

OPEN THE HOUSE

HOMEBUYING HANDBOOK



If you're thinking about buying a home for the first time, you're in the right place.

This step-by-step resource is designed to **simplify the home-buying journey**, from deciding if owning a home is right for you to walking you through the home-buying process.

We want you to feel confident every step of the way.

Contents

- **Part 1:** Deciding if owning a home is right for you
- **Part 2:** Getting financially ready
- **Part 3:** Buying a home
- **Summary:** A single page overview that captures your answers along the way

Deciding if owning a home is right for you

To rent or buy a home is an individual decision. Before you decide, take the time to make sure it's the **best financial and personal decision** for you right now.



ACTION

Review the list below and check the **benefits** that you value and any **considerations** that you may need to plan for.

1 Buying a home

Benefits

Builds equity

Buying a home remains one of the most common ways for people to build equity. Equity is what you have when your home is worth more than you owe, which can happen over time as the home's value increases and as you pay the mortgage principal down.

Tax benefits

Interest paid on a home mortgage is typically tax-deductible, as are property tax payments. Be sure to speak with an accountant or financial advisor to understand the implications.

Establish community

If you purchase a home, typically you have longer-term plans to stay in the community. Owning a home helps you establish yourself in a community and grants you more flexibility to customize your home to fit your needs and tastes.

Considerations

Big investment

Buying a home is a significant investment and can drain your savings if you don't plan carefully. Even if you get a mortgage, you'll still need to make a down payment and pay [closing costs](#).

Moving costs

Moving can also be a challenge. If you buy a home and decide to move later, you'll incur the costs of moving and selling your property.

Homeownership costs

On top of a mortgage, there are additional expenses to consider, including homeowners insurance, property taxes, maintenance, improvements, and utilities.

2 Renting a home

Benefits

Maintenance is covered

You're typically not responsible for repairing or maintaining your property when you rent. When something breaks, all you need to do is alert your landlord.

Flexibility on location

Renting allows you to try different types and sizes of homes, condos, and apartments. Renting also allows you to "try out" neighborhoods to see what you like, which could be especially helpful before buying.

Flexibility if you expect to move for a job

Renting can be helpful if you have a job that requires you to move around, or if you think you'll move again in a short period of time. According to [Fortune](#), most experts agree if you plan to move again in three years, renting may be the best option for you for now.

Considerations

Cost of rent may change

The amount you pay in rent can change every 12 months or less if you're on a shorter lease. Plus, the rental market tends to ebb and flow, meaning what was once an affordable rental market when you moved the first time may not be so affordable in the event you decide to move.

Stability isn't guaranteed

When your lease is up, your landlord might not renew it, and then you'll have to move.

Home improvement decisions are generally in the hands of the landlord

While costs to repair usually fall on the landlord, the decision to make improvements or renovations also lie with the landlord or property owner. This may be a consideration if you have an interest in DIY or home improvement, or if you want the ability to make those decisions yourself over time.

Getting financially ready to buy a home

Buying a home is a **major financial decision**, especially for first-time buyers. Understanding your budget and figuring out your finances in the months prior can help set you up for success.

1 Set a realistic budget

ACTION Evaluate your debt-to-income ratio against the 28/36 rule.

28/36 RULE:

Many professionals recommend that you aim to spend no more than 28% of your income on housing and no more than 36% of your income on debts.

Front-end ratio

Also known as your housing ratio, is how much of your income you spend on housing expenses.

$$\begin{array}{c}
 \text{\$} \\
 \text{Pretax monthly income}
 \end{array}
 \times
 \begin{array}{c}
 \\
 \text{Target front-end ratio}
 \end{array}
 \%
 =
 \begin{array}{c}
 \text{\$} \\
 \text{Budget for monthly housing expenses}
 \end{array}$$

Back-end ratio

Also known as your debt ratio, is how much of your income you spend on debt, including car payments, student loans, credit cards, other mortgages, etc.

$$\begin{array}{c}
 \text{\$} \\
 \text{Total monthly debt payments}
 \end{array}
 \div
 \begin{array}{c}
 \text{\$} \\
 \text{Pretax monthly income}
 \end{array}
 =
 \begin{array}{c}
 \\
 \text{Current back-end ratio}
 \end{array}
 \%$$

Calculate how much house you can afford

Progressive has a [home affordability calculator](#) to help estimate how much house you can afford based on your income, debts, and expected mortgage rate.

