First-Time Home Buyer? Here's Everything You Need to Know

Your Guide Through The First-Time Home Buyer's Journey

Hey, first-time home buyers...

Congratulations!

Even if you've just started the process, it's one of the biggest decisions you'll ever make - and that's worth celebrating. Unfortunately, it can also be one of the most overwhelming ones. There's so much you might not even know that you don't know - especially as a first-time home buyer.

That's why we're here to help.

From your first decision to buy a home to get the keys to the next chapter of your life, we've compiled a step-by-step guide for you to follow. Whether you're just starting out or halfway through the process, this guide can serve as a holistic resource for first-time home buyers. Feel free to skip ahead to the sections most relevant to you - and if you have any questions, just ask!

Who Are First-Time Home Buyers?

First-time home buyers make up 33% of all home buyers in the US. As a first-time buyer, you have access to unique state programs, federally backed loans, and tax breaks that you wouldn't otherwise qualify for.

The technical definition of a first-time home buyer is broader than just someone buying a home for the first time. According to the US Department of Housing Urban Development (HUD), a first-time home buyer is someone who:

- Hasn't owned a principal residence in 3 years

    - This includes a spouse. If only one of you owned but not the other, you're considered a first-time home buyer
- Is a single parent who has only owned with a former spouse while married
- Is an individual who is a displaced homemaker and has only owned with a spouse
- Has only owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations
- Has only owned a property that was not in compliance with state, local, or model building codes and which cannot be brought into compliance for less than the cost of constructing a permanent structure

If you believe you might fit into one of these categories but are unsure, give us a call, and we can help you determine if you qualify as a first-time home buyer.

That said, let's talk about your finances.

Step 1: Determining How Much Home Can You Afford

You need to consider your finances before you buy. This will help you better understand your current financial situation and your options when you start narrowing down your search. This is also where having a good lender comes in handy.

Work with a Lender

If you're not planning on paying for your home in full, you will need a mortgage lender. Mortgage lenders are banks, credit unions, or private individuals that lend you money so that you can buy property. They're there to help you organize your finances and determine if you can get pre-approved for a loan. If you can't, they can present you with the options, including a financial roadmap to help you buy a home.

You can count on these representatives to provide competent, truthful financial information. They can also answer any questions about your financial situation (and hand-hold if necessary). Lenders are also responsible for ensuring that you can repay the money you borrow and determine the amount of money for which you're pre-approved.

To streamline this process, gather every financial document you can think of - your latest bank statements, pay stubs, tax records, stock portfolio, etc. For lenders to run all of the numbers, they must have all the information. You'll probably still forget something - and that's okay. Once they have everything, they'll run a credit check to determine if you are pre-approved for a loan and, if so, how much you're pre-approved for.

Qualities to Look for in Your Lender

We can't emphasize enough — especially for first-time home buyers — that you must work with a quality lender. Good lenders aren't the type to flat-out say, "I'm sorry, we can't make this happen," or hit you with a DENIED stamp.

Good lenders help you determine where you are, where you need to go, and how to get there. This involves deep diving into your savings to determine if you've saved enough for everything you'll need. They should also be interested in hearing about your long-term goals and how buying a home fits your plans.

There are many reasons to buy a home. Some of these include:

- Becoming "independent" or adulting
- Building equity instead of paying someone else rent
- Having an investment property
- Buying a place because you love a neighborhood and want to build a life there

We recommend going with something other than large banks; you should stay local when choosing. You need to contact your mortgage lender on the fly so that they can run numbers and get back to you quickly. Larger financial institutions often need more agility to do so.

Mortgage lenders also need to be communicative and easy to get ahold of. This person (people) is helping you get started on your home-buying dreams — so make sure they're worth your time.

Your Savings and Spending Habits

You need to consider four main cost categories: your down payment, your closing costs, your ongoing expenses, and your emergency fund. We'll discuss them more in steps 4 and 5.

