SMART TIPS FOR BUYING YOUR FIRST HOME ON A BUDGET

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Abstract

Buying your first home is an exciting milestone, but navigating the process on a budget can be challenging. This guide provides smart tips to help first-time buyers make informed decisions while staying financially secure. From setting a realistic budget and understanding mortgage options to researching affordable locations and negotiating effectively, every step is covered. Learn how to assess hidden costs, leverage government grants, and improve your credit score to secure better loan terms.

With practical insights on saving for a deposit and avoiding common pitfalls, this resource empowers you to make a confident and cost-effective home purchase. Whether you're buying alone or with a partner, these tips will help you turn your dream of homeownership into reality.

Getting Started

Property prices are the lowest they've been in a decade or more. Mortgage rates continue to hover near historic lows.This is gloomy news for prospective sellers and great news for first-time buyers–if you tread carefully amid such a momentous transaction. "It's a great time to buy if you've got the credit," says Andrew Firoved, chief executive and founder of CounselorDirect.com. "They say buy low, sell high, and you're buying low."To make sure you buy low, and smart, here are a few pointers.

Make sure buying is for you. Are rents cheap and homes costly in your city? Are you planning to move in the next year or two? Is your job looking iffy? If any of these apply, buying might not be a good move. After all, the days when houses could quickly be flipped for more money are history."Real estate is not as liquid an investment as it was 5 or 10 years ago," cautions Steve Domber, president of Prudential Serls Prime Properties, a real estate broker firm operating across New York state and Connecticut. "If you don't feel that you are going to stay in your job in your current location then consider renting."

1. How Much Can You Afford When Buying Your First Home?

If you're looking to buy a home, it's important to understand how much you can afford to pay. A general guideline for an affordable mortgage is one equal to roughly 200% to 250% of your gross annual income. However, the specific amount you can afford to borrow depends on several factors, not just what a mortgage lender is willing to lend you. You'll need to evaluate your finances, preferences, and priorities. Here's everything you need to consider to determine how much you can afford.

How Much of a Mortgage Can I Afford?

Most prospective homeowners can generally afford to finance a property whose mortgage is between two and three times their annual gross income.1 Under this formula, a person earning $100,000 per year can only afford a mortgage of $200,000 to $250,000. However, this calculation is only a general guideline.

Ultimately, when deciding on a property, you need to consider several additional factors. First, it's a good idea to understand what your lender thinks you can afford and how it arrives at that estimate. Second, you need to have some personal introspection and figure out what type of home you are willing to live in if you plan on living in the house for a long time and what other types of consumption you are ready to forgo—or not—to live in your home.

How Do Lenders Determine Mortgage Loan Amounts?

While each mortgage lender maintains its own criteria for affordability, your ability to purchase a home (and the size and terms of the loan you will be offered) always depends mainly on the following factors.

Many factors go into the mortgage lender's decision on homebuyer affordability, but they boil down to income, debt, assets, and liabilities. A lender wants to know how much income an applicant makes, how many demands there are on that income, and the potential for both in the

future—in short, anything that could jeopardize its ability to get paid back. Your income, down payment, and monthly expenses are generally base qualifiers for financing, while your credit history and score determine the rate of interest on the financing itself.

Gross Income

This is the level of income a prospective homebuyer makes before taking out taxes and other obligations. This is generally deemed your base salary plus any bonus income and can include part-time earnings, self-employment earnings, Social Security benefits, disability, alimony, and child support.

Front-End Ratio

Gross income plays a vital part in determining the front-end ratio, also known as the mortgage-to-income ratio. This ratio is the percentage of your yearly gross income that can be dedicated toward paying your mortgage each month. The total that makes up your monthly mortgage payment consists of four components, known as principal, interest, taxes, and insurance (PITI). If required by your mortgage, the insurance portion includes property insurance and private mortgage insurance (PMI).

A good rule of thumb is that the front-end ratio based on PITI should not exceed 28% of your gross income.2 However, many lenders let borrowers exceed 30%, and some even let borrowers exceed 40%.

How to Calculate a Down Payment Amount

The down payment is the amount that the buyer can afford to pay out-of-pocket for the residence, using cash or liquid assets. Lenders typically demand a down payment of at least 20% of a home's purchase price, but many let buyers purchase a home with significantly smaller percentages. Obviously, the more you can put down, the less financing you'll need, and the better you look to the bank.

