Buying A Home

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Introduction

Many people go through life thinking that they could never buy a home. Maybe they think they can't afford it, or they think that their credit isn't good enough. Perhaps the whole process of buying a home is just so daunting and complicated that they wouldn't even think of dreaming of home ownership.

The unknowns of buying a home shouldn't be a deterrent to you getting your dream home. Research and diligence can unlock the mysteries of the process and enable you to buy a home without feeling too lost or overwhelmed. Fortunately, there are plenty of resources to explain the procedure to you. This tutorial will take you through the entire process of buying a home - from the "simple" stuff, like finding a place that you like, and the complicated stuff, like applying for a loan.

With this chronological, step-by-step explanation of the home buying process, you will know everything you should be thinking about and doing at each point of the process. Sure, the process can still be difficult, stressful and draining, but at least you'll know what to expect and understand what's happening at every step along the way. You don't have to rent forever if you don't want to. Reading the detailed explanations, advice and suggestions here will prepare you to tackle buying a home without fear.

Choosing Your Location

Whether you are purchasing your home as an investment, a lifestyle upgrade or both, one of the most important decisions you will make is where you want to live. Your home's location will help determine not only the future value of your investment, but also many aspects of your everyday life. Here are some factors you should consider carefully when selecting a location.

Geographic Location

The part of the country you choose to live in will have a major impact on your lifestyle. Particularly if you want to stay in your home for a long time, make this decision very carefully, taking into consideration the factors that are most important to you, like average home prices in the area, job opportunities in your field, proximity to loved ones and climate.

City vs. Suburb vs. Rural

The setting you choose within the city or town you select will affect the amount of peace and quiet you have, lot size (if you're buying a house), primary and secondary education options for your children, proximity to shopping, entertainment, medical services and anything else you might want or need, and more.

Neighborhood

Within a particular area, different neighborhoods will have different characteristics. You'll want to pick the one that is the closest fit to your lifestyle and personality - a place where you'll feel comfortable and where you are likely to get along with your neighbors. You'll also want to try to live close to the places you visit frequently, like grocery stores, your job (if you plan to keep that job long-term), and, if you have kids, the schools you want them to attend.

School District

If you have or are planning to have kids, school district is certainly an important consideration. Living in a good public school district will save you tens of thousands of dollars that you might otherwise be tempted to spend on private school. And even if you don't have kids, it may still be a good idea to consider the quality of neighborhood schools when choosing your location in order to maximize your investment. If you have difficulty finding a public school that meets your standards, you may have to pay a premium to live in a neighborhood with good schools. You will have to consider how that premium compares to the cost of paying for private school or sending your children to a sub-par educational institution. (Find out what factors increase property value because your house may not be one of them, check out *Do Houses Really Appreciate?*)

Proximity to Work
The length of your daily commute can have a significant impact on your disposable income, quality of life and how much time you get to spend at home with your family. How long of a commute can you endure? Are you planning to stay at your current job long-term or do you expect to switch jobs in the near future? If you plan to stay at your current job, how close to work do you want to live? If you plan to switch jobs, what are the job prospects in or near the area where you'd like to live?

Safety
For most people, safety is a top consideration. You'll often pay less to live in an area with higher crime, but if you'll have to live in fear or if you one day become a victim, no price discount will be worth it. It may also be harder to resell your home or get a good price for it if you decide to sell.

Proximity to Friends and Family
The best home may not feel very homey if you live too far away from your friends and family to see them on a regular basis. On the other hand, your friends and family might end up moving at some point, so make sure this isn't your only reason for choosing a location.

Proximity to Leisure Activities
What do you enjoy doing in your free time? If you have season tickets for a particular sports team, you may not want to live too far from their stadium. If you love to go out to eat, you might not be happy living somewhere with few restaurants. On the other hand, if your favorite thing to do is stay home, you might have more choices available to you when it comes to this aspect of choosing your location.

Once you've narrowed down the factors that are most important to you in a location, it's time to research that location to make sure you're getting what you bargained for, assuming you're not already familiar with the location. (To learn more about getting your money's worth by owning a home, read *Measuring The Benefits Of Home Ownership*.)

Research the Neighborhood
Facts and statistics are available online through websites, forums and message boards. What do the crime statistics look like? What is the average income? How many people have a college education? Do the statistics reflect the kind of

neighborhood you'd feel comfortable living in? It's usually easy to find these statistics online through real estate websites. Statistics rarely tell the whole story, though, so try talking to current residents and the local police department for additional information.

Visit During the Day and at Night

What a neighborhood looks like on paper and how you feel when you're in it are not necessarily the same thing. Sometimes little details can make a big difference. For example, some neighborhoods have narrow roads, lots of cars parked on the street or distinctive architectural features that may not suit your tastes. If these things aren't what you envisioned in your ideal neighborhood, you may not want to live there no matter how great the statistics are.

Also, a neighborhood might feel comfortable during the day, but seem disconcerting at night. It's important to visit several on different days, at different times and in different weather conditions to get an accurate picture of the neighborhood's character. It can be hard to judge a neighborhood's character in the dead of winter or on a rainy day when everyone is cooped up indoors. You'll also want to check for things like how well the neighborhood is lit at night, which you can't observe during the day.

Who Are Your Potential Neighbors?

What kind of people live there? Will you feel comfortable in the community? If you're not very religious, you might not want to live in an area with a large Mormon population. If you're a staunch Republican, you might not want to live in an area that's known for being particularly Liberal. It all depends on your beliefs and how open-minded you are. Some people prefer to live near others who are like them, some people don't want to live in a homogeneous environment and others don't care either way.

"Keeping Up with the Joneses" Factor

In some neighborhoods, people keep to themselves, and in others, there is pressure to keep up socially by doing things like joining country clubs, sending your kids to certain schools, owning certain types of vehicles, and the like. If you don't want this kind of pressure, don't choose a neighborhood that encourages it.

Once you have a good sense of what kind of neighborhood suits your needs, it's time to think about what kind of home you'd like. In the next section, we'll explore the pros and cons of condominiums, townhouses and houses.

Determine What Kind Of Home Suits Your Needs

Once you've decided where you want your new home to be located, it's time to decide what kind of home you want. The three major choices are condo, townhouse and house. Each has its benefits and drawbacks, and entails a significantly different lifestyle and set of responsibilities.

