

First-Time Home Buyer Resource

Ten Steps to Homeownership



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What You'll Find in This Guide

Buying your first home is one of the best investment decisions you can make, and we're here to help you navigate the process and access all the benefits that are available to you. We've compiled a set of resources, tips and advice from industry experts and first-time homeowners to help you navigate your journey to homeownership.

1 Understand the Value of Homeownership

Owning a home is an investment in your future. Did you know that on average, a homeowner's net worth is 40 times greater than a renter's? Not only is homeownership one of the best options to build wealth, it also strengthens communities, as property tax dollars support critical services and infrastructure like first responders, schools, public parks, and roads and bridges.



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“Homeownership remains one of the best wealth building tools available to Americans. The current housing market is challenging, but with the right resources and support, buyers can achieve their dream of homeownership. Our mission is to provide direct support to first-time home buyers and advocate on their behalf to expand the policies and programs that make homeownership more accessible to them.”

—**Colin Allen**, Executive Director, The American Property Owners Alliance

2 Learn About Incentives for First-Time Home Buyers

Homeownership is so valuable to communities that federal and state governments offer incentives to make owning a home more accessible for first-time buyers. Learn more about the different first-time home buyer programs and incentives available below.



First-Time Home Buyer Loan

First-time home buyer loans are provided by a lending institution (banks or credit unions). Buyers can borrow money to purchase their home to be repaid over a specific period, with interest. These loans offer more affordable interest rates, direct assistance with downpayments and assistance with closing costs, making homeownership more accessible for first-time buyers.

- [The Federal Housing Administration's \(FHA\) loan and mortgage options](#) can help you secure lower downpayment options and reduce closing costs.
- [The Federal Housing Finance Agency's \(FHFA\) First-Time Home Buyer Mortgage Assistance Program](#) helps homeowners struggling to pay their mortgage. This involves delaying payments, waiving late fees and more.
- Department of Veteran Affairs mortgages (VA loans) are available to eligible veterans, active duty service members and members of the National Guard and Reserves. U.S. Department of Agriculture mortgages (or USDA loans) are offered to lower income home buyers in rural or suburban areas. VA loans and USDA loans do not require downpayments and offer low interest rates. See if you qualify for a [USDA loan](#) or [VA loan](#).
- The U.S. Department of Housing and Urban Development offers a variety of first-time home buyer programs, including the [Good Neighbor Next Door Sales Program](#), [Homeownership for Public Housing Residents](#), and the [Indian Home Loan Guarantee Program](#).



First-Time Home Buyer Grants

First-time home buyer grants are cash awards that help first-time buyers cover costs associated with home buying. There are often specific criteria that must be met to qualify for home buyer grants, like income and location requirements. These grants are considered contributions to homeownership and can help increase an area's homeownership rate by over 30%.

- [Fannie Mae's HomePath Ready Buyer Program](#) provides first-time home buyers with 3% in closing cost assistance.
- Many banking institutions offer first-time home buyer grants and incentives to improve access to homeownership. For example, the [Chase Homebuyer Grant](#) provides \$2,500 or \$5,000 to first-time buyers to help lower their interest rate.
- The federal government offers homeownership vouchers to qualified first-time home buyers. Many first-time home buyer grants are government funded and vary by [state](#).



Home Buyer Tax Incentives

Tax incentives are also available for first-time home buyers. There are government programs that provide tax benefits or incentives to help new home buyers pay less in taxes after purchasing their home. Benefits include a reduction in income tax owed during the year the home was purchased. Tax incentives also come with a set of criteria or conditions, including that the home must be a primary residence.

- The IRS offers guidance into the various deductions available to home buyers [here](#). For example, home buyers can deduct [home mortgage interest](#), under certain conditions. Home mortgage points may also be deductible as home mortgage interest, [learn more](#).

