

How to Buy a House:

EVERYTHING YOU NEED TO KNOW



Buying a House

This comprehensive guide takes you through the complex process of buying a house — from finding a real estate agent to closing on your home and everything in between. **The idea of buying a home is exciting.** The reality is that the home-buying process is complex, and it can quickly go from thrilling to overwhelming. Don't worry — we're here to guide you through the steps to buying a house. Here, we outline the process and give you the information you need to make the right decision. To help you identify the information most important to you, here's a **quick overview of the home-buying process** that you can use to navigate to the most relevant sections.

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HOW MUCH HOUSE CAN I AFFORD?

The first step when looking to buy a home is **deciding how much you can afford**. The answer will ultimately determine everything that follows: which neighborhoods you want to explore, who your realtor should be, what you should put on your must-have list and more.

To determine how much house you can afford, start by **building a monthly budget** to understand your current costs. This might make you realize that you're not ready to buy a house. That's OK. There are steps you can take to **eliminate debt** and increase your income to prepare for purchasing a home.

Once you confirm you're in a position to purchase a home, a good rule of thumb is to spend no more than 28% of your gross monthly income on your house payment and no more than 36% of your gross monthly income on debt. Remember, you can be more conservative than this — these are the maximum levels to consider.

While it's important to figure out what your budget should be for your new home, don't make your head spin trying to pinpoint your mortgage payment to the cent. Instead, determine a \$50,000 range (e.g., a mortgage between \$200,000 and \$250,000). And keep in mind, especially if you're a first-time homebuyer, there will be additional costs like interest and insurance.





HOW MUCH SHOULD MY DOWN PAYMENT BE?

There are a **variety of ways you can approach a down payment**, but 20% is considered ideal because it eliminates the cost of private mortgage insurance (PMI). Don't get confused — PMI isn't like other types of insurance. PMI protects the mortgage lender, not the homeowner. PMI ensures that, if you stop making payments, the lender doesn't take a loss.

The cost of PMI varies based on the size of your down payment, the purchase price, your credit score and other factors. The range, however, is 0.5% to 2.25% of the original loan on an annual basis. As you **build equity in your home**, you should no longer pay PMI once you hit 20% equity.

A down payment isn't the only money you need to save to buy a home. You'll also need to cover closing costs, which are usually 2% to 5% of the cost of the home. Sometimes sellers will cover these costs to entice the buyer, but if the market is up and homes are selling quickly, it'll most likely fall to you, the buyer.

HOW TO GET PREAPPROVED FOR A MORTGAGE

Your chosen real estate agent will likely have a short list of mortgage lenders they recommend. Find at least two that fit your buyer profile best.

When you contact a mortgage lender, they'll tell you what they need to start the loan preapproval process. This generally involves sending the mortgage lender a variety of documents. Here's the most common **paperwork needed for mortgage preapproval**:

- Completed prequalification form
- The past two years' W2 forms (or 1099, etc.)
- The most recent month's pay stubs
- The most recent two months' bank statements
- Identification, such as a driver's license or passport

With these documents, a lender should be able to turn around pre-approval within 48 hours, often sooner.

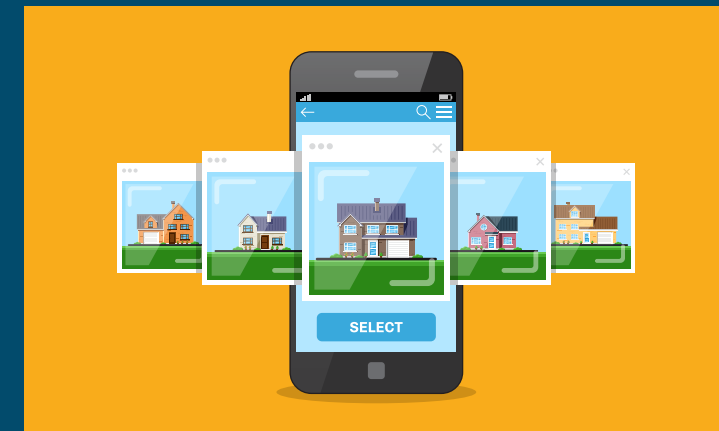
It's worth noting that you need to be careful while your mortgage application is being reviewed (**here's what not to do when buying a home**). Don't make any large purchases during this time, move money around, switch jobs or open a new credit card. You want to avoid doing anything that could suggest that you may not be financially responsible.

