

# FIRST-TIME HOMEBUYER GUIDE



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# Overview

The homebuying process.

*Where do I even start? How much money do I need? How do I get a mortgage? Do I need a real estate agent? What are closing costs?*

Have you asked yourself these questions as you approach buying your first home. It may seem like a daunting process — getting to closing and being a real homeowner. We've created this guide to answer any questions that you might have throughout the homebuying process.



## **Best Company**

We at BestCompany.com are committed to empowering consumers, like you, and assisting you in making informed purchasing decisions. We provide accurate company rankings in a variety of industries based on a combination of market factors and customer reviews.

## **AmeriSave Mortgage**

Founded in 2002, AmeriSave Mortgage seeks to simplify the home loan process by providing competitive rates, transparent pricing, and an easy online application process. Committed to helping homebuyers' home ownership dreams become a reality, AmeriSave will work with you based on your personal needs.

# Key Terms and Definitions

## Homebuying Terms

**Amortization:** The process of paying off your home loan, including two costs: (1) interest, the cost of borrowing money, and (2) principal, the amount of money borrowed.

**Annual Percentage Rate (APR):** The annual rate charged for borrowing money, versus a monthly fee/interest rate.

**Appraisal:** The estimated market value of a real estate property.

**Closing:** The last step in the homebuying process — the result of the delivery of the deed, signing, and dispersal of funds to close a home sale.

**Closing Costs:** The costs to cover the the homebuying transaction, including loan origination fee, insurance fees, and attorney fees. Closing costs vary by location.

**Contract of Sale:** Between a buyer and seller to convey title and that conditions have been met, and payments have been made.

**Deed:** A document proving that the property owner has a title to the property.

**Down Payment:** A portion of the sales price of a home that is paid to close on a home. A traditional down payment is 20%, but in most cases a lower down payment can be made.

**Equity:** The difference between the worth of the property and how much is owed on the mortgage.

**Escrow:** Money placed in "safekeeping" with a third party. During the purchase process, the homebuyer is typically required to place part of the down payment in an escrow account until closing.

**Fannie Mae:** The nation's largest mortgage investor.

**First-Time Homebuyers Program:** Home purchase assistance programs by state. Most programs combine closing cost and down payment assistance for first-time homebuyers.

**Fixed Interest Rate:** An interest rate that will not change throughout the life of the home loan – your monthly payment will never change.

**Freddie Mac:** A stockholder-owned corporation supporting the secondary mortgage market.

**Home Inspection:** An evaluation of a home's plumbing, electrical, heating, and other features such as the roof and foundation. The inspection should be completed before closing on a home.

**Homeowner's Insurance:** Property insurance covering a private residence. Typically covers loss and damage to a property.

**Mortgage:** A legal document securing a lender for the repayment of a home loan.

**Origination Fee:** A fee charged by a lender to cover the cost of processing a home loan.

**Pre-Approval:** A written agreement, generally in the form of a letter, demonstrating that the lender will grant a loan for home purchase. Obtaining pre-approval before purchasing a home is important, and assures the seller that the buyer has finances prepared for purchase.

**Pre-Qualification:** An estimate of the amount of money a homebuyer can afford to spend on a home purchase.

**Private Mortgage Insurance (PMI):** Insurance from a private company that offers a mortgage lender protection against financial loss in the case of loan default.

**Property Tax:** Money paid to your local and state government.

**Settlement:** See "Closing".

**Title:** Written evidence of property ownership.

**Underwriting:** The evaluation of a property and the borrower's ability to repay a home loan.

**Variable Interest Rate:** An interest rate that will fluctuate based on the market.

# Mortgage Types

**Adjustable-Rate Mortgage (ARM):** The interest rate will vary throughout the life of the loan. The initial rate will be lower than with other types of mortgage loans, but the rate will fluctuate, raising and lowering your monthly payment.

**Conventional Mortgage:** A type of home loan backed by a private lender instead of a government agency. Generally requires a down payment of at least 3% up to 20%.

**Fixed-Rate Mortgage:** A type of conventional loan with a fixed interest rate.

**FHA Loan:** A loan backed by the Federal Housing Administration, accepting down payments as low as 3% and credit scores as low as 580. This loan type can be a great option for first-time homebuyers.

**Jumbo Mortgage:** Used to finance expensive properties that exceed the limits of a conventional loan.

**USDA Loan:** A loan backed by the U.S. Department of Agriculture only available to rural homebuyers. Available for home purchase in designated rural areas, this loan type offers low interest rates and a 0% down payment.

