



5 Things to Consider as a First-time Home Buyer

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Research and Understand Real Estate and Mortgage Terms



Be Aware of the Hidden Costs of Home Ownership



Shop for Lenders and Title Companies



Be Prepared for an Open House



Seek Loan Pre-approval Before you Start Shopping

Research and Understand Real Estate and Mortgage Terms



Buying a home is a lengthy, stressful, and sometimes overwhelming experience. A big part of this is due to the sheer volume of new terminology, much of which is unfamiliar to first-time home buyers. Understanding common terms will help to mitigate this as you navigate your way through the home buying process.

Mortgage

A type of loan in which a piece of real estate is used as collateral. Essentially, a homebuyer will take out a mortgage and then pay it off over a series of monthly payments, most typically in a 30-year period. The interest may be fixed or variable, with fixed being the most common. When the loan is given to the homeowner, the lending institution has an interest in the property. In the case of non-payment of a mortgage, they are able to foreclose on the property. However, once the mortgage is paid off, the lender no longer has an interest and the borrower then owns it outright.

Title Insurance

Part of the process of buying a property is ensuring there are no disputes over its ownership prior to the transaction taking place. This is where title insurance comes in. A lender will work with a title company to do all of the necessary research ensuring there are no disputes on the title of the property. The title company will reveal any issues that may exist, take the necessary steps to correct them, then issue a title insurance policy which protects the buyer and lender from any liens on title.

Escrow Account

An escrow account is made specifically for the purpose of holding money during a transaction. A neutral third party will hold money from either side of a transaction until closing to ensure it is disbursed properly and fairly.

Closing

Closing is the last step in a home purchase. It is a meeting between the buyer and seller that takes place after all terms in the purchase contract are met. At the end of closing, the property is officially transferred to the buyer.

Contingencies

Contingencies are clauses in a purchase contract that arise during the negotiation process and reflect certain conditions or timelines that must be met in order for the contract to become binding. Contingencies give either the buyer or seller a way out of the contract if not fulfilled.

Earnest Money

Earnest money is one of the first payments made in the process of buying a home. Simply put, it is a cash deposit made by the buyer that indicates to the seller that he or she is serious about pursuing the purchase. Also known as a "good faith" deposit.

Settlement Statement

A settlement statement reflects all of the charges and fees allocated during the purchase process. The items in the statement may vary depending on the type of loan. A settlement statement can also be referred to as a closing statement.

Deed and Deed of Trust

A deed is a legal document reflecting the current owner of the property. When a purchase transaction takes place and a new loan is secured for the property, a deed of trust is created. This transfers title on the property to a trustee, who holds it as security for the loan.