Keep your savings accessible during the home-buying process — and somewhere that will provide an excellent return to keep up with inflation rates. If you have a year or more's worth of funds saved up with the intent of buying, we recommend getting a certificate of deposit or purchasing a short-term bond or fixed-income portfolio. You won't strike it rich, but you won't be in a volatile stock market.

If you have less than a year's savings, keep it liquid and put it into a high-yield savings account. Shop around to see what banks and credit unions offer.
You've got plenty to save for, so watch your spending habits. Write a list of everything that you spend money on each month:

- Rent
- Food/drinks
- Wine (for those of you who know this needs its category)
- Entertainment
- Student loans
- Medical benefits
- Car insurance
- Car payments
- Water/electric bills
- Date nights
- Clothing
- Vacation savings
- Retirement savings
- Savings for savings' sake
- Etc. Etc. Etc.

Figure out precisely what you make and what you spend each month. If it varies, apply the law of averages. Also, anticipate any major expenditures you may have coming up, like a vacation or your pretentious sister's namaste destination wedding. This information will help you determine how much you can spend on a mortgage payment. You can also plan to edit some of this down so that you're paying less and saving more.

Securing Your Financing and Finding Helpful Programs

First-time home buyers have a variety of options at their disposal. Federal Housing Authority (FHA)-backed mortgages can greatly help. Many of their programs can require you to pay only a 3% or 5% down payment - and few of them don't require one at all!

Washington State has programs that can offer financial assistance for other costs, such as closing and funds toward property improvements. First-time home buyers can also withdraw up to $10,000 without paying the 10% penalty for withdrawing the money too early. You *do* have to put it back in within 120 days - otherwise, you will incur that penalty.

Credit Check

Your mortgage lender will run your credit check and - since you've listened to us and found a good one 😉 - be able to guide you from there. To qualify for a pre-approved loan, you typically need good credit and a history of consistently paying your bills on time. You'll also usually need a maximum debt-to-income ratio of 43%. This ratio is determined by combining all your monthly debt payments and dividing them by your gross monthly income.

If you believe that some of these factors could prevent you from being able to purchase a home, it's still worth checking with a lender. They often have access to resources that can help you. For example, if you are or were in the military, you might be able to get help through the VA. Banks also sometimes hold seminars for first-time home buyers. There are many other assistance programs out there that can help you get started on the right path toward home ownership. Even if you're not "there" yet, they can help get you on your way.

But… Is Now Even a Good Time to Buy?

You've probably heard "buyer's market" and "seller's market" before. A buyer's market occurs when the supply of homes up for sale exceeds their demand, whereas a seller's market is just the opposite.

The easiest way to tell what kind of market you're currently in is by checking the inventory of homes available for purchase. Typically, a buyer's market occurs in June-August, then switches to a seller's market in the winter months. Seasonal fluctuations are just one of the many determining factors of the housing market.

If you're in no rush, waiting for the market to shift in your favor can produce short- and long-term benefits for you. Also, it will give you extra time to save the money you need to buy the home you want.

Step 2: Narrowing Down Your Search

Now that your financials are squared away, it's time to start thinking about the qualities you want in your home. Okay, you've probably done some of that already - but now it's time to dive deeper.

Your Home Checklist

Sit down (even by yourself or whomever you're buying with) and write a list of everything you want out of your home. Here are a few things to consider:

- Home size (number of bedrooms, bathrooms, and square feet)
- Home cost (you should have an ideal range at this step)
- Type of home (house, condo, townhouse, duplex, etc.)
- Neighborhood
- Walking score
- Parking availability/number of parking spaces
- Does it have a yard?
- Does it have a view?
- Does it have a balcony?
- Is there a washer/dryer/dishwasher in the unit?
- How big is the kitchen?
- Does it have walk-in closets?
- Proximity to work, schools, stores, parks, restaurants, and bars
- Proximity from your in-laws

