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Steps to Buying Your First Home

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By Nanci Hellmich

Many Americans dream of owning their own home, but the process of buying one can be daunting for first-time buyers.

"For most of us, this is the biggest purchase we are ever going to make," says CAPTRUST Senior Director Phyllis Klein. It can be an emotional and stressful experience, but after it's over, you feel a lot of joy in owning your own place, she says.

It's important to educate yourself on all aspects of home buying, says Mary Dykstra, a regional vice president for the National Association of Realtors and a Realtor in Roanoke, Virginia.

Most folks know they face challenges. About 60 percent of people who don't own a home say it would be very or somewhat difficult to qualify for a mortgage given their current financial situation, according to a survey conducted for the National Association of Realtors.

That's not surprising when you consider that the median price of a home is about $253,000, according to recent data from the association.

Still, about 81 percent of adults ages 18 to 29 want to buy a home, according to a survey conducted for the National Association of Home Builders.

Klein and Dykstra offer these suggestions for navigating the process:

Save aggressively for a down payment. The amount you put down can impact what you can afford, so it pays to save, Klein says.

To accelerate your savings plan, consider moving in with your parents, another relative, or friend and bank what you save in rent. Or get a roommate to cut your living expenses. Another option: Get a second job until you've saved what you need, Klein says.

Some loans require no or low down payments, but you need good credit to qualify for them, and many of those loans have income limits or limits on the sale price of the home, Dykstra says.

Typically, you must make a 20 percent down payment to avoid paying the additional cost of mortgage insurance, she says. Mortgage insurance is a policy that compensates lenders or investors for losses due to a default on a mortgage loan.

Analyze your finances. Figure out how much you can afford to spend on a residence, based on your down payment, income, and other factors.

Some guidelines suggest you can spend 28 to 33 percent of your income on your house payment, but a lot of that depends on your long-term and short-term debt, your lifestyle, and other factors, such as how you receive your incomeDykstra says.

Make sure you leave yourself enough money to fund your retirement, and save for other priorities in life, such as your kids' college education, Klein says.

You may want a less expensive residence so you don't have to struggle from month to month to pay your bills. Be open to the idea that your first home is likely not the only home you will ever own, so stay within your current means, she says.

Check your credit report. Don't just look at your credit score, look at your credit report, Klein says. Make sure it's accurate. The bank is going to look at the report to determine if you qualify for a loan, how much you can borrow, and an appropriate interest rate.

Potential lenders want to know how you manage your financial responsibilities to those you owe money. The reports and scores help them make a risk assessment if they are considering extending you a line of credit.

Talk to lenders. Pull together your important documents, including pay stubs, bank account statements, and tax returns, and talk to several lenders, Klein says. Lenders can tell you the different types of loans that are available, which ones you qualify for, and what will work best for you, she says.

Keep in mind that lenders are going to tell you the maximum amount you can afford to pay each month, but you have to figure out what you're comfortable with, Klein says.

Dykstra agrees. Lenders will tell you how much of a mortgage they will lend you according to their guidelines, but many things that may impact your lifestyle are not factored in, such as charitable giving, private schooling, travel, and financial help that you may be giving to other family members, she says.

After you've selected your lender, get preapproved for your mortgage, Klein says. It's important to look at residences in your price range, she says. "It doesn't pay to go to Zillow and look at $300,000 houses if you qualify for a loan for one that is $200,000."

Add up the buying costs. Keep in mind other home buying expenses, including earnest money, which is the money the seller requires when they accept your offer; an inspection, which is an examination by a professional to determine the condition of the house; an appraisal, which the lender requires to make sure the house is worth what you are paying; as well as closing costs.

Factor in monthly expenses. Besides your mortgage, there are other costs to consider, including property taxes, mortgage insurance, homeowners insurance, homeowners’ association fees, trash collection charges, and sewer and water bills, Klein says.

Another big line item: maintenance of the house. Make sure you have emergency savings in case the water heater or furnace need to be replaced, she says.

Ask questions about the utility costs of the property. If it doesn’t have an economical heating system, you may end up paying much higher heating bills than you’re used to, Dykstra says.

On the other hand, some items become deductible at tax time, such as mortgage interest and at least a portion of your property taxes, Klein says.

Take your time to find the right place. Too often people are in a big hurry to make this important purchase, Dykstra says. “I call it the Amazon Prime mentality. They say, ‘I like this house, and I want it. It better get delivered to me in 30 days.’”

That may work with many things, but it doesn’t work with homes. Take your time to find a place you really want to own, she says.

A home is a significant investment, Klein says. Your home, retirement savings, and personal savings typically make up the majority of your net worth, she says.

Plan to protect your investment. Some people think of real estate as a surefire excellent investment, Dykstra says. And it can be a good if the property is properly maintained and you hold the investment long enough, she says. But you have to take care of what you have, and you often can’t recoup your costs if you sell within a year or two.

“Not all markets are appreciating quickly,” she says. “Local conditions can change quickly, often driven by employers leaving or coming into a market, or a sudden change in interest rates. There is no national weather forecast, and there’s no national real estate forecast.”

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.