm whether your budget and house must-haves are reasonable in light of what's for sale.

This is also a prime time to decide whether you'll hire a real estate agent, if you haven't already. While you're under no obligation to do so, there are several potential benefits to working with one. First of all, an agent can provide access to more home options than you'll likely find yourself, as well as set up viewing appointments. Since home-buying can be an emotional process, an agent can also act as a mediator between you and the seller.

To find someone, interview several buyers' agents—this means they exclusively represent you, and not the seller, as well—until you identify someone who understands your needs and makes you feel comfortable. As a final step, check your state's real estate licensing board's website to ensure they're registered, and don't have any complaints or suspensions logged against them.

Whether or not you decide to hire an agent, you should hit the ground running now on viewing as many houses as possible.

6. **Research Homeowner's Insurance:** Your lender will likely require the name of the agency providing you with home insurance, which is why you should shop around for a quote while you're still house hunting.

Basic insurance typically covers fire, theft, storm damage and liability should someone get injured on your property and sue you. But you can also add on riders for things like expensive jewelry, furniture and home office equipment, as well as choose to get additional flood insurance if your home is in a flood-prone region.

To find a provider, you can shop around online, from agency to agency, or use an independent agent, who can provide several quotes to review at once. It varies based on your area and, of course, the value of your home, but you can estimate your costs here.

7. **Put in an Offer:** So you've fallen in love with a property that meets all of your needs and some of your wants—and it's within your price range. Let's make an offer!

But here's where it can get tricky: You don't want to low-ball your offer, and risk losing the home to another buyer or insult the seller—but you also don't want to pay more than is necessary. So how do you land on the ideal number?

While there are no hard-and-fast rules, a few factors can help inform your decision.

First, look at other home sales in the area. Is the house you want priced reasonably in comparison? Did other homes sell for less or more than the asking price? If they sold for an amount that's comparable to your seller's list price, that's a good indication you should be offering a number close to asking.

Next, consider how long the home has been on the market, and how incentivized the homeowner is to sell. For example, if the seller is living in a transition home while waiting to sell, you may have a better chance of getting the seller to accept a discounted offer. But if he's casually putting the home on the market to see how much he can net, the seller may be more apt to wait for the perfect price.

Lastly, what's the market like in the neighborhood? Is it like New York City, where condos get snatched up with all-cash offers, or are you in a Las Vegas-esque location, where empty homes are a common site? In the former situation, it may be a good idea to start with a strong offer to beat out an army of other suitors, whereas you may have more leeway in a market like Vegas.

8. **Review the Contract and Submit Your Mortgage Application:** The seller accepted your offer—congrats! But before you sign on the dotted line, you should make sure to review the contract thoroughly and understand every single clause.

Pay special attention to contingencies in the contract, which spell out situations when you can back out of the sale to help protect yourself in case something goes wrong. For instance, such scenarios can include if you discover that the home has serious physical defects or if your bank rescinds financing.

Speaking of defects, now is also the time when you'll get the home inspected, which typically costs between $200 and $500. If there are issues, such as a non-functioning fireplace or an old boiler, you may be able to ask for a price reduction to help cover the cost of repairs. And if you find any deal breakers, such as an unstable foundation or serious mold, you have the option of backing out now.

Once your inspector confirms that there are no big defects that could affect the home's value, you'll submit a mortgage application. Review all closing costs—the ones you've hopefully saved up 3% to pay for, which usually include title insurance and partial property taxes—before you sign the contract.

9. **Sign the Papers**: Before the big day, you're entitled to a walk-through to confirm that nothing has changed since the inspection. After that, make sure you have all the money required for the closing wired into the correct account.

Ask the settlement agent for copies of all the paperwork you'll sign before closing, so you can carefully review them at your leisure. You'll be putting your John Hancock on several items, including the closing disclosure, which details all of the costs related to the home sale; the Final Truth-in-Lending Act statement, which outlines the cost of the loan and the interest rate; and your final mortgage paperwork.

On closing day, bring your photo I.D., as well as any paperwork you received throughout the home-buying process, including insurance and home inspection certificates.

Once you've signed the paperwork, you'll be handed the keys… and you'll officially become a homeowner!