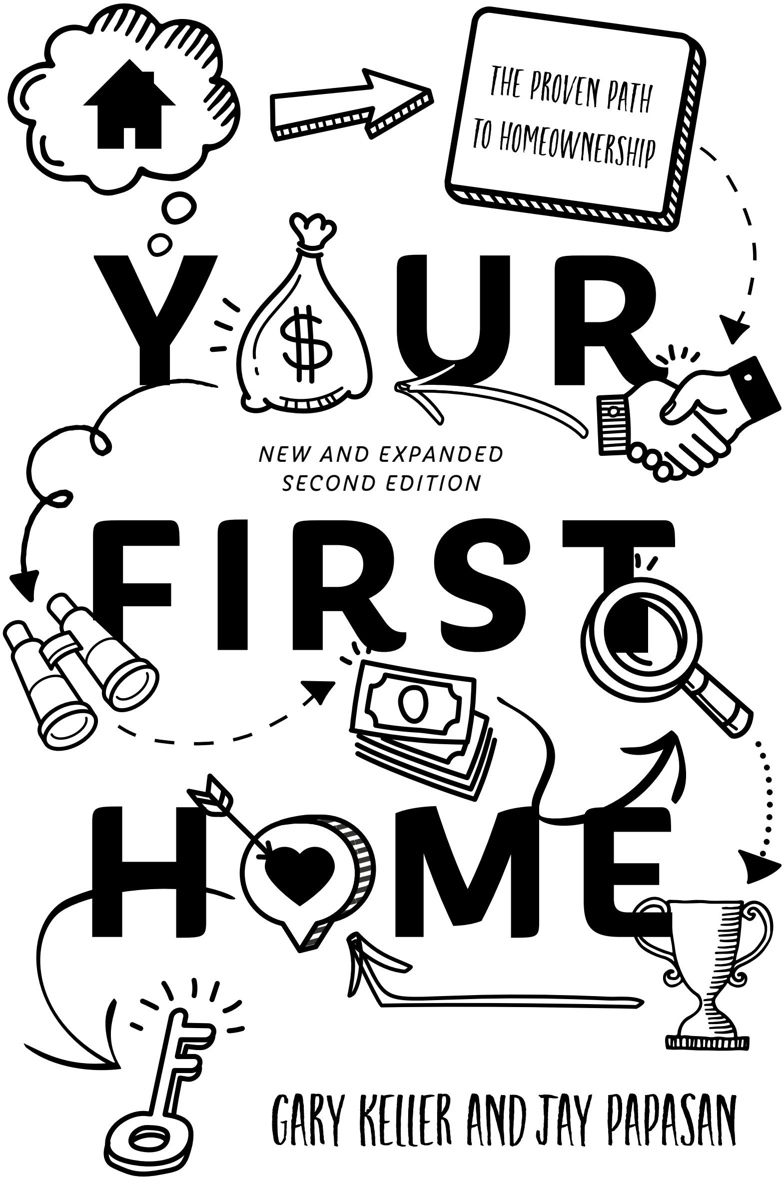
YOUR FIRST HOME

THE PROVEN PATH TO HOMEOWNERSHIP

NEW AND EXPANDED SECOND EDITION



GARY KELLER AND JAY PAPASAN

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ALTHEA OSBORN'S FIRST HOME

Homes can help us to feel safe and grounded, in spite of what's happening in the world. The house I grew up in, Glazenwood Cottage, was purchased by my grandmother for my mother and located about twenty-six miles south of London. I was a child in England during the Churchill days of WWII, as I like to call them. Despite being in the direct line of air raids, which required us to evacuate for about two months during The Blitz, it always felt safe and comfortable at Glazenwood Cottage. I remember the grand piano my mother would play in the drawing room, the magnolia stellata tree that would turn into an umbrella of flowers in the spring, and the park where my mother and caretaker used to take us for walks. We didn't have much money, so my mother would rent out a room as a first-level apartment to doctors

* *Photograph of Robert Osborn and son Richard courtesy of the Osborn family.*

and nurses who had been evacuated from London to work at our local hospital. My mother cooked breakfast for all of us, including the tenants, and we ate together every morning.

Years later, I met my husband in Germany in 1958, while I was in the British Secret Service and he was in the military. We married a year later. We knew we wanted a home of our own, but the early years of our marriage didn't provide much opportunity as we moved frequently and almost always lived in military quarters. In fact, we moved twenty times during the first eighteen years of our marriage. Finally, we had the opportunity to buy a home in the mid-1960s when we moved to the Washington, D.C., area.

We looked for a house for a month and stayed with friends until we found the right one. The two-story home was at 2849 Maple Lane, on an acre of property off a quiet road in Fairfax, Virginia. Priced at $26,500 and located just six miles from the Pentagon, where my husband was working, the house was ideal for us. It was near schools and in a neighborhood full of children, and it had plenty of space for our children to grow.

During my years as a Realtor, I would tell my clients that if you buy a home when you have children, you're actually buying the place for them. The house on Maple Lane was such a house. My favorite memories of that home are of my children, and I loved being able to provide them with the solid feeling of having a home of their own.

I believe that you become much more rooted when you have a home to call your own. When my husband was stationed in Vietnam during the war, the topic of selling the house came up. We had both left—my husband for the war and myself and the children to live at Glazenwood Cottage with my mother for the year. However, I really felt it was important to have a home to call our own. If something happened to my husband, I wanted to know we had a place to return to that was ours.