This list can go on and on and on - and it should. You're a first-time home buyer. You're probably planning on staying for a while.
Once you have a list fully compiled, split these items into three separate columns:

Necessities	Wants	Likes
Two bed, two bath	In-unit washer and dryer	Yard
Parking	Walking distance to work	Rooftop deck

Keep this list with you at all times. Better yet, email it to yourself. It will benefit you and your real estate agent as you embark on the home-buying journey.
Let's explore a few of these main qualities a little further…

Home Size

On average, buyers live in their first homes for 11.4 years. You will usually need to stay in your first home for at least 3-5 years just to break even on the mortgage.
A lot can happen in 11.4 years, and if you're planning on building a family or turning an extra bedroom into a guest room or home office, you'll want to keep that in mind when considering the size of the home you want to buy.

Home Cost

Now you know what you can afford, so it's time to consider your price range. Just because you might be able to afford a $1.2 million home doesn't necessarily mean you want to spend that much or need - that much.

There are plenty of apps and websites you can check out to get a good idea of how much homes cost based on their size, location, and other demographic information. Redfin and Zillow are excellent sources for this. After some browsing, you'll know how much your home should cost based on your wants and needs. You'll also be able to discern better what home type you'd like from this information.

Neighborhood

"Location, location, location." You've heard these words before.

Seattle itself has well over 100 neighborhoods — and that doesn't include nearby cities like West Seattle, Bellevue, Renton, and Federal Way. Each neighborhood has pros and cons, and they'll be weighted differently based on your wants and needs.

There are three factors that you should always consider when determining whether or not you want to live in a neighborhood:

- **Accessibility**
    - Is it close to everything you need?
    - What will your work commute look like?
    - If you don't have a car, what is the walking score? What does public transportation look like?
- **Appearance**
    - Are the community spaces well-kept?
    - How long are the homes in this area staying on the market?
    - Does it look like a high-crime area? (You can check police records to learn more.
- **Amenities**
    - Are you close to grocery stores, shops, and entertainment venues?
    - If you have/want to have kids, what are the schools like?
    - How far do you have to go to get anywhere, and will that be a problem?

Once you determine your home size(s), price range, and neighborhood(s), you're ready to speak to an agent!

Step 3: Your Real Estate Agent

A real estate agent helps you purchase, rent, or sell property. These agents look out for your best interests while guiding you through home-buying. The process can be stressful or scary - especially for first-time home buyers - so having an expert in your corner can provide you invaluable relief and peace of mind.

Do You Need a Real Estate Agent?

You can buy or sell your home without one, but we wouldn't recommend it. The commission you'll pay your agent comes with many perks — and they more than make up for the cost.

Real estate agents live and breathe the housing market and can negotiate on your behalf to get better deals. If you ever want to sell, they can help ensure that you're selling at the right amount and can give you tips on bolstering your home's value before putting it on the market.

Real estate agents also cover many costs you might not think of, such as photography, marketing, staging, and cleaning. They are paying for these, know what people are looking for, and have connections to these services. They also take on the liability, saving you money if something goes wrong.

Your real estate agent is also the one going to bat for you. You can hire contractors to perform the many tasks of buying or selling a home, but you need someone to represent you. The buying/selling process can be stressful enough as it is sometimes. You won't want to take on the extra stress of doing it alone, and it's not worth it in the long run.

What Qualities Should You Look for in One?

No real estate agent is going to be the best fit for everyone. You're going to (or at least should) have a close working relationship with your agent, so you'll want to hire an agent to meet your needs. For example, if you're a first-time home buyer, it's not likely that you're going to want to hire an agent who almost exclusively works with veteran sellers.

Your agent should be eager but experienced. They should have an established portfolio and a wealth of resources. As a first-time home buyer, you'll also want them to be patient because you'll have more questions than someone who has gone through the process before. You'll also want someone easy to get a hold of, communicates with you clearly and often, and listens to

your needs. They should be able to discern what you like and don't like, help narrow down your options further, and even present you with new ones.