For example, if a prospective homebuyer can afford to pay 10% on a $100,000 home, the down payment is $10,000, which means the homeowner must finance $90,000. Besides the amount of financing, lenders also want to know the number of years for which the mortgage loan is needed. A short-term mortgage has higher monthly payments but is likely less expensive over the duration of the loan.

Personal Considerations for Homebuyers

A lender may say that you can afford a considerable estate, but can you? Remember, the lender looks primarily at your gross pay and other debts. The problem with using gross income is simple: You factor in as much as 30% of your paycheck—but what about taxes, FICA deductions, and health insurance premiums? Also consider your pre-tax retirement contributions and college savings, if you have children. Even if you get a refund on your tax return, that doesn't help you now—and how much will you get back?

That’s why some financial experts feel it’s more realistic to think in terms of your net income and that you shouldn’t use any more than 25% of your net income on your mortgage payment. Otherwise, while you might be able to pay the mortgage monthly, you could end up house-poor.

The Bottom Line

The cost of a home is the single largest personal expense most people will ever face. Before taking on such an enormous debt, take the time to do the math. After you run the numbers, consider your situation and think about your lifestyle—not just now but into the next decade or two. Before you purchase your new home, consider not only what it costs you to buy it but how your future mortgage payments will impact your life and budget. Then, get loan estimates for the type of home you hope to buy from several different lenders to get real-world information on the kinds of deals you can get.

2. What Are the Best Ways to Save for a House Deposit?

Saving enough money to buy a house might seem like scaling a financial Mount Everest, but don't let that stop you from taking the first steps. Once you get moving, you might find the peak more accessible than you expected.

Here's how to begin the climb.

1. Set a goal for how much money to save

Homebuying costs, such as the down payment and closing costs, are often expressed as a percentage of the home price. First, determine an affordable price range for your house hunt. (Need help? Use our calculator to see how much house you can afford.) Then, with a purchase price in mind, you can set a specific savings goal.

The biggest hurdle is often the down payment — so let's start there.

Saving for a down payment
The down payment is the upfront cash you pay to buy a house. Then, you finance the rest of the house with a home loan, or mortgage. Requirements differ by loan type, but your down payment can be as low as 3%, especially if you've got a solid credit score and manageable debts.

To save for a down payment, start by knowing the minimum requirement for the type of loan you plan to get. Common mortgages include:

- **Conventional loans**. Most mortgages are conventional loans, which adhere to conforming loan standards set by Fannie Mae and Freddie Mac. These standards can make qualifying for a conventional mortgage harder. However, with some conventional loan programs, you can make a down payment as low as 3%.

- **FHA loans**. FHA loans are backed by the Federal Housing Administration and require as little as 3.5% down. Required down payment amounts vary by credit score, however.

- **VA loans**. Backed by the U.S. Department of Veterans Affairs, VA loans let borrowers skip the down payment. VA loans are limited to current and former U.S. service members and qualifying spouses.

Once you have a rough estimate for each expense — down payment, closing costs and other cash to have on hand — add it all up. That big number is your savings goal.

2. Tighten your budget

You don't have to give up lattes — the cost of a coffee or two a week won't finance a home anyway. But minimizing other expenses may help you save for a house faster. Here are a few places to look:

Find out if you can save by bundling your cable and internet services or changing your cell phone plan.

Refinance your student loans or refinance your auto loan to lower the monthly payments.

Cancel subscriptions you're not using.

To find other ways to reduce expenses, track your spending for a month to see where your cash goes.

3. Save raises and windfalls

Transfer any extra money to your house savings before you get a chance to spend it. That might include:

- A tax refund or credit.
- A raise or bonus from work.
- An inheritance.

4. Earn extra money

Look for ways to make some extra cash when saving up for a house, such as doing freelance work online, making deliveries or trading in old phones and electronics. Just beware of scam "opportunities" that ask for upfront money or financial information. Check out any companies before hopping on board, and learn to spot the signs of a financial scam.