3 Think Through Your Budget

Once you decide that owning a home is the right choice for you, it's time to set a realistic budget. Several factors play a role in determining your budget, including which home buyer incentives you qualify for, your credit score, mortgage rates, and additional home costs like closing costs, insurance, property taxes, and renovations. Some questions to consider:



Deciding your “needs” and “wants” in a home as you think through your budget can help you manage expectations on the house hunting journey. A popular method of calculating your home buying budget is the 28% rule. This means that your monthly mortgage should be no higher than 28% of your gross monthly income. However, this percentage varies, as organizations such as the FHA recommend consumers can spend up to 31% of their monthly gross income on a mortgage. Once you determine your budget, creating a separate savings account can hold you accountable and make budgeting easier as you save for a downpayment. Monitoring your monthly spending and reducing major expenses can also help you save for your first home. For more financial planning assistance, The Financial Literacy and Education Commission offers a variety of free [financial management tools](#) to help with saving and budgeting.



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“Lower downpayment options are available, especially for first time homebuyers - 20% downpayments are not needed. First-time buyers should also be aware of the various downpayment assistance & closing cost assistance options available.”

—**DaQuri Mays**, Mortgage Loan Officer at The Huntington National Bank

4 Learn About Financing Options

Most home buyers will need a mortgage to purchase a home. A mortgage is an agreement between a home buyer and a lender which allows home buyers to pay for their home over time. Mortgages typically include loan interest and principal, taxes as well as insurance. Principal is the money that a buyer originally agreed to pay back, while interest is the fee associated with the loan. Fortunately, the majority of mortgage payments go towards paying for the home itself, turning into equity homeowners can access in the future.

There are two types of mortgages, fixed-rate and adjustable-rate, that home buyers should be aware of when buying a home.



Fixed-Rate Mortgage

These are the most common types of home loans and have interest rates that remain unchanged throughout the term of the loan. Your payments will stay consistent month to month, making budgeting long-term easier. The advantage of a fixed-rate mortgage is that it is the most predictable, as your interest rates will never change. In some cases, homeowners may find it beneficial to re-finance their fixed-loan mortgage when interest rates are low. Fixed-rate mortgages appeal to those who plan to own a home for a longer period of time and prefer predictable payments. [Learn more](#) about fixed-rate mortgages.



Adjustable-Rate Mortgage (ARMs)

These types of mortgages have variable interest rates that fluctuate based on market conditions. ARMs often have limits on how much interest rates and payments can rise annually or over the entirety of the loan term. ARMs are also referred to as “variable rate” or “floating mortgages.” ARM mortgages are beneficial for home buyers looking to pay off their loans, sell their home or refinance a loan before the initial interest rate changes. [Learn more](#) about ARMs.

Evaluating current market conditions and trends can help you determine the right mortgage-type for you. Additionally, be sure to get multiple quotes from lenders to help you determine your best loan option. Check out these [5 tips for shopping for a mortgage](#) from the FHFA.



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“Reach out to multiple lenders during the mortgage pre-approval process so you can find the offer that makes the most sense for you financially. You may be able to find a lower rate by comparing offers from at least three lenders, and you may find that you qualify for downpayment assistance through a certain bank or credit union.”



—[Erika Giovanetti](#), Loans Expert, US News and World Report

5 Find a Buyer's Agent

The next step in the home buying process is deciding if a buyer's agent is right for you. Whether it is knowing what to look for in an inspection report, understanding if the property has a homeowner's association, the requirements for septic tanks and fire sprinklers, and negotiating that all-important sales price, it can be helpful to have a trusted advisor in your corner, especially as a first-time buyer.

Realtors® vs Brokers/Agents

You've likely heard the terms REALTOR®, agent, and broker. While these are all buyer agents, there are notable differences.

 <p>REALTORS®</p>	<p>REALTORS® are licensed professionals who serve as representatives for home buyers. REALTORS® will act as expert guides on your home buying journey, helping you navigate the process and meet your buying objectives all while staying in budget. Additionally, REALTORS® are required to adhere to a strict code of ethics. Use the Find a REALTOR® tool to find agents in your area.</p>
 <p>Brokers/Agents</p>	<p>Real estate brokers/agents work independently or in teams if necessary. Although brokers/agents have many of the same roles as REALTORS®, they are not bound to the same code of ethics as REALTORS®.</p>

Many first-time buyers contact an agent early in the home buying process. Although there is no specific timeline for contacting a buyer's agent, it's helpful to ensure you have your financing in order, a budget in mind, as well as a sense of location before beginning your search.

