

No place like home

7 steps for buying a home





For many generations, home ownership has been part of the American dream. Whether you're buying for the first time or upgrading to your dream home, following these steps can help you through the process.

7 steps for buying a home

- Step 1: Start saving for a down payment
- Step 2: Secure conditional loan approval
- Step 3: Hire a real estate agent
- Step 4: Search for your new home
- Step 5: Submit an offer
- Step 6: Obtain a home inspection, appraisal, and final mortgage approval
- Step 7: Close on your new home

Step 1: Start saving for a down payment

Eliminate debt

- Pay off outstanding debt and remain debt-free
- Build up an emergency fund by saving 3–6 months of expenses

Determine what you can afford

Housing debt should be less than 28% of gross income.

- This includes principal, interest, property taxes, and homeowners insurance
 - Rule of thumb: Home price should be 2x–3x your annual income
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- Set a goal to save 20% of home price for a down payment
 - A 20% down payment eliminates the requirement for private mortgage insurance (PMI)

Save for costs associated with purchasing your new home

- Save for closing expenses
 - Typically closing expenses can range from 3%–4% of the purchase price
 - Includes items like appraisal cost, home inspection cost, fees charged by title companies and lenders, property taxes, homeowner's insurance, and attorney fees (if needed)
- Account for moving and other expenses
 - Call moving companies to get quotes ahead of time
 - Budget for plans to update your new home, like painting, buying new furniture, installing new kitchen appliances or washer and dryer, updating blinds, drapes, or fixtures



Consider this:

For first-time homebuyers, or individuals with no present interest in a main home during the two-year period before acquisition, the IRS grants an exception to the pre-59 1/2 10% Federal Tax on distributions from an IRA up to \$10,000. The distribution may, however, be included in income.

Step 2: Secure conditional loan approval

Check credit score

- **Knowing your credit score ahead of time can help steer you in the right direction:**
 - Fannie Mae and Freddie Mac require at least a 620 FICO credit score.
 - Federal Housing Administration (FHA) allows 10% down for FICO scores below 580.
 - United States Department of Veterans Affairs (VA) Loans have no minimum FICO score requirement; these loans are offered to military service members and their families and are guaranteed by the federal government.
 - United States Department of Agriculture (USDA) Rural Housing has a minimum FICO score of 640 in most cases; these loans are offered to rural residents with steady, low, or modest income and are government-insured loans.
 - Jumbo loans for 2025 start at \$806,500 in most areas of the country (check your county’s thresholds) and typically require a FICO score of at least 680, but many jumbo loans require a 700–720 or higher score.

Determine which mortgage option is right for you

Fixed-Rate Amortized Mortgage	<ul style="list-style-type: none"> – 5-year term – 10-year term – 15-year term – 20-year term 	<ul style="list-style-type: none"> – 30-year term – 40-year term – 50-year term
Interest-Only Mortgage	<ul style="list-style-type: none"> – Typically are 30-year term with a 10-year interest-only period – Could be a fixed-rate term or adjustable-rate term – Keep in mind the payments will increase after the interest-only period is over – Most lenders require a 700–720 or above FICO credit score 	
Adjustable-Rate Mortgage	<ul style="list-style-type: none"> – Interest rate starts at a fixed-rate for a certain number of years – After initial fixed-rate term, the interest rate will change: <ul style="list-style-type: none"> › Monthly, semiannually, or annually – Caps may be set on how much interest rates can increase 	
Combination or Piggyback Mortgage	<ul style="list-style-type: none"> – These consist of taking out two separate mortgages, which can be fixed-rate, adjustable-rate, or a combination of both <ul style="list-style-type: none"> › Used when the down payment is less than 20% to prevent the borrower from having to pay for PMI – Typically requires a 740+ FICO score 	
Mortgage Buy Downs or Paying Points	<ul style="list-style-type: none"> – Lowers the mortgage interest rate initially or for the duration of the loan for an upfront payment 	
Bridge or Swing Loan	<ul style="list-style-type: none"> – Used when a seller has a home for sale, which hasn’t sold yet, but wants to borrow the equity in that home to purchase another home – Seller’s current home is used as collateral 	

