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FIRST TIME HOME BUYERS KIT

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Step 1:

Know When You're Ready

Whether this is the first time you've thought about buying a home or it's been on your mind for a while, it may be hard getting started because the process can seem overwhelming. Here are some things that you'll want to know and do even if you don't plan on buying a house for a few years. Taking the homebuying process one step at a time makes it more manageable and prepares you for buying a house, whenever that time comes.

This step covers:

- Renting vs. buying
- Things to consider before buying
- Credit score
- Improving your credit score
- Establishing credit

To rent or to buy?

You'll learn:

- **Some responsibilities and freedoms that come with homeownership**
- **Flexibilities you can appreciate while renting**
- **Why it's important to keep track of your finances**

Maybe you're just starting to look for a place of your own and can't decide if you should rent or buy. Or maybe you've been renting a place for a while and want to explore the possibility of buying a home, but you aren't sure if you're ready. While only you can decide the best option for yourself, it's important to analyze the pros and cons of each and see how those align with your priorities. Here are some things to think about when it comes to the big question, "Do I rent, or do I buy?"

Benefits of renting

Renting is a great option if you plan to move around and don't want to commit to one location because it provides more flexibility if you decide to relocate. Another benefit of renting is that maintenance costs for things like lawncare and broken dishwashers are usually the rental management's responsibility. Plus, renting gives you a chance to try out different types of living spaces and explore different neighborhoods to see what works best for you.

While renting is often thought of as more affordable than buying, this is not always the case. It may be a good option if you need some time to save up for a **down payment** and other costs associated with buying your own place; in some cases, however, your monthly **mortgage** can end up being less than your monthly rent.

Benefits of buying

Buying might be a better option for you if you plan on staying in one location for at least five years or so, and you're ready to truly call a place your home. Homeownership gives you the opportunity to take pride in caring for the property you own. It allows you to build **equity** over the long term and has potential for tax advantages that don't come with renting. One more benefit of buying: You can customize your space the way you like, from painting the rooms to hanging curtains, to nailing a picture on the wall, without worrying about running it by your landlord.

Down Payment:
The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

Mortgage:
A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

Equity:
Ownership interest in a property. This is the difference between the home's market value and the outstanding balance of the mortgage loan (as well as any other liens on the property).

Rent vs. Own Comparison

	Renting	Owning
Advantages	Can cost less Shorter-term commitment More flexibility if you need to relocate Maintenance and repair costs are not renter's responsibility	Can build equity Value of home may appreciate Satisfaction in homeownership Possible tax incentives Make the space your own
Disadvantages	No tax incentives Rent could increase It's not an investment No building of equity	Longer-term commitment Responsible for all maintenance and repairs Relocation involves more than just moving Upfront costs are higher

Track your finances

In considering whether to rent or buy, it's important to see where your money is going. Keeping track of your expenses can give you a better idea of areas where you could cut back and tuck a little extra money away to save for a house. It may seem tedious, but keeping track is a great way to get a more accurate view of your financial situation.

Decide what's right for you

It's important to do your research. If you end up deciding you're not ready to buy, be sure to read the next steps to learn how you can prepare for when the time is right. Even if you don't have the funds for a down payment right now, if it's something you can start saving for, homeownership could be an option in the future.

Things to consider before buying

You'll learn:

How to estimate how much you can spend on a home
Why location can be a determining factor in your home choice
About different types of homes

If you've decided it's the right time to buy a home, congratulations! Now what? Before you start to seriously look at houses to buy, there are some steps you can take to make sure you're in a good position to purchase a home. The first part of the homebuying process takes time. To start, here are a few things to think about.

Estimate what you can afford

At this point, you probably don't know exactly how much money a **lender** will approve for your mortgage. However, you can start thinking about the initial down payment amount as well as the ongoing monthly mortgage payment you are comfortable with. Keep in mind that affordability is different for everyone. That's why it's important to figure out your range for what you feel comfortable spending based on your financial situation. Using an affordability calculator is a good place to start. Also consider your income. Are you self-employed? Full-time or part-time? Commission-based? It's important to think about whether your income tends to fluctuate or is steady and reliable.

Think about location

What matters most to you when deciding where to live? For example, do you want to be near parks, grocery stores, schools, restaurants, work, or public transportation? Location impacts costs, so it's a good idea to look in a few neighborhoods to get a better idea of what you can afford.

Think about type of home

Whether you choose a single-family home, condo, townhome, or manufactured home, the type of home you decide on will come down to your wants, needs, and price point. Keep in mind that some types of housing have extra fees, such as **condo fees** or a **homeowners association fee**, which you'll be required to pay. Those fees may cover the cost of general community maintenance or amenities such as a pool.

Lender:
An organization or person that lends money with the expectation that it will be repaid, generally with interest.

Condo Fees:
Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. Condo fees are not included in your monthly mortgage payment and must be paid directly to the condo/ homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as it varies from condo to condo.

Homeowners Association Fee:
Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. HOA fees are not included in your monthly mortgage payment and must be paid directly to the homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as it varies from association to association.

Single-family detached home
A residence structure with a single living unit consisting of one building and one address.

Condo
A form of homeownership that combines individual ownership of a unit with shared ownership of common facilities.

Townhouse
A house that has two or three levels and that is attached to a similar house by a shared wall.

Manufactured home
A dwelling of at least 400 square feet and at least 12 feet wide, constructed to the "HUD Code" for manufactured housing, which is built on a permanent chassis, installed on a permanent foundation system, and titled as real estate.

Determine your down payment

Determining how much you have for a down payment impacts the prices of homes you can buy. Plus, if you're saving up, it helps to identify a goal to save toward. Depending on the mortgage you get, your down payment could be as low as 3% of the house price. If you decide you can save $3,000, you could potentially buy a $100,000 house. Keep in mind, though, that you won't want to put all your savings toward a down payment and should have some money left over for other expenses.

Credit score

You'll learn:

What a credit score is and why it matters
How your credit score is determined
How you can find your credit score

Credit score. You've heard of it. But what is it, and why is it important for buying a house? Your credit score gives lenders an idea of how likely you are to make your payments on time. Credit scores can range between 300 and 850. Interest rates are often tied to a person's credit score, and the best rates are typically offered to those with higher credit scores. While many factors go into determining your credit score, the number is a pretty good snapshot of your financial health and history.

Why credit score matters

Because a **credit score** is an indicator of financial health, it's used as a tool for lenders to determine things like loan limit amounts and **interest rates**. Utility companies may even use it to determine if you need to pay a deposit before services begin. While it's true that lenders often reserve their lowest rates for people with better scores, you don't always need a high score for homeownership to become a reality. Even with a score of 620 or lower, you may still qualify for a mortgage.

What affects your score

Many factors go into your credit score. Details can be found on your **credit report** and include: your payment history, how much money you owe compared to available credit, how long you've had credit, the different types of credit accounts you have, and how many new credit and loan accounts you've opened. Each of these factors impacts your score differently, and the formula for figuring out your credit score differs among each of the three **credit bureaus**. Plus, if you've had any **charge-offs**, **liens**, or **bankruptcies**, these are also reflected in your score.

Factors that can affect your score

- **Payment history**
- **Tax liens**
- **How much you owe vs. available credit**
- **Charge-offs**
- **# of new credit and loan accounts**
- **Bankruptcies**
- **How long you've had credit**

Credit Score:

A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history, the type of loan product, and even the day when it was calculated.

Interest Rates:

A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money. A bank or credit union may also pay you an interest rate if you deposit money in certain types of accounts.

Credit Report:

A credit report is a statement that has information about your credit activity and current credit situation such as loan-paying history and the status of your credit accounts.

Credit Bureau:

An institution that for a fee provides historical credit records of individuals provided to them by creditors subscribing to their services.

Charge-off:

To treat as a loss; to designate as an expense an amount originally recorded as an asset.

Lien:

A legal hold or claim of a creditor on the property of another as security for a debt. Liens are always against property, usually real property.

Bankruptcy:

A legal proceeding in federal court in which a debtor seeks to restructure his or

Know your credit score

First, know that there are a few different credit reporting agencies. By federal law, you get three free credit reports a year—one from each credit reporting agency (Experian, Equifax, and TransUnion) via annualcreditreport.com. You'll need your address, Social Security number, birthdate, and other basic identifying pieces of information. It's a good idea to check your score regularly in case there are reporting errors. As a way to monitor your credit throughout the year, you can stagger when you get your credit report from each agency. Also, many banking and credit card companies will provide you with your credit score, free of charge.

Credit score & buying a house

Purchasing a home is a big investment. This is why lenders want to make sure you'll be able to pay it back on time, and your credit score is one of the most important indicators of this. Your lender will consider your credit score and credit history, combined with other factors such as your income in relation to your debt obligations—also known as your **debt-to-income ratio (DTI)**—and employment history, to determine your eligibility for a loan.

her obligations to creditors pursuant to the Bankruptcy Code. This generally affects the borrower's personal liability for a mortgage debt, but not the lien securing the mortgage.

Debt-to-Income Ratio (DTI): Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income.

Improving your credit score

You'll learn:

Where you can see, and if necessary, fix your credit report
Ways to pay down debt
The impact of new credit accounts on your credit score

If you're thinking of buying a home and are concerned that your credit score is too low, you can take steps to improve it. First, make sure there are no errors on your credit report—so double check that accounts listed, and your payment history, are accurate. Pay close attention to any late payments, charge-offs, collections, closed accounts, or tax liens. Creditors will report these on your credit report quickly but can at times be slow to report when you've satisfied past-due obligations. Making sure these are accurately reflected can boost your credit score. Then, take a look at areas where your credit history is negatively affecting your score. These are the areas to work on. And while every financial situation is unique, here are things you can do to help improve your score.

Fix reporting errors

Before you get into improving your credit score, it's important to make sure there are no errors on your credit report. Take advantage of annualcreditreport.com to get your free annual credit report from each major credit bureau—Experian, Equifax, and TransUnion. If you do find errors, contact each agency separately and let them know in writing that the information is inaccurate along with proof of why it's inaccurate. Then, reach out to the company that misreported the information. For example, if it's a credit card company reporting a late payment that wasn't late, get in touch with them in writing about the error and make sure they remove this from the report.

Pay bills on time

One of the biggest contributors to your credit score is on-time payments. If you've made late payments or missed payments in the past, these are hard to fix and could cause late fees. Late payments typically start getting reported to credit bureaus when payments are 30 to 90+ days past due. As a way to avoid this, if possible, set up payments so they are automatically deducted from your bank account when they're due. The best thing you can do going forward is to get payments in on time and know that past credit problems may become less of a problem as time moves on.