We lived at 2849 Maple Lane for three years. We lived in many cities after Washington, D.C., but held onto that first home as a rental, until my husband retired in 1980. When we sold it, it had appreciated to almost $160,000. About ten years ago, we revisited the area and saw it was then valued in the $700,000s. When I think back to what I learned from that house, I'll always recall how owning it rooted us as a family, how it felt like it was ours to make memories in, and how home is always a place where you feel safe from the world.

Althea Osborn joined Keller Williams in 1983 as one of its first agents and has served thousands of clients throughout her career—and she continues to work and connect with many of them today.

CHAPTER 1

DECIDE TO BUY

Dorothy took on a wicked witch, Odysseus fought for ten years, and three brave pets all went on an incredible journey to get to one special place—home. Far from simply being where we live, our home is that happy place where our heart is.

Few things are more exciting than the thought of buying your very first home. But, like learning the really intricate rules of the board game your friend brought to game night, it can also be a tiny bit intimidating. (Seriously, can we just play *Monopoly*?) There's a ton of new terms to learn, professional services you've never used before, a process you're not familiar with, and legal documents that might as well be written in Greek—and you've barely begun!

As you begin your journey to buying your first home, a lot is going to happen. We want you to remember that you will be expertly guided through this process, and, because of this, it will be easier than you think. However, a general understanding of each step along the way will help you be more comfortable and confident. Each chapter of this book will introduce you to the language, concepts, and events you can expect as you move through the ten steps of buying a home.

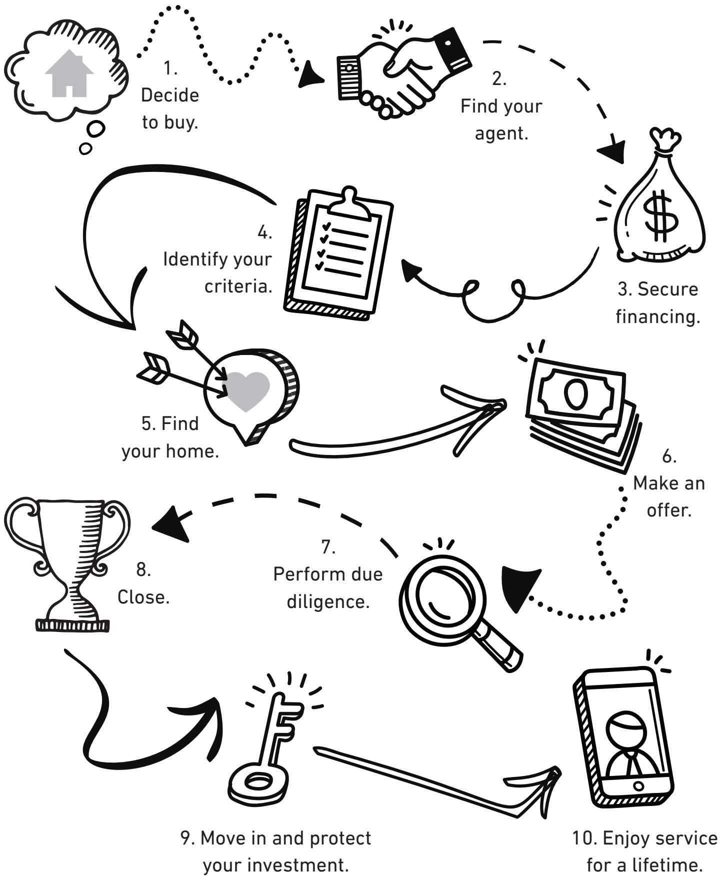
A Way with Words

As you go through the book, we'll be introducing a lot of different terms, some familiar and some new. Generally, we do our best to define them within the text, but—just in case—we've provided a glossary of terms at the back of this book.

The Ten Steps to Buying a Home

Congratulations! Whether you know it or not, you've already taken the first step on your homeownership journey—you've become interested in buying a home. In this chapter, we'll walk you through the decision to buy and why it's the right choice for you. The next step is to find trusted advisers to guide you through the process. In Chapter 2, we'll discuss how to choose your real estate agent who will educate you about your local market, guide you in your search, negotiate on your behalf, and make sure no critical detail falls through the cracks. Your agent will be your advocate from beginning to end.

The Ten Steps to Buying a Home



Once you've found your agent, do you know what the next step is? If you said "secure financing," you're right on the money. Chapter 3 explains the factors you should consider as you weigh the many financing options available in today's mortgage market. Then, it's time to start your home search. But what does that even look like? Chapter 4 will prepare you for the questions to ask yourself during this critical stage. Does the house have a moat? Is there a fireman's pole you can slide down from the bedroom to the kitchen? Is there a yard full of chocolate trees? Armed with your *totally reasonable* home-search criteria and a loan preapproval letter, you'll be ready to go find the right home for you, and we'll equip you with proven strategies for your home search. Chapter 5 will give you advice for how you and your agent can get out on the road and find the home that meets your wants and needs.

Chapter 6 will explain offer writing and negotiating strategies that will help you get an accepted contract. However, the game doesn't end when the seller accepts your offer. The period from contract to close is when you and your agent will make all the necessary verifications (due diligence) to assure your home is financially, legally, and structurally sound. Chapters 7 and 8 will walk you through this critical period, guiding you through all the different inspections, qualifications, and steps to take for things to go smoothly. Chapter 9 outlines our tips for moving in and taking good care of your home—as a place to live and as an asset to sell. And, finally, Chapter 10 will give you advice for investing in your home so that it grows in value.