Changes to Real Estate Agent Compensation: What to Know

As of August 2024, new changes to the home buying transaction process will impact the way buyer's and seller's agents are paid. These new housing transaction changes will prohibit offers of compensation on a Multiple Listing Service (MLS), the databases where agents list homes for sale. Offers of buyer agent compensation would continue to be an option for consumers to pursue off the MLS. Additionally, buyers will need to enter into a written agreement with their agent that outlines exactly what services and value their agents provide, and for how much.

How Will Agents Be Paid?

Real estate agents will continue to negotiate payment directly with their clients. Payment may not necessarily be percentage-based – buyer's agents may be paid a flat fee or at an hourly rate.

6 Getting Pre-Approved for a Mortgage

In today's market, a crucial step in the home buying process is getting pre-approved for a mortgage. Mortgage pre-approvals let sellers know that you are serious about buying a home, can help you navigate the market by giving you a clear indication of your budget and may even expedite the buying process. A mortgage pre-approval, though non-binding, will determine how much a lender will realistically allow you to borrow and the type of mortgage you may be eligible for.

To get pre-approved, you'll need to gather financial documents and personal information, including:



Social Security Numbers



Proof of Income



Addresses and Employment Details



Banking Information



Tax Documents



Credit Score

It's important to keep in mind that pre-approvals are only valid for a certain period. This is why you should only apply for pre-approval when you are committed to buying a home. You should also be aware that pre-approvals do not guarantee you will receive a loan. For example, if your financial situation changes between the pre-approval and closing process, your chances of securing a mortgage could be impacted.

Once you are pre-approved for a mortgage, avoid making any financial decisions, like large purchases or missing credit card payments, that would affect the status of your financial situation.



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“A home buyer is more likely to close on the house that they want if they contact a lender at the beginning of their search. What may feel to a first-time home buyer like the most intimidating part of the process will lead to less stress and disappointment in the months that follow.”

—[Kevin Mahoney](#), Financial expert and Illumint founder, and [Josh Patoka](#), Personal finance writer at Forbes



7 Embark on the Home Search

It's important to identify your property must-haves before you begin searching for your future home. Set a firm budget to make the search process easier and work with a buyer's agent to determine exactly what you can afford. Once you have solidified a budget and have been pre-approved for a mortgage, set aside time to research neighborhoods, find open houses and schedule tours for properties that meet your criteria. Working with a buyer's agent can make this step easier and more efficient, as agents can make recommendations on homes and neighborhoods based on your budget and non-negotiables.

Tips for the most efficient home search:

- 1** Work with a REALTOR® to set up alerts for new listings that match your criteria.
- 2** Condense your search to a handful of neighborhoods you would be 100% satisfied in.
- 3** Only tour homes and attend open houses within/close to your budget that meet your non-negotiables.
- 4** Be proactive, as desirable homes will sell quickly.
- 5** Don't get discouraged, it can take months to find the perfect home depending on your budget and desired location.



Preparing to Make an Offer

You've attended numerous open houses, toured a variety of properties in several neighborhoods, and finally found the perfect home that fits your needs and budget. Now, it's time to make an offer. Your agent will help you navigate this step of the process. You'll need to...

Decide how much you're willing to offer.

Work with your agent to conduct background research on the home's history as you work through this step – has the home been renovated? How long have the current owners lived there? It is also worth considering how long the home has been on the market, the value of other homes in the area, and what other buyers may be bidding on the home. Your REALTOR® will help you ensure your offer is reasonable and competitive given the circumstances and the market.

Discuss possible contingencies to include in your offer with your REALTOR®.

A contingency clause is often included in an offer to protect buyers by allowing the purchasing contract to be voided for a specific reason defined in the clause. If the criterion of the contingency is not met, a buyer has the opportunity to walk away from the sale without penalty. Examples of common contingencies include inspection, financing, appraisal and property title.

Determine how much earnest money you can offer.