Condo
If you don't like living in an apartment, condo life is probably not for you. You'll still have shared walls, a shared parking garage and shared common areas. You won't have complete control over your property, because you'll be subject to homeowners' association rules that may control minute details of your life, such as what kind of Christmas lights you can put up or what kind of doormat you can lay out. (Before you consider buying a condo, read *9 Things You Need To Know About Homeowners' Associations*.)

Also, buying a condo may be a less wise investment than buying a house. Since a large number of condos can be quickly built on a small piece of land, it is easy for the number of condos on the market to increase dramatically in a way that doesn't happen with houses (unless you live somewhere that still has plenty of open land to develop). And, when it's time to sell, it can be harder to differentiate your unit from others in your building than it would be to differentiate a house from others in the neighborhood. (To learn about the unique advantages and challenges of this investment, read *Buying A Condo*.)

If you get along well with others, don't mind apartment life and don't mind paying homeowners' association fees every month for as long as you live in the condo, a condo might be the right choice for you. The main advantages of living in a condo over a house are that you don't have to worry about maintaining a yard or the exterior structure. In addition, you may feel an increased sense of security if you live alone and it may be more affordable than purchasing a house. (For more on whether this home option is the right choice for you, read *Does Condo Life Suit You?*)

Townhouse
A townhouse is sort of a hybrid between a condo and a house. They are often two stories, meaning that you don't have downstairs or upstairs neighbors and therefore can have a bit more privacy and peace and quiet (especially if you can get an end unit, which will only have one set of neighbors). Townhouses also often have attached garages on the ground level, giving you greater convenience and privacy than a condo parking garage, and there may be fewer townhouses in a development than there would be units in a condo building.

Like condos, townhouses have homeowners' associations (and their attendant monthly fees) and you won't have to worry about maintaining the building exterior. Townhouses are often priced similarly to equally sized condos but if you're looking for something with absolute entry-level pricing, you may not find it in a townhouse since they're generally larger than condos.

House

A house can be the most expensive option in terms of both total purchase price and ongoing maintenance, but it also gives you the most independence and privacy. You won't have any shared walls, floors or ceilings, and you'll even have a yard and perhaps a fence to act as a further buffer between you and your neighbors. A yard is also great for children, pets, barbecues, private pools, hot tubs and relaxing in the fresh air. Houses are also generally larger than condos, so you'll probably have more space.

However, whatever goes wrong with the structure (and things will go wrong from time to time), you'll have to pay to fix it and you'll also be responsible for maintaining the yard (or paying someone to maintain it). Houses typically have the best investment value and since they're all yours, if you outgrow the house, you have the option of adding on, whereas if you have a condo or townhouse, the only way to get a bigger living space is to move. Also, while your monthly mortgage payment might be higher, you won't be giving a couple hundred dollars to the homeowners' association every month, so a house's price might be more comparable to a condo than it appears at first glance. However, there are some houses that belong to homeowners' associations, so be aware of that when you're shopping.

Size

Regardless of which type of housing you prefer (and can afford), you'll also have to decide on size. How many bedrooms and bathrooms do you and/or your family need to live comfortably? Is the amount of space you need now the same amount of space you'll need in the future (e.g., are you planning to have kids, take in an elderly parent or start a home business that will require an office)? Do you want an extra space to rent out to help pay your mortgage? Do you want to use the property as an investment property one day, and if so, what size would be best for that purpose? Can you afford the size of property you want, and if not, can you make due with less or should you keep renting until you can afford something bigger?

Be aware that the bigger the property, the higher the purchase price, the higher the ongoing maintenance costs, utility bills, and insurance, and the more you may need to spend for things like furniture and upgrades when you move in. (Find out how the economy affects the size of homes, read *How Does The Economy Affect House Size?*.)

Another consideration is that in some locations, one home size or type predominates. If you need a certain size or type of home, you might actually need to decide on that before you decide on your location rather than the other way around. For example, you may want a two-bedroom, one-bathroom house, but there may not be any houses that small in your chosen neighborhood - your smallest option may be a three-bedroom, two-bathroom house.

The Great Outdoors

Finally, consider what kind of outdoor space comes with the property. If it's a condo or townhouse, does it have any private balconies or decks or a little patch of lawn to call your own? Is there any common green space, a play area for kids, a pool or a hot tub? Do you plan to make use of these things, or will your homeowners' association fees just be wasted on their upkeep? Are you willing to share these facilities with other people or do you want the private ownership and use of them that may only come with a house? Do you have pets and what kind of indoor and/or outdoor space do you need for them? Will the homeowners' association allow you to have the pets you want? Do you want to be able to entertain outdoors?

Once you've considered in detail what kind of home best suits your needs, you're ready to calculate how much home you can afford. The next section will teach you how to do that.

Calculate How Much Home You Can Afford

So you've picked out some locations you're interested in and thought about the style of home that suits you best. Now it's time for some planning of the less fun variety. Before you start looking at houses and, somewhat counter intuitively, before you start shopping for a loan, you need to figure out how much home you can afford.

Why Do It Yourself?

The reasons for doing your own affordability calculations are twofold. First, you don't want to look at houses you can't afford. This will give you unrealistic expectations about the type of home you want to live in and will make homes that actually fall in your price range look less appealing. It's better to start looking at the bottom of your price range or even below your price range and work your way up. That way, you'll really appreciate what say, $300,000 can get you that $250,000 can't.

Second, you want to do your own math because the bank may say you can afford more house than you would actually be comfortable paying for. While the bank will ask for very detailed financial information when you apply for a mortgage, they will not know the amounts of quite a few costs that eat away at your disposable income, like what your monthly grocery expenses are, how much you spend on gas, what your health insurance premium is, if you're diabetic and have high ongoing medical costs, what your water bill is and how much you spend on entertainment.

What they will know about are your monthly debt payments (like credit cards and student loans), the four major components of your home payment (property, interest, taxes and insurance) and any amounts you are legally obligated to pay (like child support or alimony). You want to make sure you don't borrow more than you can actually afford based on the bank's partial picture of your financial situation.

Here's How
The following steps will break down what may seem like a daunting process so that you can easily figure out how much you can afford to spend per month on your home.