All of this may feel tedious at times, but it will also be totally worth it.

"I remember buying my first home with my wife like it was yesterday!" recalls Jeff Reitzel, real estate broker in Ontario and cofounder of Keller Mortgage Canada. "We were living in a small condo that I had purchased as an investment with my brother before I bought that first house. My wife and I booked a showing to see the home, and when we pulled up, we literally had butterflies in our stomachs. I fumbled getting into the lockbox, opened the front door, and we both looked at each other and said, 'This is it!'" For the Reitzels, it was not only just the right home, but a warm, loving place to start a family. "Both of our kids were born in that house. Our first home and the experience of buying it are things we will remember forever!"

Making the Call: Am I Ready to Buy?

Buying a home is a big decision—particularly your first home—but it is one of the best choices anyone can make. For starters, having your own home is, well, nice. It's a place that is entirely your own. Something you can paint, renovate, and live a full life in. While renting offers some of these benefits, at the end of the day, the house you rent still isn't *yours*.

Secondly, while they do require an initial investment, the reality is that homes are an incredible way to accumulate generational wealth. Because home isn't only where your heart is, it's where your money is, too. There are few places you will treasure more than your home and no place that will add more to your personal treasury.

Many people don't fully grasp the importance of financial independence or that homes are a great way to realize that goal. Homeownership brings many opportunities—you might say that having a home can open up a lot of doors. For instance, you could later refinance your home to lower your payments or fund home improvements or additions. Or, down the line, you can look forward to the joy of paying your home loan off and reducing your cost of living. This not only feels personally liberating, but it can free up your finances to make other investments. As Tuscaloosa, Alabama, agent

Tricia Gray reiterates, "Most first-time home buyers were previously paying rent, so when they step into homeownership, they are paying their own mortgage instead of someone else's."

One of the biggest gifts a home gives you is equity.

The Beauty of Building Equity

Net worth, we believe, is one of the best measures of wealth available. **Net worth** is simply the dollar amount you get when you add up everything of value you own and subtract everything you owe. A recent US Federal Reserve Board's Survey of Consumer Finances showed homeowners had a median financial net worth of $255,000, while renters net worth was just $6,300. This disparity is largely due to one thing: equity.

So, what is equity and how does it make homeownership a smart financial decision? Equity is the portion of your home's value that you actually own. That is, it's the money that would go into your pocket after you sold it, paid off your mortgage, and handled any selling expenses.

There are two ways to build equity in your home. The first is by paying down your mortgage. Unlike with most purchases, when you buy a property, you're only required to pay part of the sales price up front. This is your **down payment**. For the remainder, you take out a loan that you agree to pay back in monthly installments over a period of years. This loan is called a mortgage loan, which means that you're pledging your home as collateral—that you have, in fact, mortgaged your home. A portion of these monthly mortgage payments applies toward the **principal** (the original amount you borrowed) and the other portion goes toward **interest** (the cost of the loan). Over time, as you pay back the principal, you gradually start to own more and more of the home's value. In other words, you build up equity.

Understanding Equity: Paying Off Your Home

Your first step toward building equity is your down payment. After that, a portion of your monthly payments slowly pay off what you owe toward your mortgage. This means you own more of your home's value. Once you finish paying off your house, you own all of its initial value plus any appreciation.

Closing Day
Equity buildup begins

Year 22
Home is half paid off

Year 30
Home is paid off

Figure 1.1

As Figure 1.1 indicates, many people are surprised that on a thirty-year mortgage it can take as long as twenty-two years to pay off half the principal. This is because early in the life of a mortgage, the majority of your payment goes to interest. You see, the interest you pay on a monthly basis is directly proportionate to the amount of principal you owe at that point. Thus, as your monthly payments reduce your principal, the percentage of your monthly payment that is interest is reduced as well. The net effect is that the closer you get to the end of your loan term, the more principal debt you pay off. (As you'll learn in Chapter 10, if you make one extra mortgage payment a year, you can end up paying off your principal, and thus your loan, much sooner and save money in the process.)

Interest vs. Principal

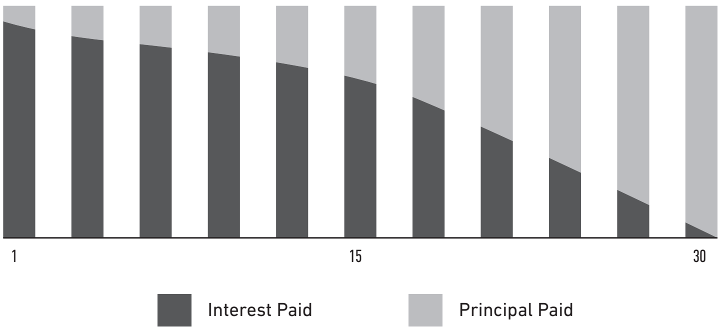


Figure 1.2

The second way to build equity is through price **appreciation**. Like most consumer products, homes tend to go up in price over time. A cup of coffee doesn't cost a nickel anymore, and the homes GIs bought in Park Forest back in the 1950s definitely go for more than $9,000. This is a good fact to bear in mind if your current market doesn't appear to be experiencing appreciation. Appreciation is a waiting game—markets always change, and eventually you'll appreciate appreciation. Given time, when you sell your home, we believe there can be an opportunity for you to experience both the bittersweet feeling of moving on and the excitement of making some money on the sale.