Most importantly, your real estate agent should be someone you can trust. They should be able to walk you through the home-buying process, tell you what you should expect, and warn you of any red flags associated with a property.

You and your real estate agent will work together to help you through one of your life's greatest milestones. Don't settle for anyone who isn't up to the challenge.

Real Estate Agent Red Flags

It's a controversial opinion, but we don't believe that large real estate companies are the best fit for first-time home buyers. While they have the backing of well-established household names, many of them have systems in place to streamline the buying process. These processes might make things more efficient but also lack a personal touch. You might work with multiple agents and never see the same person twice.

They're not getting to know your goals, fears, or pet peeves, and they probably won't understand why you prefer one house over another. Without that established relationship, they may be less likely to fight as hard for you in a bidding war or the negotiation process.

Real estate relationships should begin casually over lunch or a cup of coffee. You have to see if you're a good fit for one another. If you're not sold by the end of that first conversation, they're probably not the real estate agent for you.
Speaking of that first meeting…

Questions You Be Asking Your Agent

When you first meet with your agent, you should have a set list of questions ready for them to answer. Here are a few that you should ask to get started:

- Do you work full-time or part-time as an agent?
    - Ideally, you'll want a full-time agent. If they're part-time, it should be something they're passionate about and not just "doing it on the side."
- How long have you been an agent?
    - You want to make sure you're working with someone established. They don't need 30 years under their belt, but there's a vast difference in knowledge and resources between agents with 3-4 months of experience and agents with 3-4 years.

- How many homes have you helped close this year?
    - The average realtor closes 12 transactions a year. If they're making half of that, there's probably a reason. If they boast that they closed 100 homes last year, they probably work with whole teams of people, and you may become just a number to them.
- Are we working together one-on-one, or do you have a team?
    - Again, it speaks to that buyer/agent relationship.
- How often do you work with first-time home buyers?
    - You'll want to know that their specializations fit your needs.
- How often do you help close homes in my price range?
    - Do they often work with people in your bracket? If not, they may have less experience in your market.
- How does your commission work?
    - You'll want to understand how they are compensated before signing any contracts.

Step 4: The Buying Process

Here's how the buying process works in a nutshell...

Open Houses

Begin planning open house visits with your agent. They don't always have to be there, but if you're seriously looking, you should tell the person running the open house that you have an agent. You don't want to start working with the seller's agent before contacting your own.

When you first walk into a place, envision yourself living there. Where would you put the furniture? Can you see yourself having a morning coffee in that living room? Will you enjoy cooking in that kitchen? If it doesn't feel right, then it's probably not the home for you.

Making an Offer

It's your real estate agent's time to shine. Once you've decided to make an offer, your agent will review a strategy with you. Your initial offer should be lower than the maximum price that you want to pay. If they believe it will sell quickly or have a lot of interest, you might want to consider going above the asking price. However, every situation is different, so developing a strategy is important. Your offer should include the following:

- Your opening bid
- Your desired closing date
- Contingencies

Contingencies give you the right to back out of a sale if they aren't met. These can make or break a deal - especially if you're competing with multiple other offers. A good real estate agent should understand what the seller wants in your offer.

Your offer should be a purchase and sale agreement. Your agent will handle this, walk you through it, and have you sign or e-sign it before submitting it. If the seller accepts your offer, this document becomes legally binding. If they decline your offer, it's time to move on.

If they counter it instead, it's time to negotiate.

Negotiations

In real estate transactions, almost everything is negotiable, including who pays closing costs and how much, repairs, contingencies, and the closing timeline. Eventually, you and the seller will either agree on a contract or part ways. If you agree, the next step is to bring in a home inspector.

Home Inspections

Before you buy, you must have a trained professional to conduct a complete home inspection of the property. These inspections might sound scary, but they are necessary.