**VA Loan:** A loan backed by private lenders and the U.S. Department of Veteran Affairs, and available to military service members, veteran and select military spouses with a 0% down payment.

# Buying a House: Step-by-Step

- 1** Take a look at your finances
- 2** Determine how much house you can afford
- 3** Find a mortgage lender
- 4** Get pre-approved
- 5** Find a real estate agent
- 6** Start house hunting
- 7** Make an offer on a home
- 8** Schedule a home inspection and appraisal
- 9** Purchase a homeowners insurance policy
- 10** Close on your new home



# Step 1

## Take a look at your finances

Buying a house is expensive. The first thing you'll want to do is check out your finances and make sure you can afford a down payment, closing costs, and other expenses that might come up.

**Make sure you check the following:**

- Savings (emergency fund)
- Credit score
- Debt-to-income (DTI) ratio
- Sufficient funds to cover down payment and closing costs

When you are preparing to buy a house, you should make sure your **credit score is high** (at least 700) and your **debt-to-income ratio is low** (less than 50%).

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### How to calculate your debt-to-income ratio:

All monthly debt payments / gross monthly income = DTI ratio

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You should also make sure you have some money set aside in an **emergency fund** (experts recommend setting aside *at least six months'* worth of expenses), since you never know what will come up – natural disaster or other large unforeseen expenses.



## Step 2

# Determine how much house you can afford

When you buy a house you are responsible for a down payment, closing costs, and other important expenses.

### Cost breakdown:

- **Down payment** – Most people make a down payment between 6%–12%.
- **Closing costs** – 2%–5% of your total home loan amount.
- **Moving expenses** – Depending on how far your move is, you could pay as little as \$300 or as much as \$5,000.
- **Home furnishings and maintenance** – These costs may vary, but remember that you'll likely want to furnish your new home and will also need to set aside some money for maintenance.

**Important note:** You may hear people say that you will need to make a 20% down payment, but that isn't often the case. Some types of mortgage loans even allow you to pay as little as 3% down (FHA or VA loans). In most cases, you and your loan officer will discuss and determine what size down payment will be best for you.

# Step 3

## Find a mortgage lender

There are a lot of mortgage lenders to choose from, so how do you pick one? What should you look out for?

**A good place to start is comparing the following between lenders:**

- Interest rates
- Fees – application fee, loan origination fee, third-party fees, and other government processing fees
- Minimum down payment requirements

*But it is also important to read customer reviews.*

**From mortgage reviews on BestCompany.com, consumers most frequently mention the following:**

- **65%** mention **customer service**
- **38%** mention **speed and efficiency** in the overall mortgage process
- **20%** mention **transparency**
- **16%** mention **interest rates**

[Top mortgage lenders](#) (based on customer reviews, all offer exceptional customer service, a fast and easy loan process, and low rates):

- ★ [AmeriSave Mortgage](#)
- ★ [New American Funding](#)
- ★ [NBKC Bank](#)

# Step 4

## Get pre-approved

Mortgage pre-approval is the process used to determine how much money you can borrow to buy a house.

For pre-approval, lenders will look at the following:

- Income
- Assets
- Credit score

You will need to provide your lender with the following documentation:

- W-2 statements
- Pay stubs
- Bank statements
- License
- Social security number

Once you're preapproved, you should receive a **pre-approval letter**. You can share this letter with your real estate agent and the home seller to prove that you have the money to purchase a home and won't have any issue getting financed for the amount you're offering on a home.

# Step 5

## Find a real estate agent

Real estate agents can be very helpful, especially for first-time homebuyers. They have knowledge and expertise, as well as community familiarity that can simplify the homebuying process.

Before hiring a real estate agent, you should make sure that you've done the following:

- Get pre-approved (make sure you have your preapproval letter)
- Know your housing priorities

You can find a great agent in a number of ways:

- Ask your friends and family for recommendations
- Do your own online research
- Check out the chamber of commerce in the community where you're planning on buying
- Consult the [National Association of REALTORS® \(NAR\)](#) find a Realtor form
- Contact a referral agent (particularly helpful if you're moving out of state and don't know the area well)

What you should look for in a real estate agent:

- Experience, certifications, and local knowledge
- Commitment and contracts

### Who pays the real estate agent?

In most cases, the home seller will pay the real estate agent; it isn't an out-of-pocket expense for you.

# Step 6

## Start house hunting

Now the really fun part! With the help of your real estate agent, you can look at properties and find your dream home.