With proper planning, your home can become a lot like an interest-bearing savings account. You make regular deposits with each mortgage check you write. Meanwhile, you have the opportunity to earn bonus interest through price appreciation on the value of your home over time. That's a big reason homeowners tend to have a far greater net worth than renters.

Look at the last thirty years. Home values have gone up an average of 3–4 percent annually. Even with events like the Great Recession, there has been a steady increase in home values since the 1970s. While single-digit percentage points might not seem impressive, it would amaze people that just over 4 percent would result in such huge gains—it adds up in a major way. Remember Becky and Matt Sirpis and that 1941 Dutch Colonial that they got for $350,000. A mere eight years later, they sold it for $566,000—that's a remarkable appreciation of 40 percent!

Understanding Equity: Home Appreciation

	Closing Day	Year 22	Year 30
Purchase Price:	$250,000	$250,000	$250,000
Appreciation (4%):	$0	$366,179	$560,849
Current Home Value:	$250,000	$616,179	$810,849
Remaining Debt:	$200,000	$97,855	$0
Total Equity:	**$50,000**	**$518,324**	**$810,849**

Figure 1.3

Figure 1.3 shows an example of the combined advantage of equity buildup and debt paydown. In addition to the two benefits of building equity through mortgage payments and appreciation, there's a third reason why buying a home is financially smart. The United States government allows a **tax deduction** for the interest paid on mortgage loans. We believe the significance of this deduction cannot be overlooked, especially in the first years of a mortgage when interest makes up the bulk of your monthly payments. For example, if your loan payment was exactly the same as your rent, your annual housing costs—including property taxes and insurance—could actually be comparable once you factored in these mortgage interest tax savings. While tax deductions for interest paid are not the same in Canada, homeowners do benefit from not having to pay a **capital gains tax** when they sell their primary residence.

There are solid financial reasons to support your decision to buy a home: equity buildup, value appreciation, and tax savings. But too often people will talk themselves out of making one of the best financial decisions of their lives for reasons that just don't make sense. A lot of this doubtful self-talk comes from one simple thing: fear.

There are a number of fears around trying something new, particularly when that something involves finances. But *fear* not—below we discuss the most common concerns that might keep some first-time home buyers from making the transition from renter to homeowner and the facts to help you make an informed decision.

Those who have the most fulfilling lives base their decisions on facts, not fears.

Fears About Buying Your First Home

1. I can't afford to buy a home now.
2. I should wait until the real estate market gets better.
3. I don't have the money for the down payment.
4. I can't buy a home because my credit score isn't good.
5. I can't afford to buy my dream home.
6. I should wait to buy a home until I'm certain about my domestic future.
7. I should pay off my student loans before buying a home.

Fears and Facts About Buying Your First Home

When it comes to the market, it's reasonable to assume that there is always some measure of uncertainty present. In more recent history, both economic and health-based struggles have added to that uncertainty, making it safe to say the economy and the way we do things—even buy and sell homes—have radically changed. Uncertainty is stressful, and it can be easy to expect the worst.

But that isn't necessarily the case. In fact, you can find a great home in both depressed and elevated markets. Moreover, it's important to remember that market cycles are always occurring. Markets go up and down. The reality is there's never really a perfect market—just the market you're dealing with when you're buying your home. You'll rarely be able to time the market, but if you can afford what you buy and hold onto it long enough, the best timing will find you.

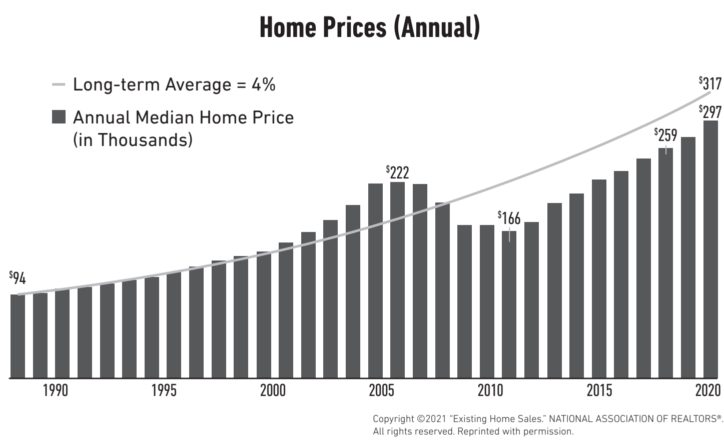


Figure 1.4

Long-term factors make real estate a solid investment. All you need to do now (in the short run) is find a good buy (based on your needs and what is currently available) and make sure you have the financial ability to hold onto it for the long run. Once you've made this purchase, the long-term benefits of equity buildup, value appreciation, and tax benefits will always make it the right decision.

While you should always be aware of the fluctuations of local market conditions, real estate tends to be much more stable and rewarding over time than other types of investments. With the help of your real estate agent, you can find a home that meets your criteria and is a smart purchase.

We hope you're ready to say goodbye to your worries and hello to your good buy. But if you're still feeling anxious about the possibility of buying, here are some great points to consider:

Fear #1: I Can't Afford to Buy a Home Now

Fact: Until You Do the Math, You Don't Know What You Can or Can't Afford

Buying a home is a huge step and a big financial commitment. From down payments to inspections, figuring out **property taxes** to the possibility of **private mortgage insurance (PMI)**, money talk can seem overwhelming. There is almost always a home you can afford to buy that will be a smart purchase for you—the only questions are what and where. When it comes to affordability, there are a few things to consider.