1. Figure out your household's take-home pay after tax. What do you and any other income-earners who will be contributing to the household bills bring home each month after tax? Look at your last pay stub, ask your HR department or use an online paycheck calculator to get this amount. This is how much money you currently have to spend each month. The good news is that this amount will actually increase with your homeowner tax breaks. However, for now find out how much you can afford excluding those deductions. (To learn more, read *Insurance Tips For Homeowners*.)

2. Make a list of your household's recurring monthly expenses, including bills you pay every month, like the electric bill, and bills you only pay some months, like car insurance. If you don't already have a budget where you've been keeping track of these expenses, look at your checkbook, bank statements and credit card statements to help you figure out what you've been spending. Note which expenses are necessary (like the electric bill), which are totally optional (like going out to eat for fun and buying new clothes for fashion's sake) and which are necessary but flexible (like your phone and grocery bills).

3. Make a list of the expenses that you will add when you become a homeowner. These expenses will vary depending on the type of home you purchase. In a condo or townhouse, you will most likely have to pay monthly homeowners' association fees, which will cover things like landscaping of common areas, upkeep of indoor common spaces (like hallways, stairwells, and elevators), upkeep of recreational areas (like pools or clubhouses) and water, sewer and garbage costs. In a house, expenses you'll have that you don’t have as a renter include water, trash and home maintenance. In any type of property, you'll pay property taxes and hazard insurance and if you're moving further from your job, your transportation costs may increase.

It can be hard to estimate these expenses accurately when you're not familiar with how they are calculated, but if you can get some answers from people who live in your target neighborhood, from a real estate agent who is familiar with your target neighborhood or by making a few phone calls to city agencies and insurance companies, you can get a reasonable idea. Also, if you're going to make a down payment of less than 20%, you'll need to factor in the monthly cost of private mortgage insurance (PMI). Remember, it's best to estimate high when planning your budget to be on the safe side.

4. Figure out what expenses will go away. For example, if you're paying renters insurance, you'll be able to cancel that. If you're planning to cut back on certain fun activities (like going out to eat or an adult education class that isn't related to your career) in order to free up more funds for the house, note these as well. If you're moving closer to work, your gas costs will go down.

5. Once you know what you take home and what you spend each month (excluding your current rent payment), determine how much you have left over each month to spend on housing. When you make this calculation, don't forget to leave room to save for emergencies, retirement and whatever else you want to have money saved up for. In other words, count savings as a non-negotiable "expense."

6. Figure out how much house you can buy with that monthly payment. An easy way to do this yourself is to play with mortgage payment calculators online, such as Bankrate's, to figure out the purchase price you can afford based on the monthly payment at different interest rates. Take today's rate for your geographic area and your loan type (also available at Bankrate) and go half a point (half a percent) in each direction. If today's rate is 6.5%, calculate what you can afford at 6%, 6.5%, and 7%.

Interest Rate Breakdown
Interest rates fluctuate multiple times a day and the interest rates available at the time you actually purchase will affect how much house you can afford. The higher the purchase price, the bigger the difference the interest rate will make. The lower the interest rate, the more expensive the house you can afford, and the higher the interest rate, the less expensive the house you can afford. Here's a chart showing how this works:

Purchase Price	Interest Rate	Loan Term	Monthly Payment (Principal and Interest)
$250,000.00	7.0%	30	$1,663.26

		Years	
$277,500.00	6.0%	30 Years	$1,663.75
$250,000.00	6.0%	30 Years	$1,498.88
$225,000.00	7.0%	30 Years	$1,496.93

Now that you've figured out on your own what you can afford, it's time to apply for a loan.

Get Preapproved For A Loan

You know how much you can afford, but what does the bank think? They may be willing to lend you an amount that could get you in trouble financially, or they may not be willing to lend you as much as you think they should.

The reason you need to know what the bank will let you borrow before you start shopping for a house is that real estate agents won't waste their time showing houses to buyers who might not be able to come through with the financing.

Also, you don't want to think you can afford a $350,000 house, start looking, and then find out that you can only get a loan for $250,000. The features that come with the $350,000 house won't exist in the $250,000 house and you'll be setting yourself up for disappointment. Finally, a seller isn't likely to accept an offer from a buyer who hasn't already secured financing. Why should they waste valuable days taking their home off the market while waiting to see if you can get a loan?

Getting pre-approved is pretty easy. It's just a matter of calling a few lenders and giving them about 20 minutes worth of personal and financial information, then following up with supporting documentation and waiting for a decision from an underwriter. To streamline the process, gather the following data before you call for everyone who will be a borrower on the loan (for example, both you and your spouse):

Zip Code
This tells the bank where you plan to purchase (this isn't crucial, so don't worry if you're considering multiple zip codes - just pick one).

Down Payment
This is the amount you're putting down (as a percentage). The minimum lenders require will depend on current market conditions and the type of loan. Federal Housing Administration (FHA) loans and Veterans Affairs (VA) loans traditionally have lower down payment requirements. As of this writing, FHA requires 3% and VA requires 0%, while private lenders often require closer to 10%. (To learn more about FHA Loans, read *Understanding FHA Home Loan*)

Social Security Number
The bank will use your SSN to run a credit check during the application process - they can do this instantly while you're on the phone. The purpose of the credit check is to determine your monthly debt payments, which will affect how much additional debt the bank will let you take on for your mortgage, and to determine your credit score, which will determine what interest rate you're eligible for (or if you're eligible to borrow at all). The lender is required to tell you your credit score, so there's no need for you to pay for your own credit report to get this information. If there is more than one borrower, the lowest credit score is the only one the bank will count.

Employment Information
This includes contact information of your current employer. The lender needs detailed employment information on all borrowers to determine whether the mortgage will be paid reliably. It also includes the number of years with that employer, your job title or line of work and the number of years in your current line of work (if your job title or line of work isn't cut and dry, pick the one that will give you the longest track record in that field because lenders look favorably on a longer amount of time in the same line of work).