Pay down debt

Paying off debt, especially credit card debt, can make a big difference in your credit score. It'll increase your available credit and help lower your debt-to-income ratio. There are different ways to go about paying off debt, like paying more than the minimum monthly payment, halting credit card spending, creating a budget, using only cash to make purchases, and paying off your most expensive debt first. These are just some suggestions. Be sure to do your research to find the approach that works best for you.

Ways to pay down debt:

1. **Pay more than the minimum payment**
2. **Halt credit card spending**
3. **Create a budget**
4. **Use only cash to make purchases**

Avoid opening new accounts

If you're trying to improve your credit score, avoid opening new credit card accounts. This can negatively impact your score for many reasons, including the risk of taking on more debt and lowering your average account age. It also increases the number of inquiries to your credit report, which can affect your score. With that said, don't close accounts you already have open as they help with factors like average account age and how much available credit you have.

Establishing credit

You'll learn:

Why bank accounts are important to your credit
How to use credit cards responsibly
Why it is critical to pay your bills on time

If you haven't begun establishing credit through credit cards, student loans, or other bills, you'll want to start right away. Most lenders need to see that you can make payments on time and responsibly manage credit. Here are a few ways to start building up your credit.

Open checking & savings accounts

The first thing you can do before starting to build up your credit is to open a checking account or savings account, if you have not already done so. Mortgage lenders will most likely require this information on applications as it helps document your source of funds for a down payment. Also, if you open a credit card or other credit-establishing account, it's usually easier to pay bills and make other financial transactions through your checking account.

Use credit cards

When used responsibly, credit cards are a great way to build up a favorable credit report. If you don't have a credit card yet, you could try applying for one from a department store or applying for a **secured card** from a bank. Both of these options usually have lower balance limits and higher interest rates. Then, after a year of establishing some credit, you could try to apply for an **unsecured card** from a major financial institution to replace a store card or secured card.

> **The thing with credit cards, though, is that it's important to avoid maxing them out or carrying a balance from month to month. Make sure to charge only what you can afford to pay in full, on time.**

Secured Card:
Credit card that typically requires a cash security deposit. The larger the security deposit, the higher the credit limit. Secured cards are often used to build credit history.

Unsecured Card:
A credit card with no security deposit required.

If you carry a balance, you'll end up paying interest on that purchase, which could cost you way more than what you originally owed, and it will affect your credit score. As credit card debt builds up, it becomes harder and harder to pay off.

Pay bills on time

This could be one of the most important factors in building credit: paying your rent, loan payments, and other bills on time. For revolving accounts, it's important to pay at least the minimum payments, but preferably full balance amounts. Generally, using 30% or less of available credit is favorable and will be an important factor when lenders determine if they're willing to lend you money. If you're paying off student loans, it's extremely important to avoid defaulting, as it can take years to recover your credit score from this.

Step 2:

Saving for Homeownership

If you are considering buying a home, then it's time to start saving money. Saving is one of the most important steps in the homebuying process, and it can also be the step that takes the longest. Saving up enough money requires a lot of time and effort. It can also be hard, especially if you're trying to pay off debt, such as student loans, credit cards, or car loans. However, when purchasing a home, it's extremely important to save enough money to cover housing-related fees and additional expenses, such as unexpected costs associated with being a homeowner. Here are some considerations to make when you start to put aside some cash.

This step covers:

- Create a budget
- Understanding debt
- Other homebuying expenses to consider

Create a budget

You'll learn:

- **Things to think about for your savings strategy**
- **Why you might need less down payment than you think**
- **Other homebuying related expenses to factor in**

While many different saving methods are available, one tried-and-true method is to understand your total income and expenses and create a budget. For instance, you can budget based on your habits and goals. Budgeting can give you a clear view of your spending habits and where your money is going. That way, you can identify how much to set aside from each paycheck. A budget only works, though, if you're committed to it. As an example, here are income and expense worksheets from the Consumer Financial Protection Bureau (CFPB):

View CFPB Budget Sheet

View CFPB Income Benefits Tracker

Set goals

There are many different strategies for saving. Before you start to save, set some goals for yourself, such as how much you want to put aside and a deadline for saving that amount. Then, find a strategy that works with your financial situation and lifestyle. For example, you can use direct deposit to automatically transfer a specific amount from your paycheck into a savings account. That way, the temptation to spend the money isn't there. Also, consider looking at your expenses and determine where you can cut back. Doing things like buying generic grocery items instead of name brands, cutting cable TV, and packing a lunch instead of buying it can save a good chunk every month. Do some research to find the best strategy for you, and keep in mind that every dollar really does make a difference.

Save for a down payment

When it comes to saving for a down payment, you may not need as much money as you think. Coupled with other eligibility factors, some mortgage products require down payments as low as 3% of the total home price. Some state and local programs offer **down payment** assistance to eligible borrowers. Being a first-time homeowner may also open up opportunities to receive incentives that can help you reach your down payment goal. Talk to your local lender to learn what options may be available to you.

Down Payment:
The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

Consider other expenses

Besides saving for a down payment and financial emergencies, you'll also want to plan for costs associated with buying a home. Consider saving for **closing costs**, **homeowners insurance**, taxes, and other moving-related expenses. If you're feeling overwhelmed, remember that every little bit helps, and the more you save, the less you will borrow later. These costs are detailed more in depth in Step 2, under Other Homebuying Expenses to Consider.

Closing Costs:
Various fees required to conclude a real estate transaction.

Homeowners Insurance:
Covers a home's structure and the personal belongings inside in the event of loss or theft; helps pay for repairs and replacement.

Other costs:	1. Closing costs 2. Home insurance 3. Taxes 4. Moving-related expenses

Understanding debt

You'll learn:

- What "debt-to-income" is and why it's important to lenders
- How to calculate your DTI
- Actions you can take to decrease your DTI

Understanding debt can be tricky, but it's important to learn how it works and what lenders consider when determining mortgage eligibility. Keep in mind, while you may want to pay down debt before you apply for a home loan, you might not need to pay it all off. Here are a few things that are important to understand about debt.

What is debt-to-income ratio

Basically, **debt-to-income ratio (DTI)** is how much debt you have compared to your income. As **credit scores** help lenders determine how likely a borrower is to make payments on time, DTI helps them determine whether you'll have trouble making monthly mortgage payments. Lenders view this as a key indicator of how well you manage money and whether you can afford to take on more debt.

How DTI impacts qualifying for a home loan

As long as the DTI ratio is under 50% you may qualify for a mortgage loan. If it's above 50%, you'll want to take steps to lower it before applying for a mortgage. Your DTI ratio will be a strong factor when determining how much you'll be approved to borrow, your **interest rate**, and other loan terms. So even if it's near 50%, you may want to lower it before applying for a mortgage.

How to calculate DTI

You can figure out your DTI ratio by adding up your total monthly debt payments and then dividing that amount by your gross monthly income, which is the total monthly income before taxes are deducted. Your monthly debt payments may include your rent, any student loans or car loans, alimony and child support, minimum credit card payments, and any other debt. When you apply for a loan, the new monthly loan payment will become a factor when determining your total DTI vs. what you currently pay for housing/rent.

For instance, let's say that every month your total monthly debt payments are $900. Then, if you make $28,000 a year, your gross monthly income is $2,333. To calculate DTI, divide $900 by $2,333, which comes out to 0.39. Then multiply this by 100 to get your current DTI ratio of 39%.

Example of Debt-To-Income Calculation:

$$\frac{\underset{\text{monthly debt payments}}{\$900}}{\underset{\text{monthly gross income}}{\$2{,}333}} \times 100$$

$$= 39\%\ \text{DTI}$$

Debt-to-Income Ratio (DTI):

Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income.

Credit Score:

A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history, the type of loan product, and even the day when it was calculated.

Interest Rate:

A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money. A bank or credit union may also pay you an interest rate if you deposit money in certain types of accounts.

Ways to improve your DTI

If your DTI ratio is high, you can improve it by trying a few techniques. First, review your budget to find some extra money to put toward paying off your debt. You can also review your current credit report for an overview of all your debts and the payments associated with them. Avoid large purchases, especially if it adds to your debt. This can be hard, but the purchases you make while trying to qualify for a home loan may impact your approval status. Last, give yourself time to pay it down. It won't happen overnight.

Other homebuying expenses to consider

You'll learn:

- **What closing costs are**
- **Costs associated with moving**
- **Expenses you may incur when making your home your own**

The down payment will most likely be your biggest expense, but you'll want to plan for other homebuying expenses so you're better prepared.

Closing costs

Closing costs include the various fees involved when securing a mortgage. Typically, these include fees for a loan application/origination, a **title search**, **title insurance**, taxes, and **lender** costs. It also involves upfront expenses like homeowners insurance, **mortgage insurance**, and an initial **escrow** account for future insurance and tax payments. A general rule is that these expenses are typically between 2% and 5% of the **home purchase price**. In some instances, the seller may pay for these costs, and your real estate agent may know whether to request this in the offer.

Title Search:
A process whereby the title company retrieves and examines public records that document the history of a property to confirm its legal ownership.

Title Insurance:
Insurance through a title company to protect a property owner or lender from loss if title proves imperfect.

Lender:
An organization or person that lends money with the expectation that it will be repaid, generally with interest.

Mortgage Insurance (MI):
Insurance that protects the mortgage company

Moving costs

Once you're ready to move into your new home, you may need to hire people to move your furniture, wardrobe, and other items. If you have friends or family to help, you may still need to account for the cost of a moving truck. Also consider materials like boxes and bubble wrap for packing your belongings. If your move-out date happens before your move-in date, you may need to rent storage space and possibly find temporary housing, which could mean paying for two places for a while.

Utility hookups

Setting up your new household requires getting connected to a lot of services. Be prepared for initial setup costs for things like gas, electric, internet, cable TV, and public utilities (e.g., water and sewer fees as well as disposal costs for trash and recycling). Sometimes, you may need to pay hefty installation fees for internet/cable connections, and gas and electric companies often require initial deposits.

Common utilities to set up

- **Internet**
- **Gas**
- **Electric**
- **Cable**
- **Water & sewage**
- **Garbage collection**

Furniture

In most cases, buying a home means you'll have more space to fill. While this is a positive change, it can also be expensive. So, it's good to put aside some money for home furnishings. While you don't need to furnish your entire home all at once, consider some basic items you will need. Avoid impulse purchases, and take the time to shop for good deals.