For starters, if you are currently paying rent, generally you can afford to buy. From a financial point of view, in the United States, the tax savings on **mortgage interest** alone usually make up most of the difference between rent and a **mortgage payment**—the tax write-offs you get at the end of the year will generally help you save a significant amount of money.

Understanding the Impact of Interest Deductions

Margot's monthly mortgage payment is $1,208. This means, her payments total $14,496 annually. However, a percentage of that monthly payment is purely interest, which she can write off as a tax deduction in the United States. For instance, in her first year, $11,008 of her annual payment was interest. Depending on where she lives and what tax bracket she's in, Margot could save between $3,000 and $4,000 in taxes, bringing her annual house payments to $10,496–$11,496.

Margot's friend Jacob rents because he doesn't think he can afford to buy just yet. He pays $1,000 in rent per month—that's $12,000 a year in housing expenses. And, unlike Margot, none of it is tax deductible. So, he's paying around $1,000–$2,000 more a year, and he's not even building any equity.

Figure 1.5

Don't believe us? Well, that's fair. We're strangers. But maybe you'll believe *math*. Let's use the example in Figure 1.5: if Margot has a fixed-rate mortgage at 4.1 percent for 30 years and her property will one day be worth $810,849, over the life of her loan she would pay $434,878 in mortgage and interest payments. By comparison, Jacob, over that same 30 years, would have paid over $797,266 in rent assuming his monthly payment increased an average of 5 percent per year. In reality—it would probably be significantly more. In the past 30 years, the cost to rent has risen significantly. One study conducted by the Harvard Joint Center for

Housing Studies found that the "median asking rent for unfurnished units in a new apartment building between July 2018 and July 2019 was $1,620—about 37 percent higher than the median for units completed in 2000." That's a huge jump! The bottom line? After thirty years, Jacob would have spent almost three-quarters of a million dollars, or more, and Margot would have earned more than half a million dollars.

"I knew if I could afford to rent, I could afford to buy," says Donna Corbin, a twenty-one-year-old student in Las Vegas, Nevada, who bought her first home with a government-insured, no down payment program. If you think you can't afford to buy, you might want to ask yourself a different question: "Can I really afford to keep renting?"

Moreover, depending on your credit scores, you can end up affording more than you realize. There are three major credit companies that lenders pull credit scores from: TransUnion, Experian, and Equifax. But the credit scores used for mortgage lending aren't generally the same ones used for, say, your credit cards. Instead, lenders tend to rely on **FICO** 2, 4, and 5—those are mortgage-specific credit scores. (To learn more about credit scores, see Chapter 3. And note that if you're a Canadian resident, you'll rely on what's known as a BEACON score.) These scores tend to take a much larger picture of your overall credit health, considering things like your **debt-to-income ratio**. If you have good credit, you'll get better interest rates on your loan. That could potentially mean buying a house for less money than you'd be paying in rent.

How to Calculate Your Debt-to-Income Ratio

Calculating your debt-to-income ratio is quick and straightforward. To start, you need to add up all of your monthly debts: credit card bills, student loan payments, car notes, etc. Once you've added all of that up, simply divide that number by your gross monthly income (aka how much money you make before taxes.) For example, let's say you owe $2,500 a month in debt. Your monthly gross income is $5,000 a month. 2,500/5,000 = 0.5. Multiply that number by 100 to get your percentage. In this instance, your debt-to-income ratio is 50 percent. That means half of your gross income is eaten up by debt—that's pretty high. Most lenders are looking for people with a moderate to low debt-to-income ratio for one simple reason: the lower the number, the lower the risk you'll be unable to pay back your loan.

For example, let's say you're presently paying $1,400 in rent per month. You decide you want to buy a home and realize because of your credit score of 740, you'll have a 3.21 percent interest rate on a thirty-year mortgage. Luckily, you've been able to save the past few years and have enough to put 20 percent as a down payment—your monthly payment would be a hundred dollars less a month. Think about that: for less money per month, you could own your own home.

Moreover, homeownership can offer the value of long-term personal and economic stability. Although there may be a higher initial cost to buying a house, if you're planning on staying in one place for a few years, the equity you'll build can end up being a financial boon. The earlier you buy a house, the earlier you benefit from equity buildup. Additionally, you're well positioned for any future appreciation if the market value of the house increases.

For example, if you purchase a home for $300,000, with a 20 percent down payment and covering the remaining $240,000 with a mortgage, you'd have equity of $60,000 in the house. If the market value of the house remains constant over the next two years, and $16,000 of mortgage payments are applied to the principal, you would possess about $76,000 in home equity at the end of the two-year period.

There you have it: the sooner you get into your home, the sooner you'll reap the financial benefits. And the sooner you seriously begin the process of buying your home, the sooner you'll find the home that makes you swoon.

Fear #2: I Should Wait until the Real Estate Market Gets Better

Fact: There Is Never a Wrong Time to Buy the Right Home

Simply focusing on the market is rarely the smart approach to buying the right home. Whether "right" means the right price or the right property for you, waiting for the perfect market timing seldom works to your advantage. Trying to time the market in the short term is the easiest way to miss your timing for the long term.

If you don't believe us, look back at the Great Recession. Starting in 2008, when the bubble around the housing market burst, gross domestic product (GDP) declined by 4.5 percent and unemployment rose to around 9.5 percent. These years had a lasting impact on the economy, culture, and housing market in the United

States. Homes were foreclosed on, new college graduates couldn't find jobs, and retirement funds were drained. Since then, Millennials, in particular, have struggled to make up those gaps, with a mere 47 percent homeownership rate. According to the Housing Finance Policy Center, that puts Millennial homeownership rates for ages 25–34 at 8 percentage points lower than Boomers at that age, and 8.4 percent lower than Gen Xers. Everyone still feels the impact of this incredible financial event.