Income
Your base annual or monthly income before taxes if you work for someone else, after taxes if you're self-employed (no, it's not fair), anticipated for the current year and actual for the previous year. Also, calculate your annual or monthly overtime. This has to be consistent for two years to count. If you made $3000 in overtime this year and $1500 in overtime last year, the lender will consider you to make only $1500 in overtime, reliably, each year when considering how much home you can afford. The same reliability test applies for your annual bonus (so if you got a $2000 bonus this year and a $0 bonus last year, as far as the bank is concerned you don't make a bonus). The same goes for any other sources of income (such as interest and dividends).

Insurance
Estimates for homeowners' insurance and tax rates. The lender can estimate these for you, but they often will be quite inaccurate. If you've done your research as described in section 4, you can supply the lender with your own numbers for

their calculations.

Net Worth
How much money you have in all your accounts (one by one): retirement, savings, checking, brokerage, etc. You do not need to supply account numbers at this point).

Pre-qualification
Usually, at the end of this conversation, the loan officer's computer will spit out a purchase price that you can afford. This is commonly referred to as pre-qualification. The terms pre-qualification and pre-approval get swapped all the time, but for the purposes of this article, we'll use pre-qualified to mean that you've just completed the quickie application process over the phone, and pre-approval to mean that an underwriter has reviewed supporting documentation of your financial situation (such as previous years' tax returns and 2 months of bank statements) and generated a final number for the maximum amount the bank will lend you. You want to obtain pre-approval, not pre-qualification, before you start shopping for a house. (To learn more about the different terms, read *Pre-Qualified Vs. Pre-Approved - What's The Difference?*)

At the pre-qualification stage, lenders will usually give you a preliminary good faith estimate that will list the loan amount you might qualify for, interest rate you might qualify for and what your closing costs might be. These numbers are all estimates and, despite the name of the form, the lender can give you any numbers they want to try to get your business, so take these numbers with a healthy dose of skepticism. What you're really trying to do here is judge different loan officers. The most important thing in choosing a lender is not choosing the one who gives you the cheapest good faith estimate, but choosing the one who seems the most trustworthy, knowledgeable and reliable and who tries to give you the most realistic good faith estimate possible at this point. If you have a friend or relative who can recommend a lender, that's a great place to start.

Mismatching Estimates
The bank may say you qualify for more or less than you think you should. If the bank says you qualify for less than you think you should (or less than you know you need to buy the type and location of home you want), don't take this as a final answer. There are things you can do in a relatively short time to improve your attractiveness to lenders such as repairing your credit, decreasing your debt, increasing your savings, and getting a higher-paying job in the same line of work. (To learn more, read *Make Yourself A More Attractive Mortgage Candidate*.)

If the bank says you qualify for more than you think you should, don't tell them that (you don't want to alarm them), but ask them how they got that number. That's a perfectly reasonable question that any competent loan officer should be able to answer easily. You shouldn't take them up on their full offer, but the good news is that you shouldn't have any trouble getting the loan amount you actually can afford.

Once you've pre-qualified with a few lenders and gotten a sense for which you might prefer to work with, you'll want to pass the underwriting test so you have a genuine pre-approval that will allow you to make an offer on a home as soon as you find one you want. All lenders will want similar paperwork from you for this process, so get it together before you apply - it may take longer to gather than you think. Here's a list of commonly requested paperwork:

- Last 2 months of statements for all asset accounts (savings, retirement, brokerage, and checking if you keep a lot of money there)
- Last 2 years' W-2 Forms
- Last 2 years' tax returns
- Most recent month's paystubs (your last two pay stubs if you get paid every 2 weeks and your last pay stub if you get paid monthly)
- If you're self-employed, a year-to-date profit and loss statement
- 1099s for the last two years
- Copy of driver's license
- Copy of Social Security card

Expect to wait at least a week to get your real pre-approval. It may take longer depending on the underwriter's work ethic, work load and whether they request additional documentation from you. The entire loan pre-approval process, from gathering your information and paperwork to calling several lenders and passing underwriting will probably take you a bare minimum of 2 weeks unless you have nothing else to do. When you're trying to juggle applying for a loan with work and your other day-to-day responsibilities, it's easy to spend even a month or more in this stage because you can't find time to work on your loan every day.

Once you have a written pre-approval letter in hand, you're almost ready for the fun part - home shopping. But first, you must find an agent.

Find An Agent

If you want to buy a home, you'll need to get an agent. The most basic reason to get an agent is that you won't be able to see homes without one. *(To learn more, read Do You Need A Real Estate Agent.)*

Only agents have access to lock box codes to let you into vacant homes. You could get in by calling the listing agent, whose number will be on the "for sale" sign, but this isn't in your best interest. That's because the seller's agent, as the name implies, works for the seller. His or her job is to get the highest price for the seller. This is in direct conflict with your goal, which is to get the property for the lowest possible price. An agent can legally act as both the seller's agent and the buyer's agent, but this obviously creates a conflict of interest.

Agent or Realtor®?

When choosing someone to represent you, you have several choices. First, you can choose a regular real estate agent or you can choose a Realtor®. Most people don't realize that these two terms do not mean the same thing. Here's a little flashback to high school geometry: all Realtors® are real estate agents, but all real estate agents are not Realtors®. A Realtor® is a member of the National Association of Realtors®, which has a strict code of ethics defining the agent's duties to clients and customers, the public and other Realtors®. If you don't have any agent recommendations from friends or relatives, you may want to look for a Realtor® because you may be more likely to find a higher-quality agent this way.

You'll also need to consider whether you want to try to find an agent who offers a commission rebate. Typically, the buyer's agent and the seller's agent split the commission from the sale, which is usually 5 or 6% and paid entirely by the seller. That means that your agent (the buyer's agent), will get 2.5 to 3%. Your agent may then elect to give some of that money to you as an incentive for you to work with him or her. For buyers with limited cash reserves, this can help offset the sting of the down payment, closing costs and other expenses associated with purchasing a home and moving.

Keep in mind, however, that the availability of a commission rebate, while very attractive, should not be your main criteria in choosing an agent. In a transaction of this much value, the amount of money a good agent can save you by doing his or her job well could easily exceed the commission rebate offered by another agent. In an ideal world, you would find an agent who offers both, but this may not be possible.

Regardless of what type of professional you choose to represent you, there are certain qualities you should look for and questions you should ask when choosing one:

- What experience do you have in the areas where I'm looking?
- How many years of experience do you have as a real estate agent?
- Are you an agent full-time or part-time?
- What days and times are you available to show me homes and answer my questions?
- What kind of contract do you ask your buyers to sign?
- Who pays your fee?