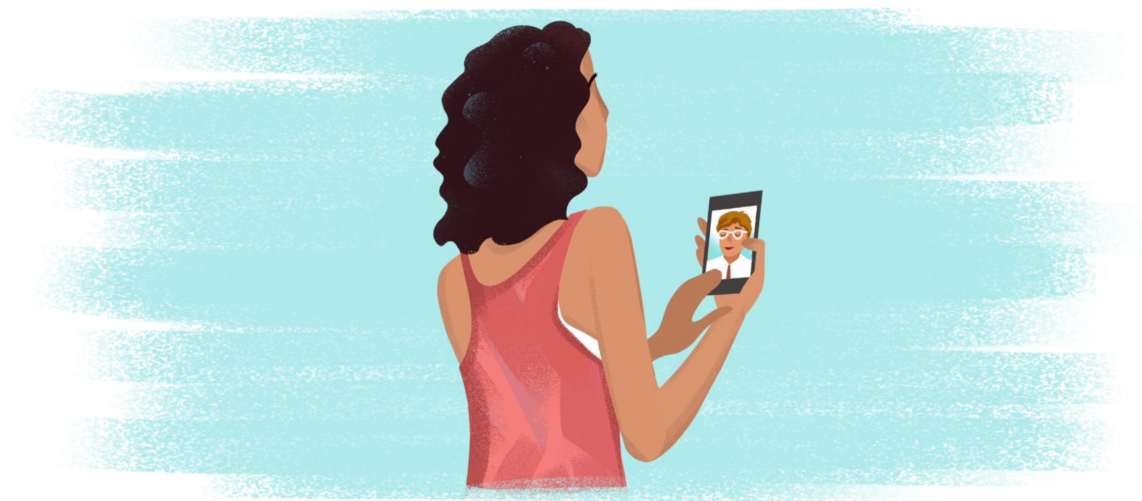
Home improvements

One of the best things about owning your home is that you can make changes that suit your taste and preferences. You may be able to negotiate that the seller addresses certain repairs and upgrades so you're not responsible for them. If you think you may want to throw a fresh coat of paint on some walls, redo some carpeting, change out light fixtures, or make larger improvements when you first move in, consider planning for these costs ahead of time.

against losses caused by a homeowner's default on a mortgage loan. Mortgage insurance (or MI) typically is required if the homeowner's down payment is less than 20% of the purchase price.

Escrow:
An account (held by the mortgage company or mortgage servicing company) whereby a homeowner pays money toward taxes and insurance of a home.

Home Purchase Price:
The final selling price of a home.



Step 3:

Working with a Lender

A mortgage lender is a financial institution that explains your financing options, reviews or underwrites your income and credit documentation, and approves your mortgage loan so you can purchase a home. Lenders work with you to ensure that you've completed all the required paperwork and evaluate your credit history and financial health to determine whether you qualify for a loan and for what amount. Lenders provide explanations for the different options based on your qualifications. These options include interest rates, loan terms, and other loan details. When it's time to purchase a home, your lender will ensure that you have the money to make the purchase. Let's go over what you'll want to know before talking with a mortgage lender.

This step covers:

- Pre-qualification vs. pre-approval
- Shopping for a lender
- Basic types of loans
- Conventional mortgages
- Mortgage terms to know

Pre-qualification vs. pre-approval

You'll learn:

- **What a mortgage pre-qualification is**
- **How a mortgage pre-qualification is different from a pre-approval**
- **The benefits of getting pre-approved**

You'll hear the terms mortgage pre-qualification and pre-approval used quite a bit on your homebuying journey. These terms may sound similar, and they are often used interchangeably, but they can have significant differences.

Pre-qualification

Getting pre-qualified provides you with an idea of how much you may borrow. The process is often quick and free. You'll speak to a **lender** who will collect information about your income and assets, which can be done verbally or through an online form without providing any supporting documentation. The lender will normally consider this information along with your **credit report** and provide an estimate of the approved loan amount that you'll likely receive. Keep in mind that pre-qualification is an estimate. You'll be required to submit documentation of your income and assets to your lender in order to apply for the actual loan approval. Pre-qualification can, however, provide a realistic idea of the price tags you might consider when you begin your home search. It can also be viewed favorably when you submit a contract to purchase a home but not to the same degree as pre-approval.

Lender:
An organization or person that lends money with the expectation that it will be repaid, generally with interest.

Credit Report:
A credit report is a statement that has information about your credit activity and current credit situation such as loan-paying history and the status of your credit accounts.

> **Keep in mind that pre-qualification is an estimate. You'll be required to submit documentation of your income and assets to your lender in order to apply for the actual loan approval.**

Pre-approval

Pre-approval lets the lender inform you as to whether you've been approved for a specific loan amount and, as with pre-qualification, it can be done before you've chosen a home. In essence it's a stronger commitment from the lender. When you get pre-approved for a mortgage, you will provide your lender with documents that prove your income and other personal financial records. The lender will do a more in-depth review of your credit history and financial standing. Pre-approval typically takes a bit longer.

Benefits of pre-approval

Since pre-approval is a thorough evaluation of your financial health and history, it's a bigger step in the homebuying process. The lender will review your income and asset documentation and tell you more accurately whether you qualify for a mortgage. The lender will likely share other details like how much they'll lend you, the potential **interest rate**, and even an estimate of monthly payments. Additionally, pre-approval may help you when looking for a real estate agent or making an offer. It shows that not only are you serious about buying a home but also that you're financially qualified to do so.

Interest Rate:
A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money. A bank or credit union may also pay you an interest rate if you deposit money in certain types of accounts.

Shopping for a lender

You'll learn:

- **About different types of mortgage lenders**
- **Why it's important to speak to more than one lender**
- **What to consider when choosing a lender**

Finding the right lender can make a big difference in your ability to get the best mortgage and loan terms that meet your needs, so shop around before deciding on one. If you don't know where to begin this process, start by asking for referrals from family and friends, your real estate agent, or your local bank. It's also helpful to search online for trusted lenders and read their reviews. Here are a few tips to help you to confidently choose a lender.

Finding a lender

Many types of lenders can help your homebuying experience. Choosing one type of lender over another comes down to your needs and what you're looking for in a lender.

Finding a lender you can work with

Online Lead Service

Online sites like LendingTree.com and Bankrate.com display information about multiple lenders and brokers in one place.

Mortgage Broker

Mortgage brokers work independently from the financial institutions that lend money. This approach allows them to work with multiple lenders who can help you to find a variety of rates and loan products.

Financial Institution

Consider speaking with a representative at your bank or credit union. Most major and local banks offer mortgage products and sometimes offer their current customers preferred rates or discounts.

Non-Bank Mortgage Lender

If your bank or credit union doesn't offer mortgage products, or it doesn't offer a mortgage product that fits your needs, a non-bank mortgage lender is an option since many companies specialize in only home financing.

Why it's important to shop around

This could be the largest financial investment you'll make, so be sure to shop around and speak with a few lenders to find the best fit for your situation. You can start by searching for mortgage rates online. Then, reach out to the lenders that interest you to obtain a few quotes. You'll want to compare costs and decide which ones meet your financial needs. Remember, while the interest rate you'll pay is a big factor, it shouldn't be the only factor.

Consider the following when choosing a lender:

1. Different types of loan options
2. Annual Percentage Rate (APR)
3. Closing costs and other fees
4. Quality of customer service
5. How they communicate the status of your loan application (online vs. over the phone)
6. Whether they will service your loan once it is closed, or sell it to another institution

Questions to ask a lender

When talking to different lenders, it's a good idea to have questions prepared so you can make comparisons. Here are some questions you can ask to get a good sense about whether they're the right lender for you:

1. **How do you prefer to communicate with clients—email, text, phone calls or in person?**
   If it's easier for you to write everything down and read answers to questions, consider working with a lender who prefers email. Or, if you prefer to talk through things, you may choose a lender who prefers phone calls or meeting in person. While this is different for everyone, establishing and understanding a method for communicating can make the mortgage process easier to manage.

2. **How long are your turnaround times on pre-approval, appraisal and closing?**
   During the homebuying process, time is of the essence. If pre-approval takes up a lot of time, this could delay looking at homes. If the appraisal has a long turnaround time, this can delay the purchase of the home and your closing date. It's important not to rush, but it's also important that a lender doesn't become a roadblock.

3. **What fees will I be responsible for at closing?**
   These fees are extremely important to know upfront as you'll need to ensure that you've saved enough to cover the costs. It's also an important factor when choosing a lender as fees may vary.

4. **Will you waive any of these fees or roll them into my mortgage?**
   Again, this may determine what is owed upfront, your monthly payment amount and the mortgage lender you choose.

5. **What are the down payment requirements?**
   You'll want to know these requirements ahead of time so you can prepare. Also, these conditions may influence the lender you choose, especially if one lender has requirements that you can't meet.

6. **Do you offer eClosings?**
   An eClosing allows you to sign some or all of the closing documents electronically, reducing the amount of paperwork that must be signed at closing. In some cases, the closing and/or notarization requirement can be fulfilled digitally, so you don't need to travel to attend an in-person closing.

   To help you in the process of finding a lender, use this guide to keep track of lenders you talk to and jot down notes.

Basic types of loans

You'll learn:

The difference between fixed and adjustable-rate mortgages

The risks of interest-only mortgages

If you might be served best by a government-guaranteed mortgage

While several mortgage products come with different or unique features, most loans fall under a few standard types. It is important to understand these differences, especially when determining the right mortgage product for your needs since they will affect your current and long-term payments.

Fixed-rate mortgages

A **fixed-rate mortgage** offers a consistent interest rate for the entire life of the loan, which means that your total monthly payment of principal and interest will remain the same over time. If you plan to stay for a long time in the home you're buying, or want a consistent mortgage payment amount, a fixed-rate mortgage is usually the way to go. Fixed-rate mortgages are available for various durations—e.g., 10, 15, 20, or 30 years. Loans with longer terms usually have a lower monthly payment, but a higher overall repayment amount, because you're paying interest on the amount borrowed over a longer period of time.

Fixed-Rate Mortgage (FRM):
A mortgage loan in which the interest rate remains the same for the life of the loan.

Adjustable Rate Mortgage (ARM):
A mortgage loan with an interest rate that can change at any time, usually in response to the market or Treasury Bill rates. These types of loans usually start off with a lower interest rate comparable to a fixed-rate mortgage.