If the inspection reveals severe defects that the seller failed to disclose, and you have an inspection contingency, you can rescind your offer and get your deposit back. You can also negotiate with the seller and try to convince them to cover the cost of the repairs. If they're looking to sell and this is the deciding factor that causes you to back out, they will likely run into this problem again.

Closing Paperwork

You're ready to close if you and the seller have reached an agreement and the home inspection didn't reveal problems that could inhibit it. We strongly recommend doing some hand exercises before closing day because you'll be signing more paperwork than you've ever signed in your life.

The main categories of paperwork you'll be signing include an agreement between you and your lender regarding the terms and conditions of the mortgage and an agreement between you and the seller over the transfer of ownership.

Other documents you may be signing include having the home appraised, obtaining private mortgage insurance (PMI) if you're not putting 20% down, and an agreement to conduct a title search to ensure that the seller can only claim the property as theirs.

Down Payment and Closing Costs

Your down payment is how much cash you need during the onset of your purchase. Most down payments for homeowners range between 5%-20%, but this number varies.

Closing costs are the fees for the services and expenses required to finalize your mortgage. They can include:

- Appraisal fees
- Home inspections
- Prepaid interest
- Loan origination fees
- Attorney's fees
- Application fees
- Assumption fees
- Mortgage insurance application fees
- Your fees for reading this list fees

Closing costs are, on average, 2%- 5% of the loan cost (closer to 2%), including property taxes, mortgage insurance, and more. Often, who pays what is negotiated, and likable agents teeming with experience and delight can help alleviate some of these costs. Still, we recommend expecting to pay closing costs, and if you don't, you can toast to it later.

Step 5: You Bought a Home! ... Now What?

First thing's first: breathe. Relax. Take a moment to celebrate this huge achievement in your life. Next, remember that you spent all that money to buy a home. Your bank account will look a little weird for a minute - and you might even feel some buyer's remorse - but that's okay. That feeling will fade away.

And in the meantime, you got stuff to do!

Have Money Saved for Ongoing Costs

Your homeowner costs don't disappear the moment you close. You still need money for ongoing expenses such as moving fees, painting, remodeling, new kitchen appliances, and furniture.

Write a list of everything you think you need and review it with your real estate agent. Once you find the home of your dreams, revisit and revise this list and try to get as close to an accurate number as possible. The more detailed you get, the more prepared you'll be.

Make a Moving Checklist

We can write an exhaustive post about what you need to prepare to do before moving, but Bed, Bath, and Beyond already has. Instead, we'll cover the highlights:

- Walk through every room and determine what you want to keep and throw away
- Hold a garage sale or donate whatever you don't want
- Buy packing supplies and start packing - label *everything*
- Notify anyone and everyone who needs to know: your doctors, insurance agents, kids' school, the post office, etc.
- Clean *everything*
- Hire movers or orchestrate a moving party with friends
- Confirm, clean, reconfirm, reclean, disassemble, bump, re-reclean, triple confirm
- Find your list (you know you packed it)
- Make a final walk-through
- Move everything into your new house
- Look for damages post-home inspection and report them if necessary
- Assemble furniture
- Pass out because moving is exhausting

Make a Maintenance Checklist

Do another walk-through and reread your home inspector's notes. Ensure you have a plan for anything that needs repair or regular maintenance. Also, find a way to remind yourself to keep up with said maintenance. You don't want minor problems to become big ones, especially since you own the place. Being proactive about your home's maintenance will save a lot of money - and stress - in the long run.

You Bought a Home, Not Necessarily a Retirement Property

Don’t rely on your home to fund your retirement. Some people indeed downsize when they retire, but you might want to stay in your home (or whatever one you buy next). We’re just saying to keep saving for retirement because you never know what could happen. We know you just purchased a home and have a million other things on your mind, so this is something to consider.

Plan the Housewarming

Don’t make it too soon and stress yourself out, but definitely plan your housewarming party. It’s a great way to celebrate this fantastic milestone in your life.

And don’t forget to invite us. We’ll bring the wine!