Home value budget:

\$

TIP

One rule of thumb for determining how much house you can afford is that your mortgage payment shouldn't exceed more than a third of your monthly income.

2 Check your credit score



Get a copy of your credit score from the **major credit bureaus** from [annualcredit.com](#) and clear up any errors you may find.

According to Experian, a fair rating of 620 will qualify you for a conventional mortgage with most lenders. If you apply for an FHA loan, you may get approved with a 500 score. A higher credit score may get you a better mortgage interest rate. [consumerfinance.gov](#) has a **credit report checklist** to help you review your scores.

ACTION

Your credit score:

PART 2 CONT'D →

Getting financially ready to buy a home

Buying a home is a **major financial decision**, especially for first-time buyers. Understanding your budget and figuring out your finances in the months prior can help set you up for success.

3 Plan and save for additional costs

ACTION Use the form below to calculate estimated costs.

Down payment

The minimum down payment you need for a house varies by mortgage type. Often 20% of the home's value, but many people pay less — as little as 3% sometimes. However, making a down payment of less than 20% usually means you'll need to pay [private mortgage insurance](#), or PMI.

	\$	
	Home value	
x		%
	Down payment percentage	
=	\$	
	Down payment estimate	

Earnest money deposit

An [earnest money deposit](#) is a check that will accompany your offer, typically between 1% to 3% of the home's value. This money is held in escrow and shows the seller you're committed to purchasing the home. Later it's applied to your closing costs or down payment. Learn more about [how escrow and homeowners insurance work](#).

	\$	
	Home value	
x		%
	Earnest money percentage	
=	\$	
	Earnest money estimate	

Closing costs

[Closing costs](#) average between 2% and 5% of the home's total cost. They include loan origination fees, appraisal fees, surveys, and more. You (or your realtor) can negotiate closing costs, but most buyers will end up paying at least a portion of these expenses. If you can get the seller to agree to pay most of the closing costs, you can reduce your costs a bit.

	\$	
	Home value	
x		%
	Closing cost percentage	
=	\$	
	Closing cost estimate	

4 Get pre-approved for a mortgage

When you're ready to start house hunting, getting pre-approved for a [home loan](#) lets you know how much you qualify for and shows sellers that you're a serious buyer. It can also give you an advantage over someone who hasn't yet taken that step. Work with a mortgage loan officer or your bank to find out your pre-approval options.



ACTION Review the checklist below to prepare for pre-approval.

Get your documents in order

Your lender will request financial records when you apply for a home loan. These can include recent pay stubs, two years of tax returns, bank statements, rental history, and a copy of your driver's license.

Understand conventional and FHA loans

The two main types of home loans differ in required down payment and qualifications.

Conventional loan

A private lender provides these loans rather than a government agency. If you put down less than 20% for your down payment, a conventional loan will typically require PMI.

FHA (Federal Housing Administration) loan

- Backed by the government and the FHA with more lenient requirements, requiring a credit score of just 580 and allowing people who qualify to borrow up to 96.5% of the home's value (with a down payment of 3.5%).
- Even if your credit score is lower than 580, you may still qualify by making a down payment of 10%.

Buying a home for the first time

With your finances in order, you're in a stronger position to shop for your new home with confidence.

1 Figure out what really matters in your next home

ACTION Complete the form below to outline your wants and needs.

To help prioritize your wants and needs, take a look at the different types of houses on the market in the neighborhoods where you want to buy, online or in person

Determine what you need and want in a house

Newer home vs. older home

Would you prefer a new home so that you don't have to deal with the maintenance issues of older homes? If you're handy with tools and don't mind putting in the physical effort, a fixer-upper is one way to reduce costs.

Location

What is the best location for you? Consider proximity to schools, shopping centers, and hospitals, as well as access to highways and public transportation.