QUESTIONS TO ASK YOUR LOAN OFFICER

When selecting a lender, ask these questions:

- Do they require a certain down payment?
- What fees should you expect?
- What is the annual percentage rate (APR) and does the loan have discount points?
- Do they have prepayment penalties if you **pay off your mortgage early**?
- How long will it take for them to finish funding?

These questions will help ensure that you don't overpay in fees, you get a competitive rate and you don't end up losing out on a house because the mortgage application wasn't processed quickly enough.



How to Find Your Dream Home

Next, work with your real estate agent to set up a home search on the Multiple Listing Service (MLS) — the main platform used by agents to find homes for sale.

During this process, your agent will use your list of home wants and needs to narrow down the houses on the market. When a home's listing catches your eye, you'll work with them to schedule time for a walkthrough. Here are four tips to keep in mind when you're evaluating homes:

1. Manage Your Expectations

You may find that your dream listings don't quite live up to the photos. But don't let every funky floor tile or oddly painted room scare you off. Your dream home might be waiting on the other side of a few minor updates.

2. Be Careful About What You Say

When visiting homes, don't insult the home or the current owner's decorations when their real estate agent is around. Negative comments can hurt your ability to get the home. Conversely, expressing excitement can hurt your negotiating position later. Say little and give mild compliments regardless of how you feel.

3. Think About Your Future

When you buy a house, it needs to meet your needs now and in the future. For example, you may not have children now, but if you hope to, you may want to prioritize the house close to the elementary school you'd like your kids to attend.

4. Circle Back for a Second Look

Once you find a home you love, move fast, but not too fast. Go back to the home and have a second walkthrough. Spend some time driving the neighborhood and come back during different times of the day. The last thing you want is to move in and learn that cars fly through the neighborhood during rush hour.

Choosing a Real Estate Agent

One of the best ways to find a real estate agent is through your personal network. Talk to friends and family to see who has had a good buying experience. Keep in mind, it helps to get recommendations from people who had needs similar to yours.

Once you get a few recommendations, you'll want to **meet with the Realtors in person**. During these meetings, ask yourself the following questions:

- **Is your financial plan heard?** Beware of real estate agents who encourage you to spend more than you're comfortable with.
- **Do they normally represent buyers in your ideal neighborhoods?** If they specialize in an area you'd never consider, they may not be right for you.
- **Do they value the things you value?** Think twice if they discount details of the purchase you think are important.
- **Do they try to understand what you want?** Only you know what's important to you in a home, so don't fall for an agent who tries to tell you what you should want.



- **Would you ride around in their car for hours looking at houses?** Silly as this might sound, you'll likely be spending a lot of time with this person. Avoid personalities that clash with your own.
- **Do they bring an understanding of home repairs (e.g., a background in renting or flipping houses)?** It's helpful if your agent can advise on potential repairs and the associated costs.



MAKING AN OFFER ON A HOUSE

When you find your dream home, you'll submit an offer. Your real estate agent will guide you in making a competitive offer that is in line with market rates by running "comps," or comparable sales. This process involves finding at least three homes similar to yours that have sold recently and assessing their value at the time of sale. If your seller is asking for \$20,000 more than the comps, you have grounds to ask for a lower price and other concessions when you make your offer. On the contrary, if the seller is asking for \$20,000 less, it could be a sign that you need to offer more than asking price because there will be other, higher offers.