Typically 1%-2% of the home price, earnest money is a sum of money you will put down to let a seller know you are a serious buyer – the more you contribute in earnest money, the more compelling your offer looks to a seller. The money will be held in an escrow account and later applied to your mortgage or downpayment, but your ability to provide a sum of earnest money lets sellers know you have the financial capability to purchase the home.

Finally, it's time to write an offer letter. Your REALTOR® will draft an offer letter on your behalf, which will include:

- The property's address
- The names of individuals on the house title
- Your offer amount
- An outline of any contingencies
- Concessions you are asking of the seller
- Your earnest money deposit
- Your mortgage pre-approval letter
- An expected loan closing date
- Your desired move-in date
- A deadline for the seller to respond to your offer

With your approval, your REALTOR® will submit the letter to the seller or the seller's agent.



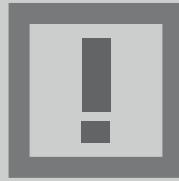
9 You Made an Offer. What Happens Next?

You've worked with your agent to submit your offer to the seller. Now...



The seller could accept the offer as is.

If this happens, you will be “under contract” and move into the closing phase of the process.



The seller counters your offer with changes.

This means that you have provided a compelling offer to the seller. Counteroffers typically include price adjustments, contingency modifications and shifts in closing dates. You can choose to accept, decline, or even counter a seller's counteroffer. Before you choose to accept this offer, talk to your REALTOR®, run the numbers and ensure this is an amount you are able to afford.

If you aren't able to accept a seller's counteroffer, discuss the possibility of continuing to negotiate with your REALTOR®.



The seller does not accept your offer.

If this happens, don't be discouraged! Your REALTOR® will likely be able to provide insight as to why your offer may have been rejected, serving as a learning opportunity moving forward. Everything happens for a reason, and in today's competitive market, this is not uncommon. You may also have the ability to negotiate with the seller after a rejected offer. Talk to your REALTOR® about the opportunity to negotiate or make another offer in the future if the property is still on the market.



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“Owning a home is a fulfilling investment and the largest financial transaction most Americans will make. That's why it's crucial to have the right tools and resources in your corner to help you successfully navigate today's ever-changing market and unlock the wealth-building benefits of homeownership.”

—Colin Allen, Executive Director, The American Property Owners Alliance

10 Offer Accepted: Closing on Your New Home

The seller has accepted your offer – congratulations! Before the sale can be finalized, there are a few additional steps to take to close the deal:



Transfer your deposit.

You will be expected to send a deposit on your new home after your offer is accepted, which is typically about 3% of the home purchase price.



Secure a loan.

Even if you have already been pre-approved for a mortgage, you will still need to lock-in your mortgage. Your selected lender will also need to have your home appraised before approving your loan and signing closing documents to ensure the home is worth the amount you are being loaned.



Complete inspections.

Inspecting the home for any issues is required to ensure no major repairs are needed before closing. Inspectors will look at specific portions of the property, including the HVAC system, roof, and the structural condition of the home.



Final walkthrough.

Conduct a final walkthrough of the property to ensure it is in the same condition as your previous visit.



Pay your downpayment.

Once you sign your loan documents, you will transfer the remaining downpayment balance to the seller.



Acquire a homeowners insurance policy.

Before finalizing your purchase, you will be required to take out a homeowners insurance policy in case your home is damaged in a covered event. There are also various supplemental insurances you can choose from, such as flood insurance, personal property theft and more if needed. Many insurance companies offer different homeowner insurance options, so be sure to do your research before committing to a policy.



Close and Receive Deed.

Review the title of the home carefully, as this document contains legally binding information about your ownership of the property. Schedule a date to close on the property and sign all final documents to complete the transaction.



Join The Alliance

The American Property Owners Alliance is a non-profit organization created to safeguard property ownership. We educate Americans on policy and regulatory issues impacting property ownership, and take action when necessary to secure property owners' rights and interests. Given the challenges first-time home buyers face today, we're focused on providing direct support and resources to buyers and pushing policymakers to [expand support](#) for first-time home buyers.

[See how you can get involved in our efforts.](#)