You should work with an agent who is very familiar with your area. Ideally, your agent both lives in the area, so he or she can direct you to the best neighborhoods and advise you about quality of life issues, and works in the area, so he or she is familiar with trends in home values and sales. In theory, an agent who works full time and who has plenty of experience will do a better job for you, but a new agent who is eager to prove him or herself and who has a good mentor in the field may do just as good of a job as a more seasoned professional.

An agent should be available at the days and times you want him or her to be available. If you work 9 to 5, you'll need someone who can work with you in the evening and on weekends. Many agents will ask you to sign an exclusive contract with them for a period ranging from 30 to 90 days, because after going to the trouble of showing you houses and answering your questions, it wouldn't be fair to them if you suddenly switched agents on a whim and someone else got the commission. To protect yourself, sign the shortest contract possible, if you sign one at all, in case you aren't satisfied with the agent's performance.

Also, in the majority of cases, you should not have to pay the agent a fee - the seller will pay it. Last but not least, work with someone you find pleasant to be around, but don't work with a wimp. Choose someone who you think will be a tough negotiator on your behalf. A "nice" agent may not get you the best deal. (For more on how to find the help you need. check out *Finding A Listing Agent*.)

Finally, we've arrived at the fun part - it's time to find a home!

Find A Home

Even before you have an agent, there's nothing to stop you from driving around neighborhoods you think you'd like to live in. Look for "for sale" signs and note the addresses so you can look them up online and get a sense of the going price for properties in the neighborhoods you're looking at (but remember that home prices can vary substantially even within a single neighborhood).

The Area
Note any amenities you'd like to live near, like a bike path or park, or things you'd prefer not to live near, like car dealerships or railroad tracks. Also note if there are certain streets you think are particularly nice or that you'd prefer to avoid. Neighborhoods aren't always consistent - sometimes one street might be nicer than the next. And if you don't want to live in a neighborhood like that, that's another important decision to make.

Agent-Buyer Responsibilities
Once you have an agent, you're ready to start shopping for a home. First, you need to discuss with your agent what kind of home you're looking for. Make sure he or she is clear on what things you must have and what things are deal breakers so you don't waste time looking at things that will never work. A printed list that your agent can keep never hurts.

Traditionally, your agent will do all the looking for you. You just sit back and relax while your agent puts together a list of properties to show you. Once you've viewed all the properties already on the market when you first get started, if none of them suit you, your agent will do the work of continually bringing new properties to your attention until you do find one you like. (For the basics of housing market cycles, check out *Why Housing Market Bubbles Pop*.)

With the prevalence of detailed real estate listings on the internet these days, you no longer have to rely completely on an agent. If you want, you can take charge of the search process yourself through websites that provide consumers with access to the multiple listing services (MLS). You won't have access to some key information that is only available to other agents, but you'll have access to the basic information - the address, number of bedrooms and bathrooms, square footage, lot size, any photos that are available and the like.

If you're working with a discount agent, you may be expected to do some of the work yourself. And if you're not sure your agent is quite on top of things, you may want to make sure you stay on top of new listings yourself (and see about finding a new agent).Many people these days do a combination of the two - have the agent do a lot of the work, but examine the listings online every day, too.

When you go to view properties, you'll need to have your agent with you. Vacant homes will be locked and the agent will need to obtain the lockbox code to get the key and let you in. For homes that are occupied, consider the situation from the seller's point of view - you wouldn't want random strangers walking up and asking to come into your home just because there’s a "for sale" sign in your yard. The lockbox system limits the viewing to serious buyers and that credibility is what having an agent signifies.

Step Inside

Once you're inside of a home, think about how, and if, it could work for you. Where would you put your furniture? Which bedrooms would be used for what purpose? Are there any obvious repairs that need to be made or changes that you'd want to make and how much would they cost? What about the yard (if you're looking at a house)? Is it big enough to suit your needs? If you want a pool, does it have one (or the space to put one in)? Is there enough privacy from the neighbors? Is there room for a garden or a swing set? Would the existing landscaping need a lot of work, or is it already in good shape? Also examine the exterior structure of the home. How does the roof look? Does the house need a paint job?

The breadth and depth of issues with a home won't be revealed solely by your untrained eye - you'll need a home inspection for that. But if there are problems you can see yourself, you can tack those on to how much you’ll be paying for the home (unless you can coax the seller to make the repairs), and assume that there are probably additional problems that you can't see. (To learn how to get the most for your house when it is time to sell, check out *Fix It And Flip It: The Value Of Remodeling*.)

The Learning Curve
Once you actually start looking at homes, you may start to change your mind about what you thought you wanted. A 1,000 square foot house for two people might sound okay on paper, but once you see how small the bedrooms are, you might realize that you had something slightly larger in mind. Or you might think you'd like a double lot, but once you see how big the yard actually is, you realize that you have no interest in caring for all that grass. (Don't let your emotions take over, check out *Keep Your Cool When House Shopping*.)

You might also learn that you need to spend more or less than you originally planned in order to get what you want. You're going into the search with an idea of how much you can afford to spend and how much the bank is willing to lend you. Once you've seen a few properties, you'll get a sense of how much bang you can get for your buck. You'll also start figuring out what floor plans you like best.

Also, once you start looking and getting more familiar with the neighborhoods that interest you, you might change your mind about what streets you're interested in living on and what neighborhoods suit your taste.

In a tight market, be prepared to move quickly. The better idea you have of what you want, the more properties you look at and the faster you finalize your idea of what you actually want, the better position you'll be in to put in an offer when you find a property you like. That being said, don't get too attached to a home you like; you may not get it. There are lots of hoops to jump through between finding a house you like and ending up as its owner. In the next few sections, we'll explain what happens once you've found the right home.

Write An Offer

If you've found that perfect home, congratulations! You've potentially reached the end of the searching process - but first you'll have to write an offer and the seller will have to accept it. Here are some important factors to consider when writing your offer to maximize your chances of getting the property you want at the price you want.

Consider Market Conditions in Your Submarket
When evaluating the market, ignore the national and even regional and city news. What you need to know about is the market for the house you’re buying. What is the market like for the neighborhood, price range and housing type you're buying?