Adjustable-rate mortgages

If you get an **adjustable-rate mortgage (ARM)**, the interest rate can change—and most likely will—over the life of your loan. Depending on your loan terms, your interest rate could remain unchanged for the first adjustment date, such as 3, 5, or 7 years. Then it could change as often as every six months throughout the rest of the 30-year period. While an adjustable-rate mortgage may start off with a lower interest rate, it could increase, which can increase your payments. Borrowers may choose to go with an ARM when they don't plan on staying in a home long term, or if they expect their incomes to increase in the next few years.

Interest-only mortgages

An interest-only mortgage has an initial period of time at which your payments only cover the cost of interest, and they don't go toward the principal amount. Usually, this can mean that your payments are smaller in the beginning, and then at the end of the interest-only period, they increase significantly to include both interest and principal payments. Some may even require a **balloon payment** for the entire balance. Interest-only mortgages are less common, and they can add risk because borrowers need to be prepared for the higher payments after the interest-only period ends. In addition, you will not be building any **equity** during the interest-only period because you will not be paying down the principal amount you owe.

Government-guaranteed mortgages

If you have income restrictions, currently serve in the military, or are a military veteran, the **Federal Housing Administration** and **Department of Veterans Affairs** offer loans with unique benefits and additional flexibilities around credit and income guidelines that could help you purchase a home. Usually, you will have a lower **down payment** and qualifying guidelines that are more flexible. Make sure to let your lender know if you think you qualify for this loan type.

Conventional mortgages

You'll learn:

Why you may not need a 20% down payment
How you can make a fixer-upper work for you
Why manufactured homes might be an affordable option

Balloon Payment:
A balloon payment is a larger-than-usual one-time payment at the end of the loan term. If you have a mortgage with a balloon payment, your payments may be lower in the years before the balloon payment comes due, but you could owe a big amount at the end of the loan.

Equity:
Ownership interest in a property. This is the difference between the home's market value and the outstanding balance of the mortgage loan (as well as any other liens on the property).

Federal Housing Administration (FHA):
Provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA insures mortgages on single-family, multifamily, and manufactured homes and hospitals. It is the largest insurer of mortgages in the world, insuring over 34 million properties since its inception in 1934.

Department of Veterans Affairs (VA):
The Department of Veterans Affairs runs programs benefiting veterans and members of their families. It offers education opportunities and rehabilitation services and provides compensation payments for disabilities or death related to military service, home loan guaranties, pensions, burials, and health care that includes the services of nursing homes, clinics, and medical centers.

Down Payment:
The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

Whether you have limited cash savings for a down payment, want to buy a fixer-upper, or decide that a **manufactured home** is the way to go, some conventional **mortgage** products can apply to these situations. Here are a few conventional mortgage products that can help you make homeownership a reality.

Low down payment loans

A common misconception claims that your down payment needs to be 20% of the purchase price of the home. For example, if your home costs $85,000, you need to have $17,000 for the purchase. That's simply not true. Depending on the type of mortgage and your lender, your down payment can be as low as 3% of the home's purchase price. In this case, instead of $17,000 down on an $85,000 house, your down payment could be as low as $2,550.

> **Depending on the type of mortgage and your lender, your down payment can be as low as 3% of the home's purchase price.**

Manufactured Home (MH):
A dwelling of at least 400 square feet and at least 12 feet wide, constructed to the "HUD Code" for manufactured housing, that is built on a permanent chassis, installed on a permanent foundation system, and titled as real estate.

Mortgage:
A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

Loans for fixer-uppers

If you find a home you love, but it needs some renovation work or repairs, the costs might seem overwhelming. When you have a loan option that lets you combine the purchase price of a home with those other costs, you can consider more options.

Manufactured housing loans

Today's manufactured homes are quite a bit different than those of the past. They can also become a more affordable option than a traditional, site-built house. If a manufactured home is right for you, a few mortgage loan products can help.

Mortgage terms to know

You'll learn:

- **Why it's important to understand your annual percentage rate (APR)**
- **How points can reduce your interest rate**
- **What's included in your monthly mortgage payment**

Many mortgage-related terms may be confusing, especially as you start talking to lenders. Knowing some of these terms ahead of time can make you feel more at ease throughout the process, more confident asking questions, and more comfortable comparing options.

Annual percentage rate

An **annual percentage rate (APR**) is an even "bigger picture" view of the total cost of borrowing money and can be useful when comparing mortgages that look similar. It reflects many, but not all, of your costs as an annualized rate. It can include the interest rate, points, mortgage broker fees, and closing costs, as well as other fees you may pay for the loan. Since these costs are included in your APR, your APR is typically higher than your interest rate. Two lenders could be charging the same interest rate, but the lender that is charging more for other fees will have the higher APR. That's why it's always important when comparing lenders to look at the APRs quoted and not just the interest rate.

Points

Points come in two forms: origination points and **discount points**. Origination points are applied toward costs that lenders incur for processing, **underwriting**, and approving your loan. These points can be a percentage of the loan amount or be a flat fee. Keep in mind, if you include your **closing costs** in your loan, you will be paying interest on those costs over the life of the loan. On the other hand, mortgage discount points are purchased to lower the mortgage interest rate. The cost of a point is usually calculated in relation to your loan amount; typically, one point equals 1% of your loan amount. For example, if your mortgage amount is going to be $125,000, then one point would equal $1,250. If you are considering applying points to your loan, be sure to talk to your lender to determine if it is the right approach.

Loan amortization

Amortizing a loan means paying it off in regular installments over a period of time. With each installment, a percentage of that amount goes toward paying off your **principal** and the rest toward interest. Your lender will most likely create an amortization schedule that shows how much of each payment goes toward the principal and how much goes toward interest. Typically, more goes toward interest in the beginning, with less money going toward the principal. Then, eventually, more of your payment will go toward paying off the principal and less toward interest.

Annual Percentage Rate (APR):

The APR includes the interest rate as well as other fees that will be included over the life of the loan (closing costs, fees, etc.) and shows your total annual cost of borrowing. As a result, the APR is higher than the simple interest of the mortgage. That's why it's always important when comparing lenders to look at the APRs quoted and not just the interest rate.

Discount Point:

Amount payable to the lending institution by the borrower or seller to increase the lender's effective yield. It may represent a payment for services rendered in issuing a loan or additional interest to the lender payable in advance. One point is equal to 1 percent of the loan.

Underwriting:

In mortgage banking, the analysis of the risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves the evaluation of the property as outlined in the appraisal report and of the borrower's ability and willingness to repay the loan.

Closing Costs:

Various fees required to conclude a real estate transaction.

Principal:

The amount a person borrows from a lender (also referred to as "amount financed").

Private mortgage insurance

If your down payment is less than 20% of the **home purchase price**, you may need to get mortgage insurance. **Mortgage insurance** protects the lender in case you stop paying your home loan, and it's typically paid along with your monthly mortgage payment. If you fail to make payments, even with mortgage insurance, your **credit score** could suffer, and you could lose your home to **foreclosure**. While it's an additional cost, it may help you get a mortgage with a lower down payment. Depending on the terms of your loan and mortgage insurance, some loans allow you to cancel the insurance once you've reached 20% equity, which could mean extra savings down the line.

> **While it's an additional cost, it may help you get a mortgage with a lower down payment.**

Mortgage payment

Your monthly mortgage payment is typically made up of four components: principal, interest, taxes, and insurance. The principal is the money you borrowed, or the amount financed. The interest is what the lender charges you to borrow the money used to purchase the home. Taxes are what you pay in **property taxes** to your local city/municipality and sometimes county. Insurance is what you pay to insure your home from damages, such as fire or natural disasters. For conventional loans, depending on your loan terms, if you put less than 20% down, then Private Mortgage Insurance (PMI) will also be included in your monthly payment until you reach the 20% equity threshold.

Your monthly mortgage payment includes:

- **Principal**
- **Interest**
- **Taxes**
- **Insurance**

Home Purchase Price:
The final selling price of a home.

Mortgage Insurance (MI):
Insurance that protects the mortgage company against losses caused by a homeowner's default on a mortgage loan. Mortgage insurance (or MI) typically is required if the homeowner's down payment is less than 20% of the purchase price.

Credit Score:
A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history, the type of loan product, and even the day when it was calculated.

Foreclosure:
The legal process by which a property may be sold and the proceeds of the sale applied to the mortgage debt. A foreclosure occurs when the loan becomes delinquent because payments have not been made or when the homeowner is in default for a reason other than the failure to make timely mortgage payments.

Property Taxes:
The amount individuals pay to their local city/municipality and sometimes county, based on the value of their property.

Many lenders help borrowers set up a separate **escrow** account to pay for estimated taxes and insurance. This alleviates borrowers from having to remember to pay their real estate taxes and homeowner insurance premiums. Since the amount is estimated, borrowers may be billed if there is a shortage. This amount will normally adjust through the life of the loan.

Escrow:
An account (held by the mortgage company or mortgage servicing company) whereby a homeowner pays money toward taxes and insurance of a home.

Step 4:

Working with a Real Estate Agent and Shopping for a Home

Many new homebuyers consider Step 4 the most fun step. All the hard work of saving, managing debt, and finding a lender is about to pay off. You can start to see the dream of owning a home become more of a reality as you begin to look at potential homes. From finding a real estate agent to types of homes to consider, let's go over the ins and outs of shopping for a home.

This step covers:

- Working with a real estate agent
- Types of homes
- Looking for a home

Working with a real estate agent

You'll learn:

How working with a real estate agent can benefit you
How to choose a real estate agent
9 questions to ask your real estate agent

While shopping for a home is one of the most exciting parts of homeownership, it can also feel like the most overwhelming. That's why it's important to find a real estate agent you can trust and feel comfortable working with. Real estate agents will help you find homes that align with what you're looking for and are within your budget. During this process, they'll share listings for potential homes, and if you're interested, will organize showings for you to tour available homes. Then, once you find a home you love, they'll work with you to negotiate and submit an offer. Although working with a real estate agent is not mandatory, keep in mind that you, as the buyer, don't pay the real estate agent; their commission is usually paid for by the seller.

Benefits of working with a real estate agent

Real estate agents have not only gone through special training to get educated and licensed to buy and sell homes, they also may have a lot of experience that you may not have. They will be able to apply their expertise to help set expectations for which features to look for and which red flags to watch out for when showing you homes. And, when you're ready to make an offer, they'll provide guidance on what that offer should look like and what can be negotiated, based on the current market.