But, like those who endured the Great Depression, the people who lived through the Great Recession made it through, and benefited from an era of financial growth. In fact, immediately following the Great Recession, the United States entered the longest period of rising prices and general prosperity since World War II. The fact of the matter is, even the biggest economic downturns are, well, normal. They're part of the ups and downs of life. Moreover, they aren't forever. For instance, the Great Recession began in 2007 and ended in 2009—that's only two years! Compare that to the decade-long period of growth and financial stability that's followed. Even when there were some events that threatened to dampen the economy, like the COVID-19 pandemic, the housing market still continued to thrive and interest rates were historically low.

The truth is there are always fluctuations in the market, economic hurdles, and global transformations that impact each generation. While the particularities of those events might change, the overall takeaway is simple: things that go up, eventually go down, and things that go down, eventually go up.

In the end, there are really two ways to make money in real estate: timing and time. That is, you either happen upon the right moment to purchase your home before its price appreciates, or you hold it for a long enough time so that appreciation makes your purchase investment right. If you miss the first, you most certainly can count on the second.

Fear #3: I Don't Have the Money for the Down Payment

Fact: There Are a Variety of Down-Payment Options Available to You

While many people believe that making a home purchase requires a substantial down payment, as much as 20 percent, this is seldom true. As a first-time buyer, options are always available to you that require much less than this number, as low as 5 percent, some even less. Moreover, most states have down-payment assistance programs that can help you afford to buy. Don't let a lack of a substantial down payment prevent you from investigating your home purchasing opportunities.

House-hacking can also be a great way to make homeownership a more affordable option. House-hacking is when you purchase a piece of real estate—a single-family home or duplex—and lease out one of the bedrooms or units. This rental income can then be applied toward your mortgage. House-hacking is a great way to afford a house that may be otherwise out of your price range or make a mortgage in general more affordable. (We'll cover this more in Chapter 3). Or you can participate in home rental programs like Vrbo or Airbnb. While that might not be ideal all of the time, you could always make your month's mortgage payment by renting out your place while you're on vacation. You deserve time off; let your home make some extra money for you while you rest. The reality is there are many legitimate and sound financing options to choose from, and it only makes sense to investigate which one is right for you, your circumstances, and your pocketbook.

If you're vacillating on whether or not you should spend more time saving up for your down payment or get right down to it, remember that the longer you hesitate, the longer you'll be delaying all the financial benefits of homeownership. In other words, continually putting things off in the hopes of a better market or larger down payment could actually cost you money in the long run.

Fear #4: I Can't Buy a Home Because My Credit Score Isn't Good

Fact: A Less-Than-Perfect Credit Score Won't Necessarily Prevent You from Buying a Home

Typically, there are two main types of credit challenges—a poor credit history or no credit history. Although it's valuable to have a good credit score, a poor one shouldn't necessarily prevent you from talking to lenders to explore your options. You might be pleasantly surprised by the outcome. You can expect that a good loan officer (or mortgage specialist) will be able to help you resolve your credit challenges, often by simply showing you how to move or consolidate your debts, or by referring you to a credit counselor who will put you on a plan. This plan may take a few months or longer to implement, but it immediately gets you on the path to ownership.

If you're facing the challenge of having no credit history because you are new to the workforce or have not made regular purchases on credit, there are still possible solutions that you may want to explore. One common avenue for first-time home buyers is to secure financing with the help of a cosigner, such as a parent or a close relative, who is willing to stand by your ability to make the payments. Another option can be finding a lender who is willing to use alternative forms of payment history such as student loans, rent, and utilities. Some of these may already be creating a credit history, depending on your location and whether or not your landlord has opted in.

It's worth noting that there is no better way to improve or establish your credit rating than by having a mortgage and making timely payments.

Fear #5: I Can't Afford to Buy My Dream Home

Fact: The Best Way to Get Closer to Buying Your Dream Home Is to Buy Your First Home

Very few people can afford to buy their dream home when they buy their first home. In fact, according to the **National Association of Realtors®** (or **NAR**), 78 percent of first-time home buyers in the United States compromised on some features of their first home. This isn't a bad thing! This approach gets you closer to owning your dream home because you are building equity.

Gary Keller and his wife Mary serve as a great example of how this works. They used their first home as a savings plan for their future dream home. They even made additional principal payments when they could to accelerate their equity buildup. This allowed them to pay off their first home in about sixteen years—fourteen years before their original 30-year mortgage would have been paid off with minimum payments. Then, all that financial equity was available to help them build a second home—their dream home.

Fear #6: I Should Wait to Buy a Home until I'm Certain About My Domestic Future

Fact: You Do Not Have to Wait until You're Married, Partnered, or Ready to Have Children to Buy a Home

When most people say they want to wait until they're in a committed relationship to buy their first home, what they're actually struggling with are two distinct issues: First, would it be better to wait until they had two incomes? And, second, will their future partner like their home?

But partnership isn't always something people want, and there's a growing number of singles buying homes too. Putting off the decision to buy the right home is never the best solution. Getting into the game as soon as possible is. In fact, NAR reports that 27 percent of first-time US home buyers are, in fact, single. Of that 27 percent, 17 percent are single women. They didn't wait, so why should you?