5. Keep your savings in the right account

You're setting aside as much as you can to meet your goal. Now, let your money work harder for you by letting it grow in an interest-bearing account. To compare options, look at an account's annual percentage yield (APY). This reflects the amount of interest you would earn in your bank account balance over one year. A higher APY means your money grows faster.

Where should you put money when saving for a house? Here are a few options:

The bottom line: Small steps add up, so tackle your savings goal from multiple angles. It might feel daunting to save for a house when prices are on the rise — but every journey has to start somewhere. Whatever you can afford to sock away will only benefit you in the long term.

3. How Can You Find a Budget-Friendly Home in a Competitive Market?

Having a budget helps you see where your money is going. You can put aside money for bills and expenses and set up a plan to reach your financial goals.

Follow these steps to get started. Use how often you get paid as the timeframe for your budget. For example, if you get paid weekly, set up a weekly budget.

1. Record your income

Record how much money is coming in and when. If you don't have a regular income, work out an average amount.

Make a list of all the money coming in, including:

- how much
- where from
- how often (weekly, fortnightly, monthly or yearly)

This money could be from your wages, pension, government benefit or payment, or income from investments.

2. Add up your expenses

Regular expenses are your 'needs' - the essential items you need to pay for to live. These include:

Fixed expenses, for example:

- rent or mortgage payments
- electricity, gas and phone bills
- council rates
- household expenses, like food and groceries
- medical costs and insurance
- transport costs, like car registration or public transport
- family costs, like baby products, child care, school fees and sporting activities

Debt expenses, for example:

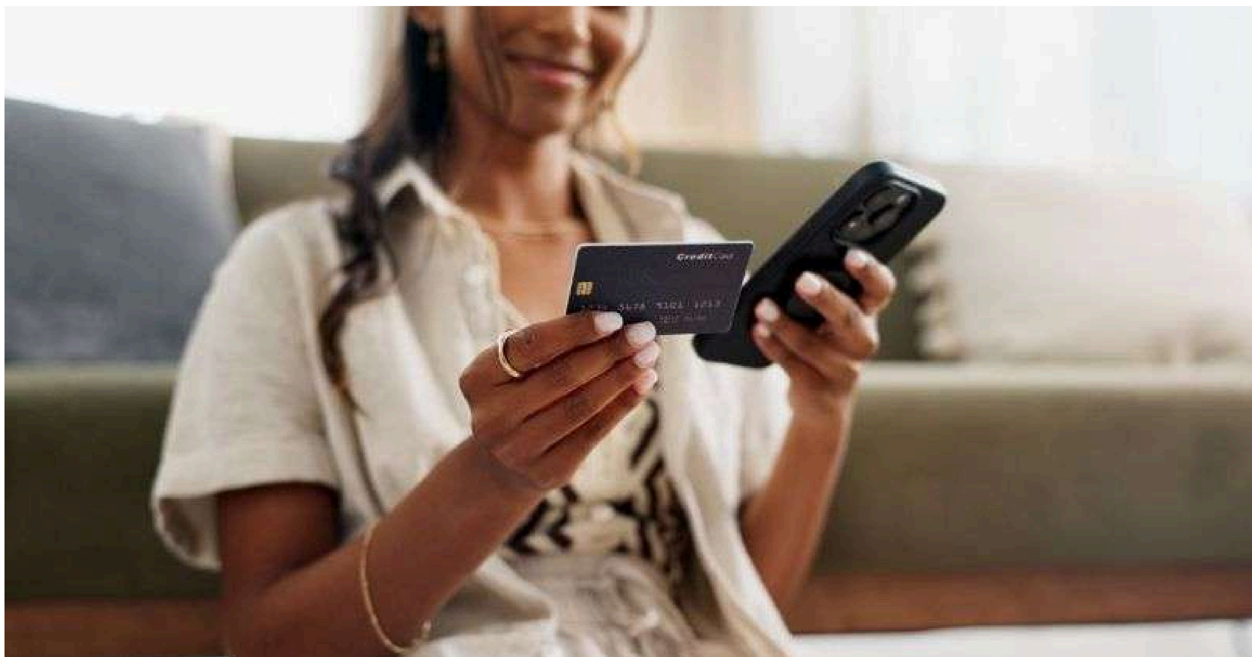
- personal loan repayments
- credit card payments
- mortgage repayments

Unexpected expenses, for example:

- car repairs and services
- medical bills
- extra school costs
- pet costs

To make sure you've recorded all your expenses, look at your bills or bank statements. Include what the expense is for, how much and when you pay it.