How to find a real estate agent

One of the first things you can do to find a reputable agent is ask around. Ask family, friends, and people in your community who recently bought a home if they would recommend their agent. You can also do your research on the internet, as there may be helpful reviews on different agents in your area. While you may be tempted to go with the first agent you talk with, it's important to speak with a few, learn about their experience in real estate, and ask them to provide references. There may also be agencies that have more experience or better fit your needs. Choosing the right real estate agent can be personal, so don't be afraid to go with your gut. If you're comfortable with an agent's approach, and you feel the right kind of connection, your intuition may help guide your decision. To help you in your search, you can find a real estate agent checklist here.

Questions to ask a real estate agent

Before you choose a real estate agent, it may be good to find out about their experience and the way they work. Here are some questions that can give you good insight into whether they are a good match for your needs.

1. **Do you work primarily with buyers or sellers?**
   Buying a home requires a different skill set than selling one. While an agent may very well do both, some may specialize in one or the other.
2. **How well do you know the area I'm interested in? Have you ever lived there? Have you sold homes there recently?**
   This will provide insight into how well an agent knows the market.
3. **What states are you currently licensed and certified to sell real estate in?**
   Real estate agents need to have a state license and certification. Make sure that they are up to date; otherwise this could become an issue when you go to put in the offer.
4. **How long have you been in the real estate industry? Has it always been as a real estate agent? Tell me a little bit about the benefits of working with your company.**
   It's no secret that agents and agencies with more experience are typically more efficient and better understand what does and doesn't work well in the homebuying process.
5. **Do I have to sign a contract and if so, can I cancel without penalty?**
   This is important in case you decide you want to find another agent to work with or decide to put your house hunt on hold.
6. **Can you explain how your commission works? Are there any costs I might be responsible for paying as we look for a home?**
   While most real estate agents get paid by the seller, it's still a good idea to make sure that you don't owe any additional commission or fees to your agent during the process.
7. **How long does it typically take for buyers you've worked with to look for, find, and close on a home?**
   This will help you know what to expect as you go through the process. If their timeline doesn't fit your timeline, it may be good to ask a couple of agents.
8. **Are you a full-time or part-time agent? When is the best time of the day to communicate? When is the best time and day to look at houses?**
   If you have a particular schedule, you'll want to make sure it aligns with your agent's. Otherwise, it can be hard to find times that work for both of you to look at homes.
9. **Do you have references that I could contact to ask some questions about their homebuying experience with you?**
   References can be a good way to get insight on how an agent is to work with, so be sure to ask past clients specific questions in areas important to you. For example, was the agent responsive, reliable, professional, knowledgeable?

Types of homes

You'll learn:

- Various features and benefits of different home types
- Types of maintenance you may be responsible for
- Additional fees you might encounter

There are many different types of homes to consider, and each comes with pros and cons. Ultimately, the type of home you choose to pursue is up to you and your lifestyle, location, budget, and what you're looking for. Here's a look at some of the different options you can consider.

Single-family detached

A single-family detached home is what pops into most people's minds when they think of buying a home. This is typically a single-unit dwelling, standing alone on a piece of property that is purchased and deeded together with the home. The homeowner is usually responsible for all maintenance inside and out. Some single-family homes may be found in a developed community that offers amenities such as a pool, playgrounds, even a gym. If that is the case, there is a good chance there will be an **HOA fee** for maintenance of these exterior spaces. These are all things to consider when determining what is a "must have" on your list versus a "nice to have."

Condo

A **condo**, short for condominium, is typically a privately owned unit that is in a larger building or stands alone in a condo community. Condos often result in sharing a wall with your neighbor and may not offer yard space; if lawn maintenance is something you want to avoid, this could be a good option for you. While the actual living unit is private, there usually are additional jointly owned spaces like a pool, gym, and garage. And while the homeowner is responsible for maintaining the interior of a condo, there is typically an HOA fee or Condo fee that goes toward paying a crew to maintain the exterior and shared spaces.

Homeowners Association Fee (HOA):
Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. HOA fees are not included in your monthly mortgage payment and must be paid directly to the homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as it varies from association to association.

Condo:
A form of homeownership that combines individual ownership of a unit with shared ownership of common facilities. Each owner has a separate mortgage for his or her unit and is responsible for making the payments on the loan and paying associated real estate taxes. An elected board of directors is responsible for operations and management of the common facilities. Each owner pays a monthly recurring fee that covers their share of the cost to repair and maintain the common facilities.

Townhouse

A **townhouse**, or townhome, is usually a multi-floor unit that shares one or two walls with another property. A townhome has a private entrance and typically some sort of private outdoor deck or patio. Because they're built up instead of out, townhomes are usually less expensive than a single-family home even though they may be the same size. As with condos, there may be shared amenities like a pool, gym, and clubhouse, and usually there is an HOA fee for maintenance of exterior spaces.

Townhome:
A townhouse, or townhome, is a house that has two or three levels and that is attached to a similar house by a shared wall.

Manufactured Home (MH):
A dwelling of at least 400 square feet and at least 12 feet wide, constructed to the "HUD Code" for manufactured housing, that is built on a permanent chassis, installed on a permanent foundation system, and titled as real estate.

Manufactured home

Manufactured homes are built off-site in a controlled-environment factory and then delivered to the homesite selected where utilities are connected and assembly takes place. They're typically more affordable than site-built homes, and the latest generation of manufactured homes have similar features like open floor plans, energy-efficient appliances, attached garages, and porches. Many of today's manufactured homes offer a broader range of options than in years past and may be a great way to get into a more affordable home of your own.

Mixed-use spaces

A mixed-use space generally means that there are businesses and residential living spaces in the same building, development, or zone. These types of setups are great if you want to be within walking distance of community amenities like restaurants and shops. If this is something that appeals to you, talk to your real estate agent about finding homes that are in mixed-use areas.

New construction homes

A newly constructed home essentially means the home has not been lived in before. These can range from move-in-ready homes, to ones under construction where the developer may give you options for materials and finishes, to building from scratch on a plot of land. Although new construction homes can sometimes cost more, they are a great option if you don't want to invest in or manage renovations, home updates, or energy efficiency upgrades after buying the home.

Looking for a home

You'll learn:

- Features to consider when choosing a home
- Location factors to keep in mind
- The benefits of an energy efficient home

Once you find a real estate agent and decide the types of homes you want to look at, it's time to start looking. But before you do, you'll want to consider several factors that will help your agent select homes that work for your budget and lifestyle. When deciding what you really want in a home, figure out items that are absolute "must-haves" versus things that you would like but can live without ("nice-to-haves").

Cost

To make your home search as efficient as possible, think about your price range for a home. At this point, you may not know exactly how much money a **lender** will approve for your **mortgage**, but hopefully you will have gone through the **pre-approval** or **pre-qualification** process, which will give you a good idea of how much a lender will lend you. Also, think about how much you plan to put toward your **down payment** as well as a budget range for a monthly payment. This can help you determine how much you can afford to spend on a house.

Location

When it comes to location, consider if you want to be near parks, grocers, schools, hospitals, and other community amenities. Do you want to be able to walk to places or have more land? Then think about your commute to work. How important is the length of your commute? Is parking or access to public transportation important? Do you want to be near family and friends? Ask yourself these questions, and then narrow down to a few neighborhoods so your real estate agent can show you homes in those areas. Keep in mind that location typically impacts costs.

Location factors to consider:

- **Parks**
- **Grocers**
- **Schools**
- **Hospitals**
- **Public transit**
- **Work**

Lender:
An organization or person that lends money with the expectation that it will be repaid, generally with interest.

Mortgage:
A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

Pre-approval:
Pre-approval is a bigger step than pre-qualification, but it is a better commitment from the lender. This involves completing a mortgage application and providing the lender with your income documentation and personal records. If you qualify for a mortgage, the lender will be able to provide the amount of financing and the potential interest rate (you might even be able to lock in the rate). You'll be able to see an estimate of your monthly payment (before taxes and insurance because you haven't found a property yet).

Pre-qualification:
With pre-qualification the lender provides the mortgage amount for which you may qualify. Pre-qualifying can

Age of home: fixer-upper vs. move-in-ready

There are pros and cons to both older and newer homes, but choosing between the two comes down to what fits your lifestyle, budget, and preferences. Some people seek out an older home or fixer-upper due to the lower purchase price or wanting to do a lot of renovation work themselves, while others may only want to do minor updates and are looking for a home that's move-in-ready. There are cost implications with both options. A fixer-upper could be less expensive now but could cost more once you get into renovation work. A move-in-ready home could be more expensive upfront, but you won't have to put as much money into renovations. If you don't want to have to worry about home improvements for a while, a newer home may be a better fit.

help you have an idea of your financing amount (and the process is usually quick and free), but you won't know if you actually qualify for a mortgage until you get pre-approved.

Down Payment:
The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

Home features

When searching for a home, it is important to focus on both the interior and exterior features that are important to you. Interior features have a lot to do with the size of home you want and need. Think about how many bedrooms and bathrooms you need. Are things like open floor plans, sunrooms, and eat-in kitchens important to you? Do you need a handicapped-accessible home or bedrooms on the main level? Other interior features to consider are bonus rooms, finished basements, laundry, separate dining room, walk-in closets, and fireplaces. Exterior features such as a garage, yard, front porch, or deck should also be factored into your search. If you want things like a big yard or a pool, it's important to also understand the costs of maintaining these features. Check out our homebuyer checklist for a list of features to consider during your home search.

Energy efficiency

Energy efficiency elements can be found in many aspects of a home and reflect a home's overall health. Factors to consider include window types and condition, insulation, sealing, appliances, HVAC, and water. One thing to note: Homes that are less energy efficient can wind up increasing your utility bills, which costs you more money in the long run. Updates that improve energy efficiency can help keep good air in, keep allergens out, reduce mold, and improve the overall comfort and efficiency of your home.

Step 5:

Making an Offer on a Home

Once you decide to purchase a home, the next step is to put in an offer. Your real estate agent will be by your side through all this and will be the one who contacts the seller's agent to submit the offer. Many times, your offer will include earnest money. This money will eventually be applied toward your down payment if the seller accepts your offer. Then, a home inspection and appraisal will occur. These steps may sound overwhelming, but we'll break down the process.