If partnership is in your future, then buying is also the right decision. If your future partner doesn't feel at home in the house you've purchased, you can rent it or sell it and use the proceeds, along with your possible dual income, to buy a home you both like. And, if your spouse likes the home you have, then there's no problem at all!

Fear #7: I Should Pay Off My Students Loans Before Buying a Home

Fact: Student Loan Debt Doesn't Prevent You from Buying a Home

Many of us spent a portion of our formative years acquiring wisdom, knowledge, and something else: student loan debt. Now, more than ever, student loans have become a larger burden on first-time home buyers. In fact, according to a study conducted by the Society of Actuaries, "about 31 percent of Millennials report holding student loans, significantly higher than earlier generations." Here in the United States, there are roughly 45 million borrowers with nearly $1.6 trillion worth of student loan debt, with an average debt per person running around $29,000.

That's a lot of debt.

But having student loan debt doesn't need to prevent you from buying a home. Just remember, there are two major ways student loans will impact your mortgage—payment history and debt-to-income ratio.

The payment history for your student loans is like your payment history for anything—if you are late on a payment, your credit will take a hit. If you want to buy a home, it's important to make sure that you aren't late or unable to make debt payments. If you find yourself having difficulty, you can switch your loan repayment plan. Many people can negotiate for an extended payment plan or, if they have federally owned loans, apply for an income-based plan. These options can help your debt payments be lower now, and then they can increase once you've established yourself and start earning more.

Lowering your debt-to-income ratio takes more time. If you find yourself wanting to own a home but need to lower that ratio—make a plan. Contact a financial adviser, set aside money from your paycheck every month that you can use toward an end-of-year extra payment, or increase how much you pay every month to pay off your loans more aggressively.

And remember, no matter what your circumstances, your agent will be thrilled to work with you. From creating online home tours to digital conference calls, real estate companies are working double-time to make sure agents are prepared to provide you with the best service possible.

You Don't Have to Know Everything

You probably never realized you were surrounded by so many real estate "experts" until you decided to buy a home. All of a sudden, your coworker is telling you why **fixed-rate loans** are the only way to go; your great-aunt Martha in Palm Beach, Florida, is sharing her secret tips for finding a hot deal; and your father-in-law is emailing you blurry flip-phone pictures of postings from the real estate section of the *Hometown Chronicle*. Meanwhile, your Internet search engine is bringing up 2,342,209 pages of options, your boss is explaining why you should never buy north of the river, your hairdresser is urging you to never buy south of the river, and you're about ready to jump in the river.

Relax. Even if you can't stop the deluge of contradictory advice and opinions, you don't have to stress out. As an alternative, we offer you our biggest, most important, potentially most-surprising rule for keeping your home-buying stress to a minimum: You don't have to know everything.

Keep It Simple

Keeping things simple starts with separating the things you need to know from those that are strictly optional. The home-buying knowledge you need falls into three categories:

1. Knowledge of the home-buying process itself
2. Knowledge of your local market
3. Knowledge of your personal criteria

Of those three, the only one you absolutely need to master is the last—what you want, what you need, and what you can afford. You need this knowledge to develop a clear vision of the home you're looking for.

Your agent is the one who will fill in any information gaps about the market and the process that you may have. "Buying a home is one of the largest purchases someone will make in their lifetime," says Vermont agent Adam Hergenrother. "While it's an exciting experience, the process can also be daunting for the first-time home buyer. It's a bit of an emotional roller coaster. That's where our team comes in. It is our mission to transform lives through homeownership, and that includes educating our clients about the market and helping them navigate the process, all while enjoying the experience along the way!"

Once you have a solid vision of what you want and an agent to guide you, it's their job to help you narrow the market to those homes that fit your needs. Once you find that special property, the agent will lead the way as your home is researched, assessed, negotiated, contracted, inspected, appraised, surveyed, fixed, financed, insured, and, finally, purchased.

Of course, if you want to delve into the details, by all means, go ahead. We simply encourage you to remember that it's not necessary. It's perfectly reasonable to build a team you trust and let them handle the fuss.

The Four Fundamental Principles of the Real Estate-Buying Process

Now that you've decided to buy, we'd like to give you some advice to keep in mind throughout the home-buying process. We like to call this advice the "Four Fundamental Principles of the Real Estate Buying Process." No matter how much or how little you decide to learn about the details of your transaction, we've found that these four principles apply to nearly any aspect of the process. In our years of experience, we have identified some basic mistakes first-time home buyers are prone to make. Applying these proven principles will help you navigate through them.

The Four Principles of the Buying Process

1. The rules of real estate are always local.
2. The best deals are usually win-win.
3. Price and value are not the same.
4. Choose with your heart and your head.

Principle 1: The Rules of Real Estate Are Always Local

Markets change from year to year and from neighborhood to neighborhood. If you're shopping for a $250,000 home in San Antonio, Texas, you don't need any advice based on what the market was like when your parents bought or what the market is like in Detroit, Michigan, or, in fact, in the $400,000 price range in Windsor, Ontario. As for your brother-in-law's hot advice for scoring a Bay Area bungalow? Let it go. Your cousin's rules of real estate? Plug your ears. Or, at the very least, take them with a grain of salt. You only need to understand what is available for $250,000 in San Antonio right now—nothing more, nothing less.

Similarly, we also encourage skepticism toward the simplistic advice you may have heard, for instance: *always offer below list price or never look above your price range*. Adages and absolutes like these can blind you to the realities of your unique market, a specific property, or your personal needs, and they can keep you from seizing the opportunities before you.