If you tracked your spending, use your list of transactions.



3. Set your spending limit

The money you have left after expenses is your spending and saving money. Your spending money is for 'wants', such as entertainment, eating out and hobbies. Make a plan for what you want to do with your spending money. This will help you to see where it goes and keep within your spending limit.

4. Set your savings goal

If you have a savings goal you can use your budget to work towards it. Once you know how much money you have for 'wants', you can work out how much of it you'd like to save.Having some savings can create a safety net for unexpected expenses. Even a small amount set aside regularly will make a difference.

5. Adjust your budget

Your budget needs to work for you and your lifestyle so it's important to adjust your budget as things change.

For example, if your expenses start to increase you may need to reduce your spending, or change your savings goal. Or you might be able to save more if you get a pay rise or you pay off some debt.

4. How To Get An Accurate House Removals Quote

If you are moving homes with professionals and are worried about how much it will cost you, you should get an accurate removal quote. Getting a proper quote from your moving company will help you estimate your expenses, let you see how you can cut costs, and also ascertain how much you should start saving and budgeting. Thus, you must do proper research and find at least two to three removalists in Adelaide who will inspect and survey your belongings and provide accurate moving quotes. You can then pick the one that suits your budget and needs best and start planning your move accordingly. Here are some factors that will help you get accurate quotes from your removalists so you can analyse your expenses: Tips To Get An Accurate House Removals Quote

1. List All Your Belongings

Ideally, you should get a moving quote 6-8 weeks in advance to be well-prepared and know how to budget your move. The first step you should take is to go through each room and create an inventory of all your belongings. You can then share this with your removalists in Adelaide and include any photos of your moving boxes, furniture and appliances. This will help the moving company get an idea of how many movers they will need and what truck size will fit all your belongings so that they can give you an accurate moving quote.

2. Provide Distance Measurements To And From Your Home

Along with the amount and weight of your items, you must also inform your moving company about the distance they will have to travel. Give them the address of your new home so they can measure the distance that needs to be covered and can calculate how much it will cost. If you still need the actual address, you can always give them the city or suburb name so they can give you an estimated cost. Tip: Here are some tips to help you save money during a long-distance move.

3. Inform Your Movers About Storage Of Your Goods

If your home is still being prepared, you can ask your professional removalists in Adelaide if they have storage services. Many of these moving services have temperature-controlled storage facilities where you can keep your items until they need to be delivered to your new home. This will be added to your removal quote, so inform your moving service beforehand to know how much it will cost. Tip: You can also ask your movers about backloading services so you can reduce your removal cost.

4. Include Information On Heavy-Duty And Bulky Items

To get an accurate house moving quote, it is also necessary that you inform your movers about heavy-duty and specialised items like pianos, antiques, and fragile items. It is important to tell your movers about these items as they will require extra care and attention and might require

special packing and moving equipment like crates and moving straps that will add to your removal cost.

5. Ask Questions About Specialised Services You Require

Besides loading, transporting and unloading your belongings, removalists in Adelaide provide many other services. These include packing, unpacking, disassembling and reassembling furniture, arranging packing and moving supplies and more that can significantly add to your moving quote. If you need one or more of these services, you should inform your moving company in advance so they can come well-prepared and also give you an accurate estimate of how much this will cost. Tip: You can save on moving costs by packing non-fragile items and donating or selling your extra belongings.

6. Find Out If Your Movers Offer Insurance Coverage

Next, it is necessary to ask your moving service if they provide insurance for your belongings to protect your items. Most reputed moving companies with certified business licences and permits will have some form of insurance to help protect your goods while in transit. Besides this, some movers offer full-service protection that covers any damage to your items while moving homes. You should talk to at least two to three movers and discuss their insurance policies to see how much it will add to your total moving costs.