This step covers:

- **Submitting the offer**
- **After the offer**
- **Home inspection**
- **Home appraisal**

Submitting the offer

You'll learn:

- **What to consider when making an offer on a home**
- **How your agent can help you determine the offer amount**
- **Steps in the offer process**

At this time, you'll decide how much you are willing to pay for the home you want to buy. In some instances, you may want to put in an offer at a lower amount than the asking price. In other instances, you may need to offer more, depending on the demand for housing in your area. Your real estate agent's expertise will help you make the best decisions. Here's what goes into putting in an offer on a home.

How your real estate agent helps

As you make your offer, your real estate agent will help you determine an amount, but in the end, the decision of how much to offer is all yours. Your agent will show you the prices of homes sold within the area and how high the demand is for them. If demand is very high and multiple buyers show interest in the same home, your agent may suggest that you write a letter to the seller explaining why you love the home. They may also suggest being flexible with the process, such as the **closing date**.

What to consider

First, make sure the **home purchase price** is within your budget, even if you submit an offer for less. The seller could either counteroffer or stand firm on the listed price. On the other hand, don't assume you have to offer your **pre-approved** or **pre-qualified** amount. You can offer less. If you expect to make any renovations to update the home, you will want to factor in those future costs when you put in your home purchase offer. Do the windows need to be replaced? Is the HVAC system outdated? Does the house need a new roof? These are all things to consider. Also, make sure to avoid offers that are too low. It could cause you to lose the home you want. You'll also need to consider if your offer is contingent. That refers to other needs and conditions that must occur for you to move forward with the purchase of the home. This could include results from the home inspection, the **appraisal**, or your home loan getting approved.

Closing Date:
In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

Home Purchase Price:
The final selling price of a home.

Pre-approval:
Pre-approval is a bigger step than pre-qualification, but it is a better commitment from the lender. This involves completing a mortgage application and providing the lender with your income documentation and personal records. If you qualify for a mortgage, the lender will be able to provide the amount of financing and the potential interest rate (you might even be able to lock in the rate). You'll be able to see an estimate of your monthly payment (before taxes and insurance because you haven't found a property yet).

If you expect to make any renovations to update the home, you will want to factor in those future costs when you put in your home purchase offer.

Presenting the offer

Offer process

1 **Sales contract**

Your real estate agent will prepare a sales contract that details the terms of the offer and present it to the selling agent. Your agent will talk to the selling agent who will then discuss the offer with the seller.

2 **Offer terms**

The seller will go through the terms of your offer and the price to determine if they accept, decline, or want to negotiate.

3 **Negotiation**

If they choose to negotiate, the seller will need to decide the price and terms they want, and their agent will tell your agent.

Repeat until agreement

This process repeats itself until both you and the seller come to an agreement. The offer is not binding until all parties sign it and it's delivered to you, the buyer. Then, it becomes a ratified sales contract.

(...cont'd)

Pre-qualification:
With pre-qualification the lender provides the mortgage amount for which you may qualify. Pre-qualifying can help you have an idea of your financing amount (and the process is usually quick and free), but you won't know if you actually qualify for a mortgage until you get pre-approved.

Home Appraisal:
A written estimate or opinion of a property's value prepared by a qualified appraiser.

After the offer

You'll learn:

- What a ratified sales contract is
- The documents your lender may need to complete your mortgage
- How your interest rate affects your overall costs

Congratulations! At this point, the seller accepted your offer and you have a ratified sales contract. Soon, it will be time to celebrate, but you need to complete a few important items before the home is yours. Now, it's time to start putting some of that hard-earned money that you saved to work and take the next steps to obtain a **mortgage**.

Earnest money

An **earnest money** deposit is a sum of money that a buyer provides along with the offer to show how serious they are about buying the house. When multiple buyers make an offer on a home, sellers sometimes will go with the offer that has a higher deposit because they perceive these buyers to be very serious about buying the home. Typically, earnest money deposits are between 1% and 3% of the price of the home. They are held in an **escrow account** and then either applied toward the **closing costs** or your **down payment** at closing. Earnest money deposits are usually made through a personal check to the real estate agent or **title company**. If you back out of the sale, you may lose this deposit, depending on the terms in your sales contract.

> **When multiple buyers make an offer on a home, sellers sometimes will go with the offer that has a higher deposit because they perceive these buyers to be very serious about buying the home.**

Ratified sales contract

One of the conditions of getting your mortgage is to send your **lender** a ratified sales contract, which is a legally binding contract from both you and the seller. It should include a **closing date**—the date at which you and the seller will execute all documents needed to transfer ownership. Your lender will then start working toward that date to provide the money you need to purchase the home.

Necessary documents for the home purchase

Now that everything is moving toward the home purchase, you will need to focus on working with a lender to get your mortgage. Here are some examples of the types of documents you can expect your lender to request.

Mortgage:
A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

Earnest Money:
You typically will need to pay what's called "earnest money" which shows the seller you are serious about buying the home. Think of earnest money as a deposit you are providing the seller (usually around $500 - $1,000 or a certain percentage of the offer price) that will be applied to the purchase once the contract is finalized.

Escrow Account:
The actual account where the escrow funds are held in trust.

Closing Costs:
Various fees required to conclude a real estate transaction.

Down Payment:
The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

Title Company:
An agency that works with all parties involved in a real estate transaction to research and insure the title of the home you're buying, facilitate the loan closing, and ensure that the transfer of ownership is completed and recorded properly.

Lender:
An organization or person that lends money with the expectation that it will be repaid, generally with interest.

Proof of income	Pay stubs W2s Tax returns 1099s Social Security award Child support/alimony documentation
Asset statements	Bank statement Certificates of deposit Bonds Retirement accounts Business accounts Investment accounts
Other documents	Photo ID Divorce papers, if applicable Bankruptcy documents Proof of rent payments/copy of lease Gift letter if using gift funds Social Security card, ITIN or other similar documents Business license, if self-employed Copy of ratified sales contract

(...cont'd)

Closing Date:
In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

Download a checklist of documents needed here.

Interest rate lock

The **interest rate** on your mortgage could cost or save you thousands of dollars, depending on the current rate. That's why it's important to talk to your lender so you can lock in the interest rate on your mortgage right away, which is usually a good option in order to avoid the uncertainty of rates going up and costing you more. Delays in closing beyond the mortgage lock-in period could cause your rate to go up.

Interest Rate:
A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money. A bank or credit union may also pay you an interest rate if you deposit money in certain types of accounts.

Home inspection

You'll learn:

- **Why a home inspection is a prudent step**
- **The types of problems your home inspector will and won't look for**
- **How to handle issues that show up in your inspection report**

A home inspection is a great way to discover the true health of the home you want to purchase. It can provide peace of mind as well as reveal any issues.

Why an inspection

A home inspection can reveal safety issues, illegal installations, and other maintenance and structural issues that you would want to know about before buying the home. Depending on the severity of the inspection findings, you could either back out of your offer or negotiate. While it may be tempting to save a few hundred dollars and skip the home inspection, it could save you thousands of dollars if the inspection reveals issues. Walk around the home with the inspector and ask questions as you go. You may get more information than what is written in the report.

Coordinating the inspection

It is your responsibility to schedule the inspection, but most real estate agents will schedule this for you. It's important to have the home inspection soon after the seller accepts your offer and to find a time for the inspection that works for all parties, including the seller. This could impact the offer and the sale of the home. You and your real estate agent will likely want to be at the property while the inspection takes place. The seller will usually need to leave the home during this event.

The home inspection

During the home inspection, you'll want to tour the property with the inspector, if possible. If certain areas of the home concern you, make sure to point those out. You can also ask questions about general maintenance and care for various items.

Home Inspection

What the inspector typically looks at	What the inspector typically does not look at
Electrical	Pests
Gas	Asbestos
Plumbing	Lead
Roofing	Radon
Insulation and ventilation	Mold
Heating and cooling systems	
Major appliances like the refrigerator, washer and dryer	
Fireplaces and venting	
Foundation, crawl spaces and the wall structure	
Exterior features like driveways, deck and surface grading	
Interior features like stairways, garages, basements & windows	

Part of the inspection process is getting answers about the home's structure and condition, so it's important to ask questions. If you're unsure about something your inspector says, make sure to ask for clarification. The inspection will also be one of the last times you'll visit the home before your purchase. It's a great time to take photos and measurements for items like window blinds and furniture.

To keep track of what you want an inspector to look at, download the home inspection checklist.

After the inspection

After the home inspection, you'll want to take your time going through the report with your real estate agent. If you find problems, such as a roof that needs replacing, think about how you want to deal with them. You might ask the seller to either make repairs before you move in or to take money off the purchase price so you can make repairs once you take ownership. If the seller does not want to negotiate, or the inspection reveals things like room additions that aren't up to code, or you discover other problems that compromise the integrity of the home, you'll want to determine if you're prepared to either take care of these issues or walk away from the sale and continue your home search.

> **This is a great time to ask your real estate agent for insights on what might be a deal breaker, and what is worth negotiating.**

If your inspection doesn't reveal anything that compromises the integrity of the home or only minimal issues that aren't worth negotiating, then the home purchase will continue to move forward.

Home appraisal

You'll learn:

- **An appraiser's role in the homebuying process**
- **What an appraiser will look for**
- **What to do if your home appraises for less than your loan amount**

While an inspection looks for defects in the home, a home appraisal leverages a highly trained professional to determine the current appraised value of it prior to its purchase. In addition to the visual inspection of the home, the appraiser will take into consideration recent sales of similar properties in the area, current market trends, and features of the home like the square footage, the floor plan, and the general condition of the property. This is another cost you'll want to account for in addition to the down payment, inspection, and moving costs.

Appraiser:
A person qualified by education, training, and experience to estimate the value of real and personal property.

Why appraisals are usually required

A home appraisal will establish a value that will be used to calculate the amount of money that will be lent to you for the mortgage. This is important to the lender because they want to be sure that they understand the value of the asset and the risk they take for lending you money on that property.

How an appraisal works

Your lender will schedule the appraisal with a licensed appraiser. Although your lender makes the arrangement, you are responsible for the payment. You can choose to participate in the appraisal, but it is not required. During the appraisal, the appraiser will assess the general condition of the home, the age of the home, the location of the home, lot size, square footage, number of bedrooms and bathrooms, major structural improvements like remodels and additions, and any additional features, such as an in-ground swimming pool. Appraisers are trained to avoid giving subjective opinions about the home, its decorations, or cleanliness. When figuring out the home's value, an appraiser will consider similar home values within the area as well as their location.

What an appraisal determines

Basically, an appraisal determines the current appraised value that the lender will use to underwrite your loan. If the appraisal comes in at less than the purchase price of the home, your lender may not approve your loan or lend you the full amount.