How to start your house hunt:

- Let your real estate agent take care of it — they know your budget and your home "wish list" and can find homes to match your preferences in the area of your choice.
- Check out real estate listings yourself:
  - [Zillow](#)
  - [Trulia](#)
  - [Realtor.com](#)
  - [HomeFinder](#)

Helpful house hunting tips:

- **Make sure you know how much house you can afford** — that way you won't fall in love with a house that will break your budget.
- **Get pre-approved first.** It can be tempting to jump right into looking at homes, but it is important to secure your funding first, making you a more competitive choice to a seller once you place an offer on a house.
- **Make sure you consider all costs** — maybe the house needs some renovations or updates, and don't forget about property taxes!
- **Do some research on the neighborhood you're hoping to move to** — talk to neighbors, search for Facebook groups, etc.

# Step 7

## Make an offer on a home

You've found the house that you want to buy, so now what?

If you're working with a real estate agent, making an offer on a house should be relatively easy with the agent taking care of most of the process.

It's still important for you to know what happens when you want to make an offer:

- Your real estate agent will help you look at similar properties in the area to determine an appropriate offer.
- If there are other homebuyers that are interested in your favorite property, you might be in for a bidding war. If this is the case, you'll want to make sure that your initial offer is lower than the maximum price you're willing to pay, that way you have some wiggle room in price negotiations.
- Draft and submit your offer. It is important to note that if the seller accepts the offer, it will become *legally binding*.

A real estate offer generally includes the following information:

- Property address
- Your name (the buyer) and the seller's name
- Offer price
- Earnest money amount (security deposit)
- Contingencies (financing, home sale, appraisal)
- Identification of title company or closing attorney (if applicable)
- Credits
- Offer expiration date and proposed closing date

## Step 8

# Schedule a home inspection and appraisal

Before you seal the deal, you should have the condition of the home inspected, as well as schedule an appraisal to make sure that the home contract price is appropriate given the home's condition.

It is important to know the condition of the home that you'd like to buy, and a **home inspection** can also provide an opportunity for renegotiation on the home's sale price.

You will need to find a **home inspector**, which can be done by asking friends and family for recommendations or through online communities like the following:

- [NextDoor](#)
- [Patch](#)

An **appraisal** is a professional opinion of a home's value based on its condition, location, and features. It is required whenever a mortgage is involved in a home purchase.

# Step 9

## Purchase a homeowners insurance policy

Home insurance covers your liability, belongings, and home. While it's important to protect your home and belongings in the case of natural accidents or theft, in most cases home insurance is also required to receive a mortgage.

Key home insurance terms:

- **Claim** —if damage occurs to your property, you can file a claim with your insurer to receive a payout to cover loss or repairs.
- **Deductible** — payment you are responsible for before the insurer will start making payments.
- **Limit** — the maximum your insurer will pay on claims for your policy.
- **Premium** — the monthly fee for coverage.

Types of home insurance:

- **HO-1 or basic form** — provides coverage on perils (e.g. fire, smoke, explosion, etc.) and offers the actual cash value of the home.
- **HO-2 of broad form** — coverage for circumstances beyond HO-1 and offers replacement cost coverage of the home.
- **HO-3 or special form** — coverage for all perils except those listed in the policy and offers replacement cost for dwelling and value of belongings.
- **HO-5 or comprehensive form** — offers replacement cost for dwelling and belongings with a higher coverage limit.

[View Best Home Insurance Companies](#)



# Step 10

## Close on your new home

You've made it – the last step in your homebuying journey!

### What happens at closing?

"Closing" refers to finalizing all the details of your home purchase with your lender. You'll want to provide copies of all paperwork received and signed throughout the process, as well as two forms of ID.

In most cases, you will sign the following documents at closing:

- **Deed of trust or mortgage** – puts a lien on your property
- **Promissory note** – a legal agreement to pay your lender
- **Closing disclosure** – itemized list of final credits and charges

You will also need to pay your closing costs, which are typically **3 to 5 percent** of your total loan amount.



# First-time Homebuyer FAQ

## 1. How much should I have saved to buy a house?

If you are a first-time homebuyer, you can put as little as 3% down for a down payment. However, you should know there is more than the down payment needed and plan accordingly. Escrows for property taxes, homeowners insurance, and the closing costs can add a few thousand dollars on top of the down payment.

## 2. How much house can I afford?

For most homebuyers, a good rule of thumb is to keep your total housing payment below 37% of your pre-taxed income.

## 3. How much income should I have to buy a house?

This really depends on how much home you are looking to buy. Again it is best to plan a budget and make sure that you set aside enough money to cover the three things required to buy the home: a down payment, escrow money for your property's taxes and homeowner's insurance, along with closing costs to pay for the transaction.