7. Describe The Accessibility Of Your New Home In Detail

Lastly, you must tell your removalists in Adelaide about how accessible your new home is. For instance, if your new place is on the top floor of an apartment building and can only be reached by narrow stairs, your movers must arrange the appropriate moving equipment. Also, if your home has a narrow access, your removalists will have to park at a distance and load and move your items accordingly, adding to the total time and labour costs. These factors will affect your removal costs, so you must inform your movers and get estimated quotes. Tip: When looking at the estimated moving quotes, always choose a mover with a price that matches the average market rate. Choosing the cheapest movers aren’t the best choices for these reasons.

Conclusion

Once you provide your removalists with all the above details, they will give you an estimate quote for your house move. You must get at least three to four quotes to compare costs and pick the moving company that suits your budget and needs. You should not choose a moving service based solely on costs as low prices could mean inexperience and poor quality of service as well as hidden costs in the contract.

5. What Are the Hidden Costs of Buying a Home?

With U.S. interest rates inching upward but still near historic lows, many homebuyers believe they're getting the deal of a lifetime on their mortgages. As the co-founder of a digital mortgage

platform, I’ve noticed that most people aren’t aware of the behind-the-scenes inefficiencies that have actually made the cost of lending higher than ever. It’s gotten so bad that, according to the Mortgage Bankers Association (MBA), independent mortgage lenders posted a net loss on home loan originations in quarter one of 2018.

Should consumers really care, so long as the offers for “no-cost” refinance and “low-cost” purchase loans keep coming in? Yes — because the cost of lending gets passed to consumers, whether they know it or not.

What 'No Cost' Really Means

When lenders offer a “no-cost” loan, what they usually mean is a loan that eliminates some or all of the upfront closing costs normally due at signing. That can be a mighty attractive proposition for cash-strapped borrowers, given that, in my experience, typical closing costs average between 1% and 3% of the home purchase price. (For a $275,000 home, which is just below YCharts' reported current U.S. median price, that would be anywhere from $2,750 to $8,250.) Lender fees, which help recoup the time and expense incurred by the lender to verify your creditworthiness and prepare your loan package, can be a big part of the closing costs. The rest is made up of third-party costs over which your lender has little control, like fees for an appraisal that confirms the value of the home, a title search to make sure the property is free and clear and the transfer of the property deed into your name.

While a no-cost loan saves you money up front, you'll pay those costs later, and then some, in the form of a higher interest rate. For example, a lender might offer a 4% interest rate for qualified borrowers who pay their closing costs up front, but a 4.33% rate for the same loan with "no upfront costs." Even a seemingly small interest rate hike that adds less than $100 a month to your mortgage payment can add tens of thousands of dollars over the life of the loan. That's money you could use to buy a car, fund your child's education or invest in your retirement.

The High Price Of Inefficiency

Generally speaking, you'll save money over the long term if you can afford to pay closing costs up front. But whether you pay now or later, home loans are more expensive than they've ever been.

Just before the housing bubble burst in quarter four of 2008, mortgage lenders spent an average of $4,810 to manufacture a single loan, according to one MBA report. Per MBA data, over the last 10 years, that cost has skyrocketed to nearly $9,000 per loan. This number represents real costs, like overhead and salaries for mortgage personnel, so lenders can't just "write it off." But neither can they expect consumers to show up to the closing table with twice as much as they used to pay for lender fees. Instead, all that extra cost gets rolled into your mortgage interest rate.

A lender that offers mortgage rates starting at 3.875% didn't come up with that number out of thin air; rather, it calculated that 3.875% is as low as it can go and still remain profitable. If lenders can reduce their costs, they can offer more competitive rates to consumers and still turn a profit.

The Root Problem

So, what's behind the huge cost increases that are trickling down from the lender to the consumer? Simply put, I believe that the mortgage industry has been comparatively slow to innovate.

Smart devices that use data and artificial intelligence to make complex tasks easy have become part of our everyday lives. Instead of pulling the car over to check a map or change a CD, we can now navigate to our destination, sort through our music collection and take a hands-free call with a few simple voice commands.

Unfortunately, the mortgage industry generally operates more like your local DMV than the latest smart car. Many lenders still rely on antiquated, expensive, paper-based systems that weren't built for the complex mortgage regulations and consumer protections introduced in the wake of the housing bubble collapse. Their manual processes are often time-consuming and prone to errors. In many cases, data is not shared or used effectively between the consumer and the systems used by the mortgage professional, underwriter, title company, real estate agent and other key participants in the mortgage.