It's easy to take the short-sighted view that price is all that matters, but sellers value other aspects of your offer, too, including:

- **Payment method:** Sellers usually value a cash offer over a financed offer. Financing can fall through, while cash rarely does.
- **Type of buyer:** Sellers sometimes value a true homeowner over an investor. They might have raised a family in the home and hope that someone else does the same.
- **Down payment:** A higher down payment indicates more solid financing.
- **Earnest money:** This is money offered by the buyer to show they are serious about the purchase. It goes into escrow and is later folded into your closing costs.
- **Previous homeownership:** This can be a sign a buyer is serious and won't back out after inspection.
- **Closing date:** Asking for a date beyond two months will likely result in your offer being turned down.

- **Requests for the seller to cover costs:** The buyer can ask the seller to cover everything from title insurance to termite inspection to home warranty. The more you ask for, however, the more you hurt your chances of getting the home.
- **Requests for home appliances:** It's not unusual for homeowners to include appliances with the home or for buyers to request them.
- **Personal connection:** In competitive markets, it's generally a good idea to submit a letter introducing yourself. If the buyer is a dog lover, and you share that you want a nice backyard for your puppy, that might be the thing that pushes your offer over the edge. But in a buyers' market, this could make you look too eager.

HOME INSPECTION TIPS

A home inspection is not a "nice to have" option; it's a must. It should be written as a contingency in your offer, and you should request a 14-day window for it to take place. Your real estate agent is likely to have home inspector recommendations.

Home inspections typically cost about \$300 — and they're worth every penny. A home inspection will unearth **signs that your home might be a money pit**. The inspector will take pictures and write up their findings, but there is no substitute for being there in-person during the inspection. They can share their findings directly with you, and you'll have the opportunity to ask follow-up questions or point out areas of concern.

When you get the final report from the home inspector, don't be alarmed if the list is long. It may be full of things like, "old fence post is left in the yard." As a buyer, there may be things you're willing to overlook.

Second, don't overestimate an inspector's abilities. They can do an effective job of finding electrical boxes that are outdated, but they don't have X-ray vision to see leaky pipes hiding in the walls.

With your inspection in hand, now's your chance to ask for changes to the deal. For example, you could request that the 12-year-old air conditioning unit be replaced before you close, or that they reduce the price so you can buy a new air conditioning unit yourself.

PURCHASING A HOME WARRANTY

Purchasing a home warranty is usually a good idea. It gives you protection against major appliances and home systems breaking down, and is often paid for

by the seller. If you choose to buy one, you'll do so after the home inspection. They usually cost around \$500 for one year's coverage and require a service fee when you use it. If you have a major plumbing issue or your air conditioner stops working, your home warranty usually covers the cost of the repair.

APPRAISAL AND STEPS TO CLOSING ON A HOUSE

You're in the home stretch! But before you can **close on a house**, you need to have the home appraised. This step is handled by the lender, and the expense is included in closing costs. The purpose of a home appraisal is to ensure that you are paying fair market value for the home. Remember when your realtor ran comps? Now it's your lenders turn.

This process is generally good for the buyer and ensures you don't overpay. If the home appraises higher than what you've agreed upon with the seller, it usually results in the sale going through at the agreed upon price — a great deal for you. If it appraises lower, you can begin renegotiating the price with the seller. After all, an impartial third party just determined it's worth less than what they want.

Assuming that you make it past the appraisal (**which stalls 18% of deals** according to the National Association of Realtors), the house is effectively yours. At this point, you'll know your move-in date and you'll want to square away final details. These include:

- **Buying home insurance**
- Turning on utilities
- Getting a home security system
- Finding movers
- Hiring contractors for repairs or renovations

It is also during this period that you'll hear from your escrow officer. While much of what you've signed so far has probably been e-signature, the final paperwork needs to be signed in-person with a notary present. And be prepared — the packet is hefty, so expect this meeting to take at least an hour.

With the papers signed, you're officially a homeowner. Congratulations!

WE'RE HERE FOR YOU

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