Gather documents and get preapproved

- Gather documents to submit to lender for preapproval.** This will show the seller you're a committed buyer. (Note: Preapproval is different from prequalifying, as it requires preliminary underwriting.)
 - Income verification and employment
 - Last two years' employment history and tax returns
 - W-2s and 1099s
 - Last few pay stubs
 - Financial Records
 - Bank statements (checking, savings, and existing loans or lines of credit accounts)
 - Investment account statements (401(k), 403(b), SEP IRA, SIMPLE IRA, Traditional and Roth IRAs, nonqualified brokerage accounts, cash value life insurance, annuity contracts, 529 plan, etc.)
 - Proof of funds to close on your new home
 - Gift letter, if your down payment is coming from a gift
- Lenders may impose overlays, which go beyond the loan's official minimum standard.**
 - Reapply for a mortgage if you've been denied
 - Apply at a different bank
 - Take appropriate action to improve your credit scores

Step 3: Hire a real estate agent

Your hard work of saving and preparing for finding your dream home should be handled by the best real estate professional in your area.

Common questions to ask:

- How long has the real estate agent been assisting home buyers in your area full time?
- How often and in what ways do they communicate with their clients?
- Do they have a personable, serving attitude that makes you feel like their only client?
- What is their list of homes sold each year?
- How is their track record for negotiating with prior home sellers' agents?
- What knowledge level do they have of the local area?
- How do they get paid, and what are the details of their agreement?



Step 4: Search for your new home

Do your homework ahead of time and get out and see what's available in your desired area.

- Narrow down your search by location
- Factor in your price range
- Make a list of must-have home features. If you're married, make separate lists and compare.
- Research school districts
- Consider neighborhood criteria (local walk score®, transit score®, bike score®, other home values, local businesses, etc.)
- Find areas for easy-to-fix improvements, which could lead to a better price on the home

Step 5: Submit an offer

You'll rely on your real estate agent to submit an offer and advise on how to proceed.

Offer letter should include:

- Buyer and seller information
- Property address
- Purchase price, lender information, and down payment amount
- Earnest money deposit
- Items to be left with the home (appliances and furniture, for example)
- Contingencies (home inspection, appraisal, and final mortgage approval)
- Closing date



This is where strong emotional intelligence is required.
Try not to get too excited, or emotionally connected.

Step 6: Obtain a home inspection, appraisal, and final mortgage approval

At this point, if the seller accepts your offer, you're under contract. Congratulations! Working through the contingencies will move you one step closer to holding the keys to your new home.

Home inspection

- Most important precaution as a buyer to determine structural integrity of the home
- Mold, radon, and water damage evaluation
- Termite or other pest evaluation
- Well water testing
- Sewer line or septic system scoped
- If problems arise with the home, work with your real estate agent to find remedies.
 - Ask seller to fix first
 - Reduce the price of the home
 - Cancel the contract altogether

Appraisal

- Mortgage lender will require an appraisal to determine the value of the property
- Work with your real estate agent to determine the best next steps if the value is lower than your offer

Final mortgage approval

- Contact the lender you decided to work with and finalize your mortgage

Step 7: Close on your new home

You're almost ready to crack that bottle of champagne to celebrate, but first you'll have closing documents to sign.

You'll most likely pay for:

- Closing costs
- Prorated property tax
- Homeowner's insurance
- Homeowner's association fees (HOA) if applicable



Depending on the real estate market in the area you're looking to move to, it may take multiple attempts to finalize the homebuying process. Don't get discouraged if your first offer isn't accepted. It's very typical in urban areas for it to take several tries. Stay motivated and keep looking until your home ownership is accomplished.

**When it comes to preparing for the future,
there's no time like the present.**



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