If your loan is not approved, you may need to do one of the following:	1. **Go back to the seller and try to negotiate a lower purchase price for the home** 2. **Ask the lender to allow you to order another appraisal** 3. **Walk away from the sale**

You will definitely want to discuss your options with both your lender and your real estate agent. If an appraisal comes in at the same value as the price of the home, or more than that amount, you are good to move forward with the original loan amount requested.

Step 6:

Getting Ready to Close Your Loan

This is the step where the house becomes officially yours and you become a homeowner. At this point, you completed negotiations for the terms of the home purchase, determined your loan, and probably figured out whether you want to make any home improvements. Now is the time to tie up loose ends, fill out any remaining paperwork for your mortgage, inform your rental management company that you're moving out (if applicable), and schedule movers or rent a moving truck (or call that friend with a big truck for help). Let's go over what's involved in finalizing your loan, closing, and how to prepare.

This step covers:

- Finalizing your loan
- Closing

Finalizing your loan

You'll learn:

How to prepare for closing
What a deed and title are, and why they're important
Why homeowners insurance is not optional

Buying a home is likely one of the biggest purchases you'll make. So, it makes sense that you'll have several items to check off leading up to closing. This includes activities like getting **homeowners insurance**, scheduling your settlement, and taking the final walk-through. While it can be overwhelming, just remember what you accomplished to get to this point. You're so close to the finish line.

Prepare for closing

In the time leading up to closing, you'll probably talk to your real estate agent and **lender** more often. You'll need to confirm your closing date and location with your lender, real estate agent, and closing agent. Depending on your jurisdiction, your closing agent may be a **title company**, attorney, **escrow** company, or lender, and they will ensure that your documents are ready. Your real estate agent will help calm your nerves and make sure to resolve any remaining issues with the house. Your lender will finalize any outstanding paperwork for your **mortgage** application and make sure the money for your mortgage settlement is available and closing funds are accessible so you can close on time. Remember, **closing costs** include lender fees, title and settlement fees, possible legal fees (some states require a real estate attorney), taxes, and insurance. Make sure to get your expected payment amounts in writing from all parties.

> **You'll need to confirm your closing date and location with your lender, real estate agent, and closing agent.**

Now is not the time to open new credit card accounts, buy a car, or do anything that could negatively affect your **credit score**. You will have to verify all your outstanding debt at closing, and new debt can jeopardize your ability to close the loan. The lender also may review your credit one last time before lending you the money. Think of it this way—the money isn't guaranteed until it's in your hands.

Homeowners Insurance:
Covers a home's structure and the personal belongings inside in the event of loss or theft; helps pay for repairs and replacement.

Lender:
An organization or person that lends money with the expectation that it will be repaid, generally with interest.

Title Company:
An agency that works with all parties involved in a real estate transaction to research and insure the title of the home you're buying, facilitate the loan closing, and ensure that the transfer of ownership is completed and recorded properly.

Escrow:
An account (held by the mortgage company or mortgage servicing company) whereby a homeowner pays money toward taxes and insurance of a home.

Select a title company

Before you close, you'll need to select a title company. The **title company** will run a **title search** on the property to determine legal ownership, including any outstanding claims or **liens** on the property. Then, they'll issue the **title insurance** for that property. If you require **mortgage insurance** as part of the terms of your loan, your lender will typically get this for you. Your title company may also handle the distribution of money, so every party gets the funds they need to complete the sale.

Obtain your deed and title

A **deed** is a physical, legal document that proves your property ownership and property rights. Both you, the homebuyer, and the home seller need to sign the deed at closing. A title gives you the right of ownership to the property. You need a deed to transfer the title from the seller to you. But how do you get the deed? That's where your title company enters. They will do a title search to make sure the home seller has a right to sell the home and transfer ownership.

The title company will also check to make sure there are no liens (i.e., claims involving the property). If a lien, such as another mortgage on the house, exists, the home seller must pay it off at settlement. If it's good to go, then the seller will transfer the title to you at closing, and your lender will file the deed for recording with the appropriate county office. It's important to check with the title company a few weeks after closing to make sure the county office officially recorded the deed. If it was not recorded, check with your lender about the deed's status.

Purchase homeowners insurance

Homeowners insurance isn't a maybe—it's a must. Most lenders require that you purchase homeowners insurance. If you don't, they won't lend you money. Typically, lenders will want you to take out a policy that covers the full or fair value of the property (at least your purchase price). Depending on your policy, your insurance may cover the destruction or damage to the home's interior and exterior in the case of a fire, hurricane, vandalism, or other disaster.

(...cont'd)

Mortgage:
A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

Closing Costs:
Various fees required to conclude a real estate transaction.

Closing Date:
In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

Credit Score:
A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history, the type of loan product, and even the day when it was calculated.

Title Company:
An agency that works with all parties involved in a real estate transaction to research and insure the title of the home you're buying, facilitate the loan closing, and ensure that the transfer of ownership is completed and recorded properly.

Title Search:
A process whereby the title company retrieves and examines public records that document the history of a property to confirm its legal ownership.

Lien:
A legal hold or claim of a creditor on the property of another as security for a debt. Liens are always against property, usually real property.

Title Insurance:
Insurance through a title company to protect a property owner or lender from loss if title proves imperfect.

Your insurance may cover destruction or damage due to:

Fire

Hurricane

Vandalism

Other disaster

(...cont'd)

Mortgage Insurance (MI):
Insurance that protects the mortgage company against losses caused by a homeowner's default on a mortgage loan. Mortgage insurance (or MI) typically is required if the homeowner's down payment is less than 20% of the purchase price.

Deed:
A legal document under which ownership of a property is conveyed.

Keep in mind that most homeowners insurance policies do not usually cover the damage incurred from flooding or earthquakes; those events are usually covered under separate policies. It's definitely wise to ask what is specifically covered. Your lender will always require that you maintain at least a minimal level of coverage, but you may want to add more, depending on your needs. It's important to shop around for rates and coverage from a few different insurers. A great place to start is with insurance companies where you already have policies. Many insurance companies offer discounts when you bundle products, like auto and homeowners insurance. When you close on your home, you will need to provide proof of homeowners insurance.

Take your final home walk-through

Before your final closing date, you'll want to do one last walk-through. Your real estate agent will set up a time with the home seller for you to visit the home and make sure it's in the condition you agreed to at the time of the purchase. You'll want to confirm that the seller took care of all the repairs you discussed during the sales negotiations and that the home didn't incur any additional damage after the first home inspection.

Closing

You'll learn:

- What a title company does
- What documents you'll need to sign
- What you'll need to bring with you to closing

This is it. You're buying a house! This is a huge accomplishment! You should be very proud. Now, let's talk about what happens to ensure that the house legally becomes yours. During the closing, you'll have to sign several settlement documents and provide funds for the home purchase. Your lender should wire funds for the loan to the closing agent to disperse. You may also need to bring along a cashier's check for an out-of-pocket **down payment** or any costs the loan doesn't cover. Your lender and closing agent will explain where all the money goes, so don't be afraid to ask. The seller will transfer ownership to you, and you'll officially become a homeowner. Here's what you can expect during the closing:

Consider an eMortgage if available

Although the electronic closings (eClosing) segment is relatively new and small in the mortgage industry, it is growing. If your lender offers eClosings, you may avoid physically meeting in person to close your loan, and instead close electronically via an audiovisual connection (e.g., Zoom, Skype, or FaceTime). So, when you sign documents for your loan, you're signing electronic documents, such as a PDF, instead of paper documents. In addition to reducing paper, an **eClosing** makes it easier to review your documents prior to closing, which allows you to ask questions, resolve errors, and avoid delays. Completing either some or all closing documents electronically can save you time.

Sign & notarize paperwork

Expect a considerable number of documents to sign during closing. While you may be tempted to sign them without reading them thoroughly, it's extremely important to understand what the documents imply and to know that each is legally binding. It's also imperative to check for accuracy. For example, look for the spelling of your name, loan terms (e.g., rate, term, payment), and closing costs.

Some of the documents you'll sign will include:

1. **Closing disclosure**
   You will have received a copy of this before closing and another copy at closing. The disclosure covers all the details of your loan.
2. **Loan application**
   The loan application contains key details about your finances and should be reviewed again for accuracy.
3. **Mortgage note (or promissory note)**
   The note represents your commitment to pay the money back.
4. **Deed of trust**
   The deed provides security for the loan. It uses the house you're buying as collateral, which means if you default on mortgage payments, the lender can foreclose on the house.

Down Payment:
The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

eClosing:
An eClosing is the act of closing a mortgage loan electronically. This occurs through a secure digital environment where some or all of the closing documents are accessed and executed electronically. This can be a hybrid process in which certain key documents, such as the promissory note and security instrument, are printed to paper and wet-signed, while other documents are signed electronically. eClosings result in eMortgages only if the promissory note is signed electronically.

5. **Title**
   The title records your right to the home—technically, you don't have full ownership until you pay 100% of the loan back.
6. **Deed**
   A public document that shows the transfer of property ownership from the seller to you.
7. **Affidavits**
   Affidavits are legally binding documents that you sign to indicate that all the information you're providing is accurate.
8. **Initial escrow disclosure**
   A document required by federal law (if you are creating an escrow account) that accounts for financial obligations that extend beyond the loan itself.
9. **Transfer tax declaration (if applicable)**
   A form that applies to property transfer taxes that may be required in some cities, counties, and states.
10. **Certificate of occupancy (if newly constructed home)**
    The certification indicates that the house is in compliance with building codes, and it is suitable for occupancy.

Homeownership transfers to buyer

Closing day is when the official transfer of homeownership from the home seller to you, the homebuyer, begins. If you're closing in person, you can expect a representative from the closing agent to guide you as you sign your paperwork. Depending on the state you live in, a real estate attorney and/or notary may be present. Before you arrive, make sure you bring items that are necessary for the closing, such as your photo ID, a cashier's check, and whatever else your lender or closing agent suggests.

Moving to-dos

Here we are! The moment you've worked toward. It's time to celebrate as you prepare to move into your new home. Moving can be just as overwhelming as the homebuying process.

Consider the following activities prior to closing day:

If you're renting, give your rental management company notice as soon as possible.

Landlords and rental management companies typically require at least a 30-day notice to vacate depending on your lease. Usually, if the notice is less than that, you could lose your security deposit and face other penalties, depending on the terms of your lease.

If needed, schedule a moving company or truck.

