How to Buy Your First Home

Paying for a home can seem hopelessly complicated. But the components are surprisingly simple: the money you save and the money you borrow.

SAVE

You'll need cash up front. Here's what it's for.

- **DOWN PAYMENT** This is the portion of the home price you'll have to provide. You'll likely need at least 10% to secure a mortgage, the loan that covers the rest. Aim for 20% to avoid extra costs. (You may also qualify for government programs that require less. Check downpaymentresource.com.)
- **CLOSING COSTS** Appraisals, title insurance, credit checks, land surveys, and legal services add up to another 2% to 5% of the home price.
- **EMERGENCY FUND** New homeowners should expect the unexpected. Set aside extra savings for home maintenance and repair after the house is yours.

HERE'S HOW TO SAVE SMART.

Automate
Set up electronic deposits from your paycheck to an earmarked savings account so you don't have to think about it.

Make a budget
Review your spending habits and scale back your lifestyle to trim expenses and save more.

Sell taxable investments
Make sure to set aside enough money to pay taxes you'll owe next year on any capital gains from the sale.

Tap retirement accounts
If you must, first-time home buyers can withdraw a limited amount of IRA funds penalty-free. You may also borrow against a 401(k).

If you get help from a friend or relative, keep records that prove the money is a gift rather than a loan. Lenders will ask.

BORROW

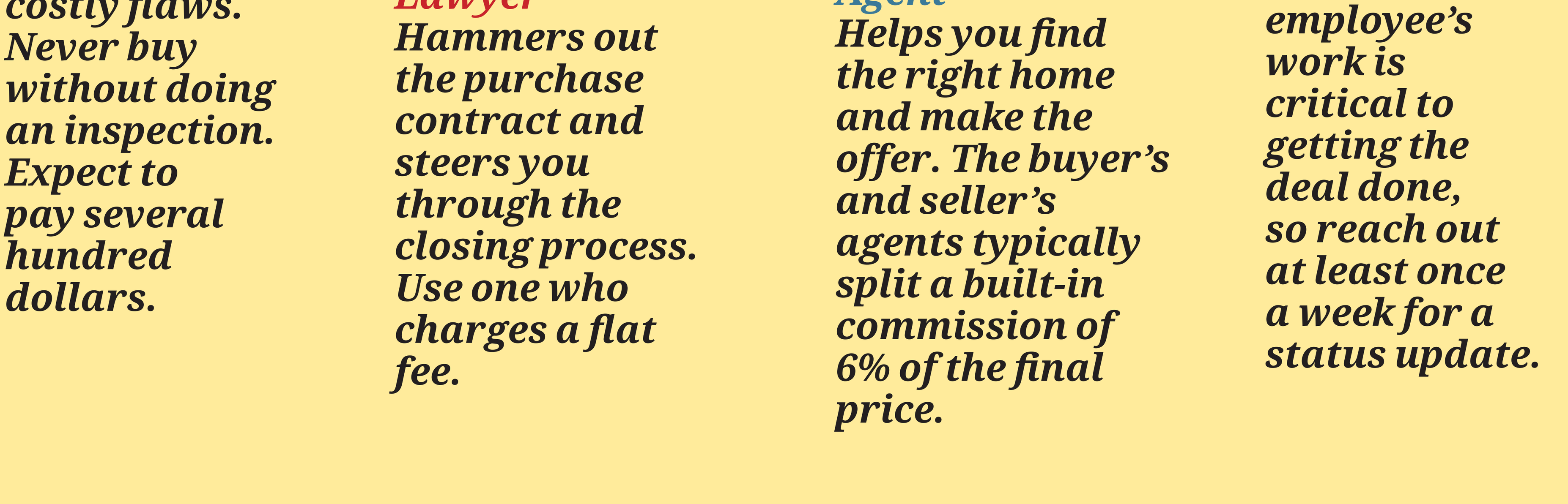
A mortgage is a loan that will pay for most of your new house. Here's how to get one.

- **SET A LIMIT** Your monthly mortgage payment (principal, interest, property taxes, and insurance) shouldn't exceed 28% of your take-home pay. An online mortgage calculator is a great tool for this.
- **GET PREAPPROVED** Before you hit the first open house, get a preapproval letter from a bank. Although it's not binding, this proves a lender is willing to give you a mortgage and lets sellers know you're serious.
- **COMPARISON-SHOP** Once your offer on a house is accepted, get quotes from at least three lenders. To compare apples to apples, ask for a standard form from each lender called a loan estimate.
- **PICK A LOAN TYPE** An adjustable-rate mortgage (ARM) has a low initial interest rate, then can adjust up or down, causing monthly payments to fluctuate. A fixed-rate mortgage has a single, unchanging interest rate, meaning a steady monthly payment. Fixed is a better way to go.
- **PICK A LOAN TERM** The period of time you get to pay off a mortgage is typically 15 or 30 years. With a shorter term, you pay more per month but less interest overall. A longer term means the opposite.
- **PICK AN INTEREST RATE** Getting a low rate requires a higher credit score. Here's why your rate matters: A 1% difference on a typical 30-year loan of $200,000 could save you more than $40,000.

The interest you pay on up to $750,000 of your mortgage can be subtracted from your taxable income.

YOUR TEAM

In addition to the seller, here is who else you'll have to pay.



Home inspector *Inspects the property from roof to basement for costly flaws. Never buy without doing an inspection. Expect to pay several hundred dollars.*

Lawyer *Hammers out the purchase contract and steers you through the closing process. Use one who charges a flat fee.*

Agent *Helps you find the right home and make the offer. The buyer's and seller's agents typically split a built-in commission of 6% of the final price.*

Loan processor *Oversees your mortgage application. This bank employee's work is critical to getting the deal done, so reach out at least once a week for a status update.*

BETH KOBLINER
BETHKOBLINER.COM