Make no mistake: mortgages are extremely complicated. Every borrower is different, and so is every property. Lenders should strive to achieve a marriage of sophisticated technology and industry know-how to automate the mortgage back office, as I believe that is what will ultimately give consumers the more transparent experience they deserve at lower rates that reflect reduced lender costs.

Consumer Demand Is Key

I predict that until lenders adopt digital mortgage technology, consumers will keep eating the cost of mortgage inefficiency. It’s important that consumers be aware of the cost issue and recognize that they have options when it comes to choosing a lender and a loan.Frustration, sky-high closing costs (whether paid upfront or through higher interest rates) and long closing times do not have to define the home loan experience.

6. What Should You Look for During a Home Inspection?

Home inspections are typically conducted during the selling process when a buyer wants to get an in-depth look at the property before investing. While home inspections are not required by most lenders, they are a good idea to ensure that there aren't any costly problem areas or red flags that stand out, like a failing furnace or air conditioning system.

Generally, a home inspection will take about two to three hours to complete for a single home inspector. However, some companies will send a pair of inspectors out, allowing them to finish the job in about 90 minutes for the average house, though some factors can increase the time.

What Is a Home Inspection?

A person who is interested in buying a house will typically hire a professional home inspector to conduct a thorough evaluation of the exterior and interior of the home to ensure they are not investing in a property with hidden issues.

Home inspectors focuses on examining the major components of the home, including the foundation, plumbing, electrical, and home systems, but they do not note cosmetic defects, like chipped or faded paint. While a home inspection is not required in most instances, some mortgage lenders may request a home inspection if the purchase price is notably higher than the price of the listing or if they have other concerns about the value of the property.

What Do Home Inspectors Look For?

When a home inspector is walking around the outside of the home and combing through every room inside the home, they are examining the major components of the property.

- **Exterior inspections** will generally involve the inspector checking the foundation, roof, windows, doors, gutters, garage, patios, decks, sidewalk, driveway, and irrigation system.
- **Interior inspections** focus on the major home systems, like the furnace, water heater, and air conditioner, but home inspectors will also look at the plumbing lines, electrical, ceilings, floors, interior walls, basement, and appliances.

How Long Does a Home Inspection Take?

In most cases, a home inspection for an average-sized property will take about two to three hours to complete, though it may take longer if the home is in poor condition or if the inspector has to move any objects to gain access to specific areas of the house. Even with a pair of inspectors, the inspection process will still take about 90 minutes to complete.

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Due to the potential for a follow-up appointment, discuss the expected duration with the inspector before hiring them.

How to Pick a Home Inspector

A home inspector needs to have the skills, experience, and general know-how to identify any problem areas throughout the home. "You should ask about the inspector's qualifications, experience, and certifications" Capozzolo says, noting it's best to do this before hiring them.

It's also important to ensure the inspector is familiar with local building codes and regulations, and that the company has a good reputation for quality work. Ask the inspector to provide references from previous clients, and discuss the inspection process, as well as any additional services or reports that may be included in the inspection.

How Much Does a Home Inspection Cost?

The prospective buyer is typically responsible for the cost of a home inspection, though they may have their realtor handling the booking. On average, a home inspection can cost between $200 to $500.1 The final price depends on several key factors, including the size of the home, the location of the property, and the depth of the inspection report.

Before hiring a home inspector, research at least three reputable home inspection companies in the area and get price estimates for the work. This will help you get a general idea of the local cost, while narrowing down the choice of home inspection companies.

Conclusion:

Buying your first home on a budget requires careful planning, patience, and smart decision-making. By setting a realistic budget, exploring first-time homebuyer incentives, and researching affordable locations, you can find a property that meets your needs without overspending. Prioritizing essential features, negotiating wisely, and considering fixer-uppers can also help you get the best value for your money. Additionally, working with a trusted real estate agent and securing a favorable mortgage can make the process smoother. Remember, homeownership is a long-term investment, so focus on financial stability and future affordability. With the right approach, you can achieve your dream of owning a home while staying within your budget and building a secure financial future.

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