Size and type

Do you want ample front and backyard space, or are you OK with your neighbors being closer to your house? What type of house appeals to you: split-level, ranch, or a Cape Cod? Modern or traditional style? How many rooms do you need? What about an attached versus detached garage, an enclosed porch, a finished or unfinished basement, and landscaping?

Notes

Notes

Notes

2 Hire a real estate agent

Preparing to buy a house can be stressful, but a real estate agent can help you navigate the home-buying process more efficiently, find houses that have what you want, navigate what to look for when you're buying a house, and negotiate with the buyer. It's their job to do everything in their power to find you a home that fits your desires and is within your budget.

ACTION

Hire a real estate agent

3 Start house hunting

Check your local real estate listings, attend open houses, and tour homes privately with your real estate agent. As you get familiar with the market, identify your deal breakers. You might not find a house with everything you want, but you can make sure it has everything you need.

ACTION Keep track of what you've learned during your home search.

Find the right home for you

House #1

House #2

House #3

PART 3 CONT'D →

Buying a home for the first time

With your finances in order, you're in a stronger position to shop for your new home with confidence.

4 Make an offer

Once you find a house that checks your boxes, consult with your agent, and consider what amount you're comfortable with to [make an offer on the home](#), typically with an earnest money deposit, usually between 1% to 3% of the home's value. Consider including a home inspection contingency, which allows you to negotiate further or back out if major issues are found during the inspection.

ACTION

Make an offer

5 Get a home inspection

After the house is under contract (meaning the buyer accepted your offer), find a home inspector and schedule a [home inspection](#). You pay for the home inspection out of pocket rather than as part of the closing costs. If the inspector finds aspects of the house that need repairs, you may negotiate with the seller to pay for the repairs or reduce the negotiated sales price.

ACTION

Get a home inspection

6 Buy homeowners insurance

[Homeowners insurance](#) is required by most home lenders, and while they may refer you to an insurer, you can also [compare homeowners insurance rates](#) to find the right policy for you. It's also helpful to understand how [escrow accounts](#) help ensure your premiums and taxes are paid on time.

ACTION

Buy homeowners insurance

7 Secure your financing

To finalize your mortgage financing, your lender will likely require an appraisal, which they'll handle. You typically pay for the appraisal out of pocket.

ACTION

Get a home appraisal

8 Close on the home

Your last step is the [real estate closing](#), where the buyer and seller finalize the home purchase. Before closing, resolve any issues raised in the inspection, finalize the mortgage with your lender, and review the list of [closing costs](#) in the Closing Disclosure. At the closing, you sign your title transfer and mortgage documents and take possession of your new house.

ACTION

Close on the house

PROGRESSIVE

CONGRATULATIONS,
you're a homeowner!

Please note: Whether or not to purchase a home is ultimately your decision. This tool is intended to assist in that decision-making process, but neither its applicability to your individual circumstances nor successful outcomes are guaranteed. You may want to consult your own financial, legal, or real estate advisors regarding your particular circumstances.

HOMEBUYING HANDBOOK SUMMARY



PART 1

Deciding if owning a home is right for you

Buying a home

Benefits

- Builds equity
- Tax benefits
- Establish community

Risks

- Big investment
- Moving costs
- Homeownership costs

Renting a home

Benefits

- Maintenance is covered
- Flexibility on location
- Flexibility if you expect to move for a job

Risks

- Cost of rent may change
- Stability isn't guaranteed
- Home improvement decisions are generally in the hands of the landlord

PART 2

Getting financially ready to buy a home

Set a realistic budget

Home value budget:
\$

Plan and save for additional costs

Down payment:
\$

Earnest money deposit:
\$

Closing costs:
\$

Check your credit score

Credit score:

Get pre-approved for a mortgage

- Get your documents in order
- Understand conventional & FHA loans

PART 3

Buying a home for the first time

- Determine what you need and want in a house
- Hire a real estate agent
- Find the right home for you
- Make an offer

- Get a home inspection
- Buy homeowners insurance
- Get a home appraisal
- Close on the house