Your real estate agent may know reputable moving companies, or you could ask around. It's important to talk to a few companies and get different estimates. If you don't think you have enough things to move to require professional movers, you might still need a moving truck. Regardless, shop around to find the most cost-effective option.

Turn on the utilities.

You may need to immediately transfer utilities like gas, electric, water, and sewage to your name. Other utilities, such as garbage collection, cable, and internet, can wait until your official move, but make sure to schedule start dates for these items ahead of time.

Step 7:

Welcome to Homeownership

Congratulations! You are officially a homeowner. With all the excitement of owning your own home, there is also great responsibility. Even though this is Step 7, you can think of buying the house as just the beginning. Let's go through the responsibilities of owning a home, how to plan for ongoing expenses, and how to maintain the value of your home.

This step covers:

- Your responsibilities as a homeowner
- Future ongoing expenses
- Maintaining the value of your home

Your responsibilities as a homeowner

You'll learn:

- Why it's important to make mortgage payments on time
- What to do if you can't make your payments
- The importance of home maintenance

What are your responsibilities as a homeowner? These can be different for everyone, but here are some basics in making sure that you keep the commitments you made when you bought your house.

Pay your mortgage on time

First and most important, it's absolutely crucial to pay your **mortgage** payment in full and on time each and every month. Depending on the agreement with your **lender**, late payments could affect the terms of the loan. Whether it's an **interest rate** increase or late fee, late mortgage payments could put you in a situation that is hard to get out of. Plus, they will affect your **credit report** and score, which could affect your ability to take out loans in the future. By missing payments, you could put yourself in a risky financial position that could result in losing your home to **foreclosure**.

> **Depending on the agreement with your lender, late payments could affect the terms of the loan.**

If you face a hardship such as job loss, income reduction, or sickness that makes it hard to make your payments on time, it's essential to call your loan **servicer** right away to talk through your options and come to a solution.

Maintain your home

Maintaining the safety and soundness of your home is extremely important not only for your own well-being, but also because maintenance costs could go up and issues could become more severe, the longer you wait. If the condition of the house deteriorates, you may end up selling it for less than you paid for it and you'd need to pay the difference at **closing** or remain there until you've built up more **equity**. In a little bit, we'll go through in more detail what maintaining your home can involve.

Mortgage:
A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

Lender:
An organization or person that lends money with the expectation that it will be repaid, generally with interest.

Interest Rate:
A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money. A bank or credit union may also pay you an interest rate if you deposit money in certain types of accounts.

Credit Report:
A credit report is a statement that has information about your credit activity and current credit situation such as loan-paying history and the status of your credit accounts.

Foreclosure:
The legal process by which a property may be sold and the proceeds of the sale applied to the mortgage debt.

Future ongoing expenses

You'll learn:

The benefits of an escrow account
What hazard insurance is
What HOA fees typically cover, if you have them

Continuing to save money is important to cover the ongoing costs of homeownership. Here are a few expenses to expect as a homeowner.

Property taxes and insurance

For as long as you own the house, even after you've paid off your home loan, you'll need to pay for **property taxes** and **homeowners insurance**. Depending on where you live, you'll have local and state property taxes to pay that go toward funding things such as infrastructure, schools, and services like your local fire department and police. It's important to pay your taxes on time or you could face penalties. Most lenders will encourage you to set up an **escrow** account, which allows you to pay toward your taxes and homeowners insurance premiums every month on top of your regular mortgage payment. Then, when taxes and insurance payments are due, whoever maintains your **escrow account** will make your payments on your behalf. Be sure to understand any additional costs or expenses that may arise if you don't set up an escrow account.

Hazard and natural disaster insurance

Depending on your policy, homeowners insurance typically protects your home and personal property from damages caused by rain, hail, theft, and fire, among many other scenarios. Most of the time, however, homeowners insurance may not cover the structure of your home from damage caused by natural disasters. That's what hazard insurance is for. Hazard insurance may also cover your home in case of an event like damage from a car or aircraft, explosion, or damage from an electrical current.

A foreclosure occurs when the loan becomes delinquent because payments have not been made or when the homeowner is in default for a reason other than the failure to make timely mortgage payments.

Loan Administration (Servicer):
A mortgage banking function which includes the receipt of payments, customer service, escrow administration, investor accounting, collections, and foreclosures. Also called "servicing."

Closing Date:
In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

Equity:
Ownership interest in a property. This is the difference between the home's market value and the outstanding balance of the mortgage loan (as well as any other liens on the property).

Property Taxes:
The amount individuals pay to their local city/municipality and sometimes county, based on the value of their property.

Homeowners Insurance:
Covers a home's structure and the personal belongings inside in the event of loss or theft; helps pay for repairs and replacement.

Escrow:
An account (held by the mortgage company or mortgage servicing company) whereby a homeowner pays money toward taxes and insurance of a home.

Escrow Account:
The actual account where the escrow funds are held in trust.

> **Most of the time, however, homeowners insurance may not cover the structure of your home from damage caused by natural disasters. That's what hazard insurance is for.**

What's covered depends on your policy. **Hazard insurance** doesn't protect you from all natural disasters, though. If you live in an area that is prone to floods, earthquakes, or mudslides, you may want to look into taking out a separate policy for each as necessary. Both hazard insurance and natural disaster coverage should be options that you can add to your homeowners insurance policy, but it's best to ask your insurance company what they offer.

Homeowners association fees

Depending on the type of home you purchase, or the neighborhood you buy in, you may need to pay a **homeowners association (HOA) fee**, **condo** association fee, or **planned unit development (PUD)** fee. Homeowners associations are common if you buy a condominium, townhouse, or single-family home in a planned community. The purpose of the association and the fees you pay are to protect and maintain the neighborhood environment. These fees may cover landscaping costs for shared exterior spaces, snow or trash removal, and shared structures such as a gym, community room, or pool. The total cost of these fees depends on a number of factors like the size of your development and its location.

Hazard Insurance:
Insurance coverage that pays for the loss or damage on a person's home or property (due to fire, natural disasters, etc.). This is usually added as a supplement to homeowners insurance.

Homeowners Association Fee (HOA):
Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. HOA fees are not included in your monthly mortgage payment and must be paid directly to the homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as it varies from association to association.

Condo:
A form of homeownership that combines individual ownership of a unit with shared ownership of common facilities. Each owner has a separate mortgage for his or her unit and is responsible for making the payments on the loan and paying associated real estate taxes. An elected board of directors is responsible for operations and management of the common facilities. Each owner pays a monthly recurring fee that covers their share of the cost to repair and maintain the common facilities.

Planned Unit Development (PUD):
A single-family residence located in a community with association dues and other required monthly payments.

Maintaining the value of your home

You'll learn:

- **Why maintaining your home's exterior is about more than making it look nice**
- **Interior projects that may add value to your home**
- **What to consider when deciding whether to hire a contractor for home improvements.**

Depreciation:
A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.

Maintaining the value of your home is incredibly important for a number of reasons. The most important is that you will likely lose money if you don't maintain your home's value, since the worth of your house may **depreciate** or repairs could cost you even more down the road. You may need to be prepared for some bigger costs for items that need to be addressed during the time you live in your home, such as replacing the roof, installing new windows, or replacing the furnace or water heater. Or, getting the driveway repaved if you have one. These larger expenses can be financed with personal loans or home equity lines of credit. Then there are smaller, more routine upkeep projects like landscaping, painting walls, replacing carpeting, and refinishing wood floors. These smaller projects and repairs are usually paid for out of your personal savings. Your home is probably one of the biggest purchases you will ever make, so keeping it in good condition is essential to protecting your investment. Let's go through what maintaining your home can involve.

Maintain exterior

In addition to keeping the exterior of your home looking nice, it's important to maintain it in order to protect the interior from things like water, insects, and other unwanted pests. Some of the most important exterior maintenance tasks include cleaning gutters and downspouts to keep them free from debris, keeping the siding and trim clean and painted to prevent rot, checking the seals of windows and doors to prevent drafts, taking care of your lawn, and maintaining the safety of decks, porches, and stairs. You may also want to regularly spray for insects or contract with a pest control company to do it for you.

Maintain interior

Maintaining the interior of the home is important for both your safety and the integrity of the home structure. This could include things like replacing the furnace filter, cleaning vents, fixing dripping faucets and running toilets, making sure the sump pump drains properly, ensuring that smoke and carbon monoxide detectors are working, and keeping appliances and fixtures in working order. Maintaining these things helps you not only to enjoy your home but also to keep the value of the home from depreciating.

Home improvements

Home improvements can often add value to your home. If you're making energy efficiency improvements, you can see the investment pay off sooner as energy costs can decrease, saving you money on utilities. When doing renovations, it's important to consider if you're planning to do them yourself or hire a contractor. This decision should be based on a number of factors, including your budget, experience, time constraints, and skill level. When hiring a contractor for renovations, it's important to shop around, get estimates, and check references.

> **When investing in huge add-ons, renovations, or improvements, it's a good idea to consider what you can get back compared to what you put in.**

Before investing in heavy renovations or improvements, consider the overall potential value of your home and the most you think you could sell it for in your area. When investing in huge add-ons, renovations, or improvements, it's a good idea to consider what you can get back compared to what you put in.

Home security

A home security system can protect your home and possessions from theft and fire. Security systems range from simple alarms on windows and doors to installing cameras, motion detectors, and floodlights around the property. Choosing the right one for you depends on what you're looking for in a home security system, as well as your budget. Some security systems connect to smoke detectors and will alert your security company if smoke is detected, even if you're not home. In addition to protecting your home, security systems often provide peace of mind and a sense of safety whether you're at home or not.

Property damage

It's what any homeowner dreads: damage to their property. Whether it's from a natural disaster or theft, your house could be damaged as a result of many different causes. If this happens, it can feel overwhelming. If you think someone broke in, call 911 and be sure to get a police report, especially before filing a claim with your insurance company. If your house has been damaged by fire, severe weather, or natural disaster, call your insurance company as soon as possible. The length of the claims process often depends on the extent of the damage. Your insurance company will likely send a representative to evaluate the situation firsthand. If your home is uninhabitable, they might work with you to cover the costs of alternative accommodations, depending on your policy.

That's it!

You've successfully made it through the beginning of your homeownership journey. We hope you found this information valuable and that it helps you find ease—and confidence—in the process. Know that Fannie Mae will continue to be here as a source of housing finance information you can rely on. Now, go enjoy owning a home and knowing you have the information and tools you need to be a successful homeowner.