Shop for Lenders, Realtors, and Title/Escrow Companies

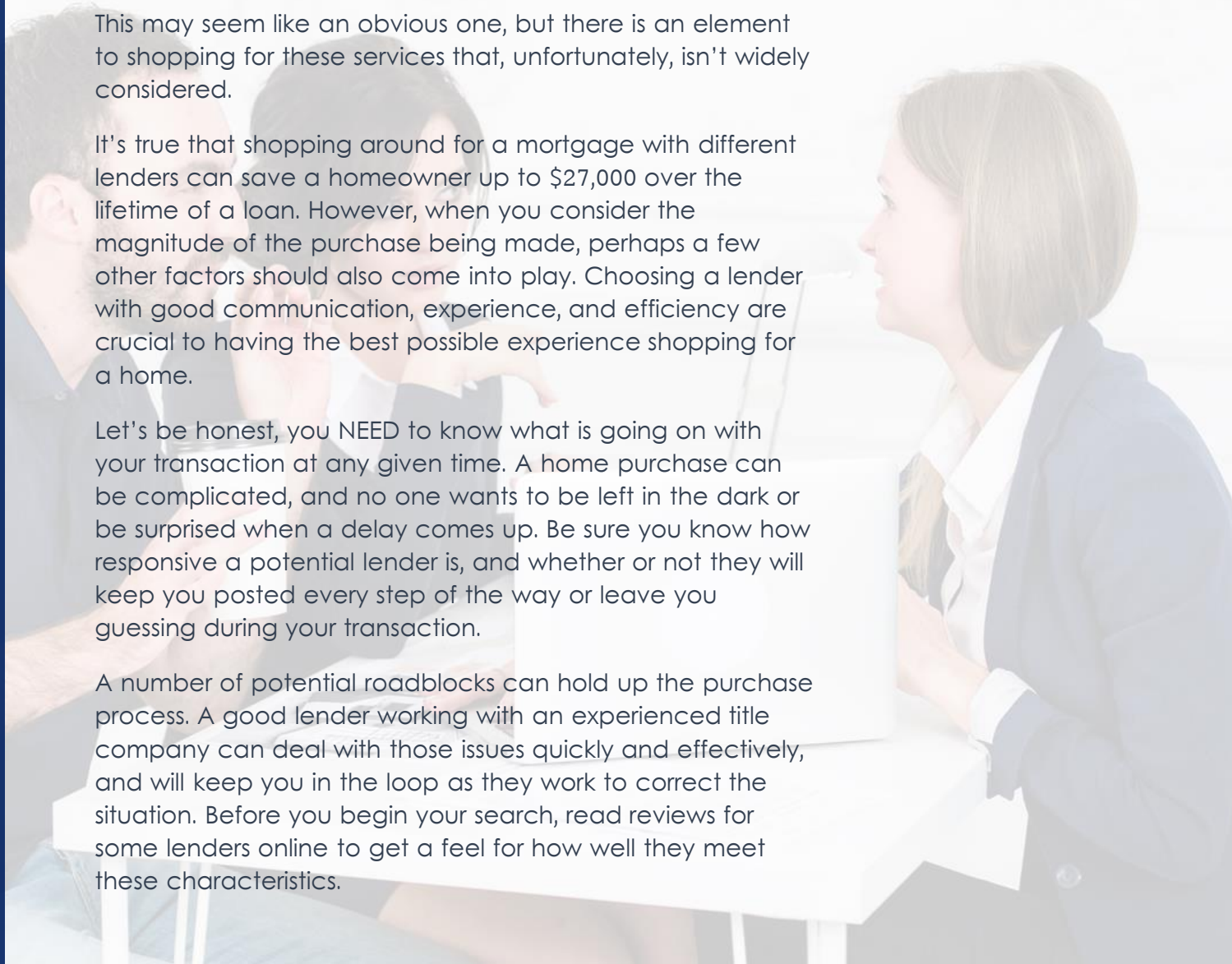
Only about 53% of borrowers shop around for a mortgage when they buy a home. An alarming 77% of borrowers only apply with a single lender.

This may seem like an obvious one, but there is an element to shopping for these services that, unfortunately, isn't widely considered.

It's true that shopping around for a mortgage with different lenders can save a homeowner up to \$27,000 over the lifetime of a loan. However, when you consider the magnitude of the purchase being made, perhaps a few other factors should also come into play. Choosing a lender with good communication, experience, and efficiency are crucial to having the best possible experience shopping for a home.

Let's be honest, you NEED to know what is going on with your transaction at any given time. A home purchase can be complicated, and no one wants to be left in the dark or be surprised when a delay comes up. Be sure you know how responsive a potential lender is, and whether or not they will keep you posted every step of the way or leave you guessing during your transaction.

A number of potential roadblocks can hold up the purchase process. A good lender working with an experienced title company can deal with those issues quickly and effectively, and will keep you in the loop as they work to correct the situation. Before you begin your search, read reviews for some lenders online to get a feel for how well they meet these characteristics.



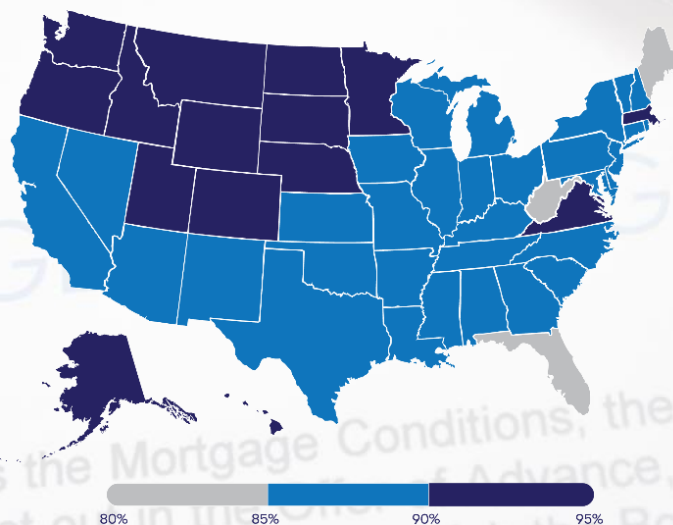
Seek Loan Pre-approval Before Shopping



A common mistake for a first-time home buyer is to look for a house before getting approved for a home loan. It can be discouraging to find the perfect home and then be rejected because you did not get pre-approved. Sellers and their agent want to see that you are pre-approved at the time you present your offer. Pre-approval is important in that it sets your expectations in terms of how much you will be able to borrow, as well as the interest rate you will be paying. This in turn informs what price range is realistic when it's time to begin your search. It is also valid for 60-90 days, so you won't have to worry about it during the search process.