Real estate laws, procedures, and practices are local. They vary significantly from province to province, state to state, and city to city. The way a real estate transaction closing was handled for your brother-in-law in California or your sister in Québec may not be the way it's handled where you're buying your home. One of the key things your real estate agent will do for you is educate you on how real estate transactions are handled in your area and guide you step-by-step through the process.

Principle 2: The Best Deals Are Usually Win-Win

Everything in real estate is negotiable, so don't be afraid to ask for what you really want. Still, negotiations can end when the parties involved don't agree. The solution? Find a win-win outcome that accomplishes what both parties really need. This is why it's important to prepare for any real estate negotiation by deciding where you will and won't be willing to compromise.

Sit down with your agent and figure out what you're willing to live without and what you absolutely need. Going into negotiations ahead of time with some semblance of what you're okay living without can help you mentally prepare for the give-and-take of the process. But, even then, keep in mind that you're working with other people who have their own goals.

In the end, there is always a certain amount of give-and-take. You hold on to those things you really want, and you offer up those things that the other person wants that aren't as important to you. In Chapter 6, we will show you how to craft a competitive offer in which both the buyer's priorities and the seller's needs are met. Where there's a will, there's a way. Trust yourself, trust the process, and trust your agent.

Principle 3: Price and Value Are Not the Same

People make mistakes when they focus on price, not value. This idea applies to far more than just the home you're buying—it's a smart rule of thumb when it comes to most things in life. Being cost conscious is always wise, but being value conscious is even wiser. Price and value normally correlate: you usually get what you pay for. But when considering a purchase, it's important to go beyond the surface, really think about what it is you want and why, and then expect to pay a fair price for it. And remember: just because something is costly doesn't make it the best, and, likewise, just because it's cheap doesn't make it a bargain.

Just ask Missouri agent Jen Davis. "First-time home buyers have the ability to make a huge financial impact on their future. We need to make sure, as their **fiduciary**, that we guide them to select a home that will hold its value in tomorrow's market. We do this by guiding them to purchase a home that could be used as a rental when they move out or is such a desirable home that it will always be easy to sell. The factors that make that home desirable are price, condition, and location. If we are at or under market averages, we will always be able to compete in any market."

In essence, what you're looking for is a home that will appreciate in value with a few improvements—not a move-in-ready, HGTV home. It's also important to check and make sure there isn't some factor that will cause the house to be ruled out by 50 percent of people right away. Is the house near the airport or an incredibly busy road? Do powerlines run through the backyard? Does the backyard sit next to train tracks? Is it absolutely, 100 percent, definitely haunted? If the answer is yes to any of these questions, then that house may be a poor investment.

As always, it's important to do your research, consider all options, and look for the best overall value—the best quality at a reasonable price. You wouldn't buy a car without doing your homework on make, model, and quality or without considering which car best fits your needs. When it comes to buying your home, it's important to think the same way.

When you purchase your first home, you're more than likely making one of the biggest purchases of your life. This is no time to cut corners. That half-price inspector may save you $200 today, but they could miss a structural problem that might cost you thousands tomorrow. You should be able to count on your lender to lock in the best rate and deliver all necessary paperwork by closing. If a discount lender drops the ball, your closing could be delayed, it could cost you considerably more money, or it might possibly even cause you to lose the home.

So, don't set yourself up for hassles, headaches, or dead deals. Look for value—integrity, reliability, and impeccable service—from all the professionals you hire.

Principle 4: Choose with Your Heart and Your Head

Whatever property you buy will be both your home and a major financial investment. So, you want to find a home you absolutely love—a home that fits your life, located in the right neighborhood. And, at the same time, you want the property to be a solid financial asset—one that is structurally sound and appears to be well positioned to appreciate in the future. In the end, finding that perfect place for you means balancing emotion and rationality. When you're out looking for your future home, go ahead, let your heart guide you. But, when it's time to buy, step back and think with a cool head. In a few years, when you may want to sell the house, you will be very glad you did.

There's No Place Like *Your* Home

Finding a home isn't quite as easy as clicking your heels three times—but it doesn't have to resemble a battle with wicked witches and flying monkeys either. It should be an exciting adventure. With a trusted team of advisers and a handful of clear strategies, you'll have the knowledge and confidence to find the home that's right for you. And then, someday soon, you'll be there. You'll unpack the boxes, pick out draperies, toy with furniture arrangements, and send photos to friends. You'll feel that same satisfaction and excitement that Dorothy felt when she came back from Oz: *there really is no place like home*.

Notes to Take Home

- Purchasing your own home is a great investment.
- Done right, homeownership lays the foundation for a life of financial security and personal choice.
- There are specific financial reasons to buy a home. Among these are equity buildup, value appreciation, and tax benefits.
- It's smart to base decisions on facts, not fears.
- The following facts help dispel fears about purchasing your first home:
    - If you are paying rent, you very likely can afford to buy.
    - There is never a wrong time to buy the right home. All you need to do in the short run is find a good buy and make sure you have the financial ability to hold it for the long run.
    - The lack of a substantial down payment doesn't prevent you from making your first home purchase.
    - A less-than-perfect credit score won't necessarily stop you from buying a home.
    - The best way to get closer to buying your ultimate dream home is to buy your first home now.
    - Buying a home doesn't have to be complicated—there are many professionals who will help you along the way.
    - Student loan debt doesn't have to be a barrier to homeownership.
    - You don't have to know everything.

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