Home prices may be depressed overall, but perhaps you're in the market for a bargain-basement foreclosure and that's the only segment of the market that's seeing multiple offers within days of listing. There are submarkets even within submarkets. Your real estate agent will be an indispensable source of valuable information on this topic.(To learn more, read *Foreclosure Investing Not A Get-Rich-Quick Venture*.)

What Are You Willing To Pay?
Think about how much you're willing to pay and what is a fair price for the home. By examining what are called comparable sales (homes similar to the one you want to buy in terms of location, size and amenities) you can get a sense of what the market says is a fair price for the home in question.

But what is a fair price to you? If the home is uniquely valuable to you, you might see nothing wrong with offering full price (or even more than the asking price) to make sure no one beats your offer. In many situations, simply offering full asking price with reasonable terms will be enough to get your offer accepted immediately.

Or maybe you like the home well enough but you don't love it, but could be convinced to love it at a low enough price. In this case, you might want to make a lowball offer and see what happens. Lowballing can be risky, though, so for a house that you really love, it may not be a good strategy. (To learn more, read *10 Tips For Getting A Fair Price On A Home*.)

Determine Your Highest and Best Price
You usually won't know if there will be other people placing offers on the home when you're writing your offer. If the seller gets multiple offers, he or she may go back to each potential buyer asking for highest and best offers. Decide at the outset, while you are still thinking somewhat rationally and before a potential bidding war arises, what the maximum you'd be comfortable and happy paying for the home is.

What Do You Want From The Seller?
In a slow or average market, is normal to ask the seller for some perks in your offer. These could include having the seller credit you a certain percentage of the purchase price toward your closing costs or including the kitchen appliances with the sale of the home. If you're going into the home buying process with a limited amount of cash in the bank, you may decide at the outset that you're not going to buy a home until you find a seller who will pay your closing costs (which will total thousands of dollars).

The seller won't necessarily give you everything you ask for, but it doesn't hurt to ask unless you make such a ridiculous request that you offend the seller into not entertaining your offer at all. In a seller's market, though, you won't have much bargaining power.

Choose Your Closing Date

Your offer will state how quickly you want to close on the home. You may be thinking, "I'd like to move in tomorrow!" but because of the legal and financial aspects of purchasing a home, 30 days is standard. Also, a closing date at the end of the month will reduce the amount of cash you need to close the deal because of prepaid interest.

Mortgage payments are made on the first of the month to cover the previous month, so your February 1 mortgage payment will pay for the month of January. But if you buy a house on December 20, you won't make a partial payment on January 1 - instead, you'll pay that money on December 20 then make your first mortgage payment on February 1. There's nothing wrong with prepaid interest, because you're getting what you're paying for - it's just that many home buyers are tight on cash and would rather have that 30 day cushion before they start making any mortgage payments.

Decide On Your Contingencies

To protect yourself, you should include contingencies in your offer. These are clauses that let you walk away from the purchase without financial or legal penalties in certain situations. An inspection contingency means that if the home inspection reveals substantial problems, you can walk away. A financing contingency means that if you can't secure financing, you can walk away. (If you were paying cash, you wouldn't have a financing contingency.) There will also be a time limit on the contingencies, such as 14 days, to keep the process moving along and prevent the seller from losing too much time if you have to back out.

Understand the paperwork you will be required to sign. Your purchase offer probably will not be just one page, like you might think, but several pages of detailed (but boilerplate) legal documents. Make sure you understand everything you're signing, because it's a very important contract.

Be Prepared To Negotiate

Plan for a counteroffer. Sellers will commonly not accept the first offer you write, but come back to you asking for more money, different terms, or both. You then have the option of countering the counteroffer. It's usually a good idea to be reasonable during these negotiations as sellers can get emotional and not want to work with you if they think you're trying to take advantage of them. On the other hand, it's just business, and if you want to play hardball, there's no reason not to as long as you're willing to accept that some sellers may not want to deal with you as a result.

Once your offer gets accepted, you'll be under contract and the house will go into escrow. You'll need to write a check, get a cashier's check or wire funds to the escrow company as good faith money showing that you're serious about the purchase and aren't just going to waste the seller's time. The good faith money will be counted toward your down payment.

In the next section, you'll learn what happens during the escrow process.

Go Through The Escrow Process

Once you're in escrow, you're in the home stretch but what a long stretch it is. The days until you get the keys to your new home can't go by quickly enough, yet at the same time, you're so busy doing everything that needs to happen to close that it feels like there aren't enough hours in the day. Here's a general overview of what to expect during this stage.

Why Escrow?

The purpose of the escrow company is to act as a neutral third party between the buyer and seller and to make sure all the required steps toward closing are completed correctly and on time.

For example, you wouldn't want to just give your earnest money check to the sellers - what guarantee would you have that they wouldn't steal it from you and refuse to sell you the house? Escrow companies prevent scenarios like this from occurring.

The escrow company will handle all of the money that must change hands between you and the seller. There is also paperwork involved with each step taken while the home is in escrow and the escrow company collects all of this documentation and makes sure all the documents required to complete the deal are completed correctly and on time.

The order of the steps will vary somewhat with each transaction, but the basic steps are almost always the same. (To learn more, read *Understanding The Escrow Process*.)

Appraisal

The lender will appraise the home. You may have to write a check for this up front rather than waiting until closing to pay the fee. This is because the appraisal will occur no matter what, but not all transactions make it to the closing table. The appraisal protects the lender from lending you more money than the home is worth (in case they end up repossessing the property because you stop paying your mortgage and have to resell it to get back their loan money).

If the value the appraiser gives to the home is lower than the purchase price, the seller will have to agree to adjust the price downward or you will have to pay cash for the difference. Otherwise, the transaction will fall through. Even though the appraisal protects the lender, you'll still have to pay for it, because you're the one who is buying the home. The appraisal can also help you, though, by letting you know if you might be overpaying.

Secure Your Financing
If you followed the advice in part 5, your financing should already be secure, but the lender may ask you for more paperwork while you're in escrow if the underwriter requests it. And it never hurts to be proactive and ask if they need anything else from you to secure your loan. They will need to do this quickly, though, because the financing contingency in your offer will expire after a certain number of days and you'll have to release the financing contingency in writing in order to proceed with the purchase.