One thing to keep in mind is that pre-approval is *not* the same thing as pre-qualification. The former is a thorough, well documented process where the latter is much more casual and less accurate. Even so, pre-approval is not completely guaranteed, and not all lenders offer it.

Approval Rates for Mortgage Applications by State



Pre-approvals involve the analysis of several key personal financial documents, including:

- *Credit Reports*
- *Current Pay Stubs*
- *Tax Returns*
- *Bank Statements*
- *W-2 Forms*

Be Prepared for an Open House



You should also find out how long the house has been on the market and how many other people are interested in the house.

The open house experience is one of the most crucial parts of finding a home – it's important to be prepared. The most accurate way to find out if a house will suit your needs is to see it in person. You may be able to find out the number of rooms, the age, or the location of the house without visiting, but there is no substitute for physically walking through the space. Here are a few tips to ensure you walk away knowing exactly what you need to:

Make a List of Priorities

This list should be comprehensive and reflect all of the preferences related to your future home. Include "nice-to-have" criteria, "need-to-have" criteria, and "deal breakers". Go into the open house knowing exactly what you're looking for.

Do some Research

Make sure you know ahead of time what the neighborhood and surrounding area is like, which school district it is located in, and any other related information that is readily available online.

Conduct a Walk-through

Thoroughly inspect the house and think about how well it will fit your needs. This includes number and size of bedrooms, bathrooms, and any particular features you may have in mind. Examine everything closely – the paint, wood trim, fixtures, carpet, drywall, landscaping – and note its condition.

Note Potential Red Flags

During your walkthrough, pay special attention to big-ticket items, including the HVAC systems, water heater, and wood flooring. Look for any signs of water damage, foundation issues, and note the condition of the roof.

Understand the Hidden Costs of Home Ownership



The down payment and monthly mortgage rate are widely considered to be the two most important costs associated with buying a home. While these two will have the strongest overall financial impact on your purchase decision, there are many other added costs of homeownership that should be factored in as well.

Utilities

Some renters don't pay utilities, so not everyone is familiar with utility payments. These charges are incurred monthly or a few times per year, depending on the specific utility. Keep in mind that the size of the home may affect certain utilities (a larger home will take more electricity to cool in the summer, for example, increasing utility costs)

Property Taxes

Unlike renting a property, as an owner you are responsible for paying property taxes. It is important to keep in mind both the amount of the current taxes on the property as well as any potential increases in tax you might experience in the future. Consider the value of the home (whether it is fully updated or needs renovations) as well as the housing density of the surrounding area. Both of these can potentially increase taxes after you take ownership. Many taxing authorities are able to provide tax estimates or even disclose the amount of annual taxes levied on the property. Keep in mind that taxes can be drastically different depending on which state you are in, so it's a good idea to do some research on how your local tax system works.

The average household spends \$2,060 per year on utilities, varying greatly based on a number of factors including location, construction, and size of the home.

The average annual cost of home maintenance in the U.S. is \$14,448. This varies based on a variety of factors including the age and size of the home.

Maintenance

Maintaining a house can often be expensive. In addition to freestanding appliances that may not come with a home (refrigerator and laundry units, for example), there are several other big-ticket items that require repairs or replacement on occasion. Particularly important are water heaters and HVAC systems. These should be inspected prior to the purchase to determine what condition they are in and whether or not they will need to be replaced in the near future. Other expensive items to consider are plumbing systems and flooring.

HOA Dues

It is important to determine if your new home is part of a Home Owner's Association and how much it will add to the annual cost of the home. Condos or multifamily dwellings are especially more likely to belong to an HOA.

Closing Costs

Closing costs are a one-time fee incurred at the time of purchase. Typically closing costs are equivalent to about 3-4% of the final purchase price. Being aware of the amount of these costs will help you to plan ahead during the purchase process.

TIP: Consider using a free closing cost calculator. It is fast, easy, and will give you the most accurate estimation of your closing costs.



Try it out [here](#)

References and Further Reading

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At Timios, our goal is to revolutionize and simplify the real estate transaction by placing the consumer in control of a totally transparent experience.

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