## 4. Should I make a big or small down payment?

This truly depends on your budget. The more you put down for a down payment, the lower your monthly payment will be since you are borrowing less money.

## 5. How much are closing costs?

They can vary heavily depending on both the type of loan and interest rate that you select. A few thousand dollars is typical for all of your third-party fees in the transaction. Lenders can provide options in most cases that help with those costs.

## 6. How do I know what the property taxes are on my home?

They are determined each year from your county's assessment and can typically be found on the county website by property address.

## 7. What other fees or charges should I be aware of?

Every piece of property you buy will need title insurance, property taxes, and insurance. Be prepared to plan for those expenses.



## **8. What is a good credit score for getting a mortgage?**

Different mortgage programs have different requirements. We work with scores that are 600 and above. The top tier for credit on a mortgage is 740+.

## **9. Can I buy a house if I don't have an established credit history or bad credit?**

Unfortunately, most lenders will not be able to assist you with a mortgage if you have no or very poor credit. However, it doesn't hurt to check with the lender for its specific requirements. For example, AmeriSave can assist borrowers with a minimum credit score of 600.

## **10. Should I apply for a first-time homebuyers program?**

Yes, there are great programs with reduced down payments requirements if you are a first-time home buyer .

## **11. Should I use a real estate agent?**

Yes, it always helps to have an experienced professional who is on your side to help guide you through the homebuying process.

## 12. Should I get approved for a mortgage before I start looking at houses?

Yes, it is best to know what you can afford and that you qualify before you start making offers on homes. Here at AmeriSave, we offer a Certified Approval Letter where we fully underwrite your income and credit, allowing you to home shop with confidence. You also have an advantage over other buyers who are only prequalified without the same level of underwriting diligence. With an AmeriSave Certified Approval comes AmeriSave's Certified Closing Promise: we will close your loan or pay you \$1,500\*

\*Terms and conditions apply.

## 13. Does a mortgage pre-approval require a hard credit pull?

Yes, in order to get approved your lender must take a look at the full credit picture. It will not hurt to check your credit if you don't do it often.

## 14. What is the best mortgage company?

On BestCompany.com, AmeriSave Mortgage is the top-rated lender based on a combination of market factors and positive customer reviews.

[See Top-Rated Mortgage Lenders](#)

## 15. What sets AmeriSave apart from other lenders?

With AmeriSave, you not only get some of the most competitive rates and fees in the market, but you also get an experienced professional that helps answer all your questions from start to finish. Any lender can give a pre-approval, but AmeriSave's Certified Approval letter is the next best thing to a cash offer and lets sellers know you are an approved buyer. The Certified Approval Letter comes with AmeriSave's Certified Closing Promise: we will close your loan or pay you \$1,500\*.

We take the stress out of home shopping by allowing our borrowers to lock their interest rate BEFORE finding the home they want to buy. You no longer need to worry about what the market is going to do to your interest rate and closing costs, as we will lock your rate for up to 90 days while you shop for your home with our Lock and Shop program!

\*Terms and conditions apply.

# Additional Resources

Use the clickable bullet points to visit each page.

- [AmeriSave.com](#)
- [AmeriSave Mortgage Calculators](#)
- [AmeriSave Real Estate Agent Portal](#)
- [AmeriSave Knowledge Center](#)
- [BestCompany.com Blog](#)
- [Best Company Mortgage Companies List](#)

## Sources

- [AmeriSave First-Time Homebuyer Guide](#)
- [AmeriSave Loan Programs](#)
- [Best Mortgage Companies](#)
- [First-Time Homebuyers: How Do I Get a Mortgage?](#)
- [First-Time Homebuyers: How Much Money Do I Need to Buy a House?](#)
- [First-Time Homebuyers: Should I Pay Off Debt Before Buying a House?](#)
- [The Next Steps After You Find Your Desired Home](#)
- [BestCompany.com AmeriSave Mortgage Profile](#)
- [BestCompany.com New American Funding Profile](#)
- [BestCompany.com NBKC Bank Profile](#)
- [BestCompany.com Blog](#)
- [Best Home Insurance Companies](#)
- [RocketMortgage.com](#)
- [Forbes: How to Find a Real Estate Agent](#)
- [Zillow Real Estate Listings](#)
- [Zillow Homebuying Guide](#)
- [Trulia Real Estate Listings](#)
- [Realtor.com Real Estate Listings](#)
- [HomeFinder Real Estate Listings](#)
- [NextDoor Neighborhood Networking](#)
- [Patch Neighborhood Networking](#)
- [Bank of America: Better Money Habits](#)
- [National Association of REALTORS®](#)