Obviously, you don't want to release your financing contingency until you're 99.9% sure your loan will fund. Otherwise you could lose your earnest money deposit (often several thousand dollars) and possibly be subject to other damages, depending on the terms of the purchase agreement.

Pest Inspection
This one is also required by the bank for the bank's benefit, the idea being that if you buy a home and later discover that it's termite ridden, you might just walk away if you can't afford to pay for the repairs. If the house has suffered significant structural damage from the termites, the bank will have trouble finding a new buyer. Pest inspections are inexpensive, though (often under $100) and protect you, too - you don't want to buy a home with an active infestation of wood-destroying insects, do you?

Home Inspection
This inspection is technically optional (meaning that the lender doesn't require you to get one, and you can choose your own inspector), but you should consider it a requirement because it's so important. (To learn more, read *Do You Need A Home Inspection?*.).

A home inspector will examine the readily visible components of your home (and that covers quite a lot of ground) looking for problems that your untrained, first-time-home buyer eye probably would never catch. Did you know that the wall attaching the garage to your house is supposed to have a certain fire rating? Do you know how to tell if the roof is likely to leak? Do you know how to test the home's water pressure to check for possible problems with the plumbing?

A home inspection can protect you against nasty, expensive surprises later on and sometimes give you some bargaining power to get the seller to lower the price if anything major needs to be fixed. In some cases, the inspection might reveal that you're better off getting the seller to make the repairs or even walking away from the home than dealing with all of its problems. In other cases, a home inspection will give you the peace of mind of knowing that you're purchasing a sound structure that won't be a major headache or money pit.

Secondary Inspections
If the home inspection reveals any potential major problems, you may decide to have some secondary inspections done. While home inspectors are extremely helpful in diagnosing any problems, they are often generalists, not specialists. And even if they do have expertise on one area, like plumbing, they won't have it in every area that matters (like plumbing, electrical, roofing, and so on). If the home inspector identifies a possible problem, they might recommend that you have a more specialized professional examine the item further before proceeding with the transaction. Expect to pay a few hundred dollars for each inspection (but remember that major problems can cost thousands of dollars to fix).

Hazard Report
This document will be acquired on your behalf (you don't have to do anything) and it will tell you things like whether your home is in an airport noise zone, a flood zone, or anything else that could present a significant danger or nuisance to you as a homeowner in that location. If the home is in any hazard areas, the lender may require that you purchase additional insurance (flood insurance is a common one).

Review the Seller's Disclosures
The seller and his/her agent are legally required to disclose any known problems with the home. They may have to fill out a detailed questionnaire asking them to specifically comment on the condition of various components of the home. However, if the owner is the bank, they will be able to get out of this part of the deal since they can't be expected to have any prior knowledge of the home's condition since they've never lived in it.

Avoid Title Trouble
Get a title search and title insurance. A title search checks to make sure there are no claims to the property other than the current owner's, such as a tax lien. You want to own the property free and clear, and a title report will make sure that can happen. If there are any clouds on the title, they can (and must) be resolved while you're under the protection of the escrow process in order for the transaction to complete. Title insurance protects both you and the lender against any future false claims to the property, such as someone pretending to be an heir of one of the property's previous owners.

Conduct a Final Walk Through
Just before closing, you and your agent will revisit the home to make sure no damage has occurred while the home has been in escrow. If it has, you'll want to make sure it’s fixed before you take possession.

One part of the escrow process is so important that it deserves its own section - getting insured. We'll discuss this next.

Get Properly Insured

When you are on the hook for something as expensive as a home, not to mention when it's your residence, you'll want to make sure you have reliable protection against anything that might substantially damage it. A hailstorm could damage your roof, faulty wiring could burn your house down or a pipe could burst and ruin all your carpet and some of your furniture.

To guard against worst-case scenarios, you'll want to purchase homeowners insurance (also known as hazard insurance). In fact, if you have a mortgage, the lender will require you to purchase hazard insurance until the loan is paid off. But really, you'd want to have this coverage anyway.

Uninsurable Homes

In some cases, a home may be uninsurable. For example, if a previous homeowner filed a large claim for mold or water damage, insurance companies may see the home as too great of a risk and refuse to write insurance on it. If this turns out to be the case, you should be able to get out of your purchase contract unharmed.

Umbrella Policies

Homeowners insurance also protects you if someone gets injured while on your property and tries to sue you, but if you want maximum protection against lawsuits, you should purchase an umbrella policy. Once you have a home, you have more to lose if someone comes after you - they can try to get your house taken away to help raise money for you to pay their damages. An umbrella policy picks up where your homeowners insurance and auto insurance leave off and can offer you protection up to $1 million or more. (To learn more, read *Insurance Tips For Homeowners*.)

If the hazard report revealed that your home is in any sort of special hazard area, your lender may require you to purchase additional insurance. For example, if your home is in a special flood hazard area, you'll have to buy flood insurance. You'll also have to pay for this extra hazard insurance until your mortgage is paid off, unless you can find a way to get your home removed from the special hazard area (which is sometimes possible).

Life Insurance

If you're buying the home with others who will be dependent on your income to get the mortgage paid each month, such as a spouse and/or kids, now is the time to purchase life insurance, if you haven't already. If you were to die unexpectedly, you wouldn't want your family to lose their home, especially at the same time as they were mourning your death.

At the very least, buy a policy that will allow them to keep paying the mortgage for long enough to find a roommate or sell the house, but if you can afford it, you might want to get a policy large enough to allow your family to pay off the house completely so the long-term loss of your income won't affect them too dramatically. (To learn more, read *How Much Life Insurance Should You Carry?*.)

You should also consider disability insurance, which pays you monthly instead of in a lump sum if you get injured so badly that you can no longer work. Social Security provides some coverage in this situation, too, but it's not as much coverage or as good of coverage as you can purchase privately.

Setting Up Your Insurance
You'll need to line up all of the lender-required insurance during the escrow process. The optional ones, like life insurance, can wait, but you really don't want to wait since the very nature of calamity is that its timing is highly unpredictable. Something could happen the very day you take possession of the home.

