



Getting ready to buy

Being prepared can make buying your first home a breeze. In this section, you'll learn about the pros and cons of renting vs. buying, go over some important homebuying terms and examine your finances.

Is it the right time for you?

Everyone wants to know before they buy if it's the "right" time to buy. The most important aspect of this question is this: is it the right time for *you* to buy?

Consider your individual circumstances before looking at market conditions. To help you determine whether you're ready, answer the following questions:

- What is your motivation for buying a home?
- When do you want to buy?
- Are you planning on moving within the next two years?
- Is your current employment income stable?
- Do you have the credit and savings necessary for a home purchase and homeownership?
- Will you be overextending yourself if you buy now?

Don't worry so much about timing the overall market. Just remember: regardless of the circumstances, know your fundamental reasons for buying to avoid overextending yourself. This is especially important when it seems like everyone is rushing to buy, and sales negotiations become bidding wars!

Owning vs. renting

Use this worksheet to weigh the pros and cons of renting vs. buying, adding your own personal reasons to the lists.

Renting

Pros	Cons
Flexibility to easily move.	Rent may increase each year.
No need to budget for improvements.	Unable to renovate or decorate extensively.
More money to invest without saving for a down payment.	No chance to grow home equity.

Buying/owning

Pros	Cons
Potential to build equity.	Unable to easily move.
Ability to make improvements and renovate.	The danger of financial loss if home values fall.
Predictable monthly payments.	The cost of upkeep.
Tax benefits.	Property taxes.
Pride of ownership.	

Homebuying and homeownership costs

Buying a home requires the output of money for one-time expenses like your down payment and **closing costs**. You may try to **reduce your closing costs** by negotiating with the lender or the seller to cover some of your closing costs for credit. In other words, you still end up paying these costs, but you finance them through a higher interest rate or purchase amount instead of paying them upfront.

Your **down payment** will vary depending on mortgage type and your circumstances. For closing costs, you'll need the equivalent of around 2%-3% of your home's purchase price.

Extra coverage

Lenders require you to take out homeowners insurance, which covers many disasters that may befall your home. But homeowners insurance does not cover damage due to earthquakes or flooding. You'll need separate policies if you wish to insure against these types of natural disasters.



One-time expenses	Description	Cost
Down payment	The money you invest in your house upfront.	Typically 3.5% - 20% of the purchase price.
Credit report	A report detailing your debt and repayment history.	\$30 - \$40.
Home inspection	A report detailing any defects or repairs needed in your home that may affect the home's value.	\$200 - \$500.
Appraisal	A report estimating the fair market value (FMV) of your home.	\$200 - \$500.
Termite/pest inspection	A report on the absence or presence of termites or pests.	\$100 - \$200.
Needed repairs	Any repairs needed to be completed before moving in.	Varies.

One-time expenses <small>(cont'd)</small>	Description	Cost
Origination fees	Loan origination fees paid at closing.	0.5% - 2% of the mortgage amount.
Title insurance	Insurance to protect against defects in the title to your home, required by lenders.	\$1,000 - \$3,000.
Mortgage insurance — initial premium	Insurance to protect the lender against the possibility of you defaulting on the mortgage. Usually required only when your down payment is less than 20%. This is also paid monthly.	Varies.
Homeowners insurance — initial premium	Lenders require this insurance to protect you in case your home is damaged or robbed, or in case someone is injured on your property. You will pay an upfront payment at closing and additional monthly payments.	Shop different insurers for the best rate and coverage.
Transfer taxes	Taxes paid at closing, usually paid by the seller but the buyer sometimes will pay depending on local custom.	Varies depending on your city/county, but usually around 0.1% of the purchase price.
Property taxes	Taxes required to cover local public services and amenities. Property taxes may be prorated for the year if the seller has prepaid.	Varies depending on when the next property tax payment is due.
Moving costs	The money you will spend hiring movers or moving yourself, including labor, supplies and transportation.	\$1,000 - \$3,000.
Furnishings	Any new furniture or appliances you need to purchase.	Varies.

Additionally, homeownership requires **monthly or ongoing** expenses you don't pay as a renter. These extra costs include:

Monthly or ongoing expenses	Description	Cost
Homeowners insurance — ongoing	Insurance to protect you against property damage, burglary or injury on your property.	Typically 0.5% - 1% of the mortgage amount per year, divided monthly or paid annually.
Mortgage insurance — ongoing	Required when your down payment is less than 20% of the purchase price to protect the lender against mortgage default.	Typically 0.5% - 1% of the mortgage amount per year, divided monthly.
Property taxes (twice a year)	Property taxes plus any bonds or assessments, all of which are sent directly to the local government.	1% or more of the home's value per year, paid twice a year.
Maintenance	Regular maintenance includes painting, servicing air conditioning units, power washing around the exterior and many other projects.	Depends on the size and condition of your home.
Landscaping	Landscaping costs include water, plants, treatments and professional maintenance.	Depends on the size and condition of your property.
Utilities	Ask the seller about their average utility costs before you purchase the home.	Depends on the size and age of the home.
Homeowners' association (HOA) dues (if applicable)	HOA and the services it provides.	\$10 - \$1,000, monthly.
Long-term improvements	It's best to set aside money for future big expenses, for example: fixing a leaky roof, replacing big appliances, etc. Your home inspection report will give you an idea of what large maintenance expenses you will need to save up for.	\$200+, monthly.
Appliances	Budget to maintain and purchase new appliances as needed.	Depends on the condition of your current appliances.

The total cost of these additional expenses varies for each home. I can help you estimate these costs to determine if a home fits into your budget.