Your lender or agent might recommend particular insurance agents, but you'll be free to choose whatever agent and company you wish. Make sure to choose insurance companies with financial strength and high customer satisfaction because insurance is useless if the insurer can't or won't pay you when you file an insurance claim. Also, just like with any other type of insurance, you should shop around to compare prices as there can be significant variation.(To learn more, read *What To Do If Your Insurance Won't Pay*.)

Impound Accounts
Your lender will not only require you to purchase certain types of insurance, it may also determine how you pay your premiums. If your down payment is less than 20%, you will probably be required to establish an impound account. All this really means is that when you send in your monthly mortgage payment for the principal and interest, you'll also send in the monthly payment for any lender-required insurance and the lender will then forward your payment to the insurance company.

If you're putting down 20% or more, establishing an impound account will usually be an option, not a requirement. Choosing this option can be helpful if you're not good at paying your bills on time or setting aside money each month for bills that may only be due once or twice a year, but if you like to have total control of your money, you'll probably want to avoid the impound account.

If you are required to establish an impound account, it will also hold what are called lender reserves, or an extra couple months' worth of property tax payments and lender-required insurance premiums. You'll pay this money when your loan closes. Since those who put down 20% are considered higher-risk borrowers, the lender uses the impound account to make sure the home doesn't become uninsured or get a tax lien filed against it if you run out of money and stop making these payments. The money in the impound account remains yours, and you'll get it back when you've paid off the mortgage. Make sure your impound account accrues interest at or near the rate of inflation, though, since the funds will be held there for many years.

You're almost there! The next section will discuss the closing process.

Close And Become A Homeowner

closing process. The closing process basically consists of reviewing and signing your loan documents, but it's not as simple as it sounds. You'll be relying on multiple parties to do their jobs correctly and promptly and the only part of the process you can control is the part that you're responsible for. This section will discuss that process.

The Next Step For Your Loan

At this point, you'll need to review and understand the HUD-1 form. Earlier in your loan application process, you should have received a form called a good faith estimate that outlined the closing costs you'll be responsible for paying.

The HUD-1 is similar to the good faith estimate, except that with its proximity to your closing date, the numbers should theoretically be more accurate. The HUD-1, however, is still considered an estimate. Because of this, one of the line items on this form will be an extra couple hundred dollars that you pay up front in case any of the estimates were low.

In theory, the estimates should be pretty accurate and most of the cushion money should be returned to you after closing, along with a closing statement detailing the exact costs incurred for each item on the HUD-1 form.

The fees you'll see on the good faith estimate, HUD-1 form and closing statement will include items such as the loan origination fee, points (if you're paying any), seller credit (if any) such as a credit toward closing costs or future repairs, title report fee and escrow fee, along with several others. (To learn more, read *Mortgage Basics: Costs*.)

It's important to review the HUD-1 carefully to make sure it closely matches the good faith estimate you were given, that the amounts are correct and that you aren't being charged any unreasonably high fees or junk fees. If anything is wrong, you'll need to get it remedied ASAP, but keep in mind that the time involved in correcting things might delay your closing and a delayed closing can have penalties.

Sign the Loan Paperwork
The loan documents could very well be 100 pages long and the other people at the signing might pressure you to get through them quickly, but ignore them. These are some of the most important documents you'll ever sign in your life. You need to review them carefully to make sure there are no mistakes or unusual clauses. Make sure your loan officer is either present or readily available by phone to answer any questions you may have. After you sign the loan documents, the escrow company will execute the closing instructions and your loan funds will be distributed to the seller. At this point, the transaction is almost complete.

Then, the property gets recorded in your name. Once the funds have exchanged hands, the city or county will be notified of the transaction and record you as the new owner of the property. At this point, you'll finally get the keys. The first thing you should do is change the locks - who knows how many copies of that key are floating around?

Saying Goodbye To Your Rental
When should you give notice at the place you're renting? To be safe, wait until you have the keys to your new home. Then consider how long it will it take you to move. Are there any repairs or remodels that you need or want to do before moving in? It will be easier to do them in an empty house, if you can afford the extra month's rent. (Will this agreement help you keep a home you love, or squash your homeowner dreams? *Get Your Foot In The Door With Rent-To-Own*)

It's not a good idea to give notice before the purchase transaction is complete, because there are so many things that can go wrong during the process and cause the sale to fail. You don't want to end up having to find a new place to live on just a few days' notice. It's impossible to buy a house that quickly, so you'll have to rent a new place or even stay in a hotel. And because rent is due a month in advance and mortgage payments are made after the month you're paying for (i.e., your December 1 mortgage payment covers the month of November), you can probably afford to go that month between giving notice and moving in without having to make two housing payments in the same month (even though you will technically be paying double for housing that month).

Right Away Repairs
Fix any significant maintenance problems, like a leaky roof, right away. If any problems were revealed during the home inspection that the seller didn't fix, you should repair them immediately. Now that the house is yours, these problems are your problems and you don't want them to get any worse.

Keep Cash on Hand

You'll probably have a lot less cash after closing because of what you've forked over for the down payment and closing costs. On top of that, you probably have a higher monthly housing payment than you did when you were renting. However, it's more important than ever to keep what cash you have left available and rebuild your cash savings. One day you'll need a new roof, air conditioner or furnace, and you'll have to pay for other expensive repairs.

It's also important to keep cash on hand in case you lose a job or fall on some other hardship so that you can keep paying your mortgage. Not losing your house and keeping it in good condition should be priorities if you want to protect your investment. Unlike a rental unit, your home is more than just a place to live - it can be a significant source of future wealth.

Congratulations! You just bought a home.

Conclusion

Hopefully this tutorial has made the process of buying a home seem a little less intimidating and a lot more manageable. There's no question that it's complicated, time-consuming enough to feel like a second job and often stressful, but millions of people have gone through the exact same process and come out relatively unscathed.

Owning a home can be a significant source of wealth and at least as importantly, a significant source of comfort, stability and happiness. And if, after owning a home for a while, you don't find yourself in the majority of people who love owning a home, you can always sell it and try again with a new place or even go back to renting.

The important thing is to educate yourself before you do it - don't let the mystery factor or the intimidation factor of the home-buying process scare you away from your dream of home ownership.

(Looking to learn more? Check out *Closing A Real Estate Deal In A Bad Housing Market* and *Use Real Estate To Put Off Tax Bills*.)