FIRST-TIME HOMEBUYER GUIDE

Everything You Need to Know Before You Buy

Buying your first home is one of the biggest financial decisions you will ever make. This guide breaks down the process so you know exactly what to expect, what to prepare, and what questions to ask.

43M+	3.5%	580+
Renters could qualify to buy today	Minimum down payment with FHA	Minimum credit score to start

Whether you think you're ready to buy or you're just starting to explore the idea, this guide is for you. You don't need perfect credit, a large savings account, or a full understanding of how mortgages work. You just need a starting point. That's what this is.

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THE 4 PILLARS OF MORTGAGE APPROVAL

When a lender reviews your file, they are looking at four things. Every loan decision comes down to how these four areas work together. Strong areas can offset weaker ones.

1

PILLAR 1: CREDIT

Your Credit Score and History

- Credit is not the most important factor — but it does set the floor for what programs you qualify for.
- FHA loans accept scores as low as 580 with 3.5% down. Some programs go lower with larger down payments.
- Your score is built on: 35% payment history, 30% amounts owed, 15% length of history, 10% new credit, 10% mix.
- Do not open new credit accounts or make large purchases during the mortgage process.
- Lenders pull all three bureaus (Equifax, Experian, TransUnion) and use the middle score.
- Late payments, collections, and high credit card balances are the most common score killers.

2

PILLAR 2: DOWN PAYMENT

Cash to Close

- The minimum down payment depends on the loan type: FHA = 3.5%, Conventional = 3-5%, VA/USDA = 0%.
- Down payment assistance (DPA) programs exist — many first-time buyers put 0-1% out of pocket.
- Closing costs are separate from down payment and typically run 2-4% of the loan amount.
- DPA programs often have income limits and purchase price caps. We review these together.
- Gift funds from family members are allowed on most loan types with proper documentation.
- The source of your down payment must be documented. Unexplained deposits can cause problems.

3

PILLAR 3: DTI

Debt-to-Income Ratio

- DTI compares your monthly debt payments to your gross monthly income.
- Example: $500/month in debts + $2,000 new mortgage payment / $7,000 income = 36% DTI.
- Most loan programs cap DTI at 43-50%. FHA allows up to 57% with compensating factors.
- Monthly obligations counted: car payments, student loans, credit cards, and the new mortgage.
- Rent, utilities, phone bills, and insurance are NOT counted in the DTI calculation.
- Paying down or eliminating a debt before closing can significantly improve your DTI.

4

PILLAR 4: INCOME AND WORK HISTORY

How Lenders Verify What You Earn

- Lenders require 2 years of consistent, documented employment history.
- W-2 employees: last 2 years of W-2s and most recent 30 days of pay stubs.
- Self-employed / 1099: last 2 years of personal AND business tax returns.
- Income must be stable, consistent, and likely to continue for at least 3 years.
- Job changes within the same field usually do not hurt your file. Gaps are reviewed case by case.
- Part-time income can count if it has been consistent for 2 years.

THE HOME BUYING PROCESS: STEP BY STEP

Most first-time buyers don't know what order things happen in. Here is the real sequence.

1

Check Your Credit

Pull your credit report at AnnualCreditReport.com or use a free tool like Credit Karma. Know where you stand before anything else. Look for errors and dispute them immediately.

2

Meet With a Loan Officer

Before you search for homes, talk to a lender. A pre-qualification review helps you understand your buying power, your loan options, and what you need to do to get ready.

3

Get Pre-Approved

A pre-approval is a formal review of your credit, income, and assets. It tells sellers you are a serious buyer. Most Realtors require this before showing homes.

4

Find a Realtor and Start Shopping

Work with a buyer's agent who knows your target market. They represent you at no cost to you — the seller pays their commission. Share your pre-approval letter with your agent.

5

Make an Offer

When you find the right home, your Realtor submits an offer. Be prepared for negotiation on price, seller concessions (credits toward closing costs), and move-in date.

6

Go Under Contract

Once the seller accepts your offer, you are officially under contract. You typically have 10-14 days to complete your home inspection.

7

Loan Processing and Underwriting

Your lender submits your full loan package to underwriting. This is where every document is reviewed and verified. Respond quickly to any requests for additional documents.

8

Clear to Close

When underwriting approves your file, you receive a Clear to Close (CTC). Your closing is usually scheduled within 3-5 business days.

9

Final Walkthrough

Walk through the home one more time before closing to confirm its condition matches the contract and any agreed-upon repairs were completed.

10

Closing Day

You sign final documents, pay your down payment and closing costs, and receive your keys. The entire process typically takes 30-45 days from contract to close.

COMMON MYTHS ABOUT BUYING YOUR FIRST HOME

MYTH		TRUTH	
MYTH	You need 20% down to buy a home.	TRUTH	FHA loans require just 3.5% down. Conventional loans start at 3%. VA and USDA loans require zero down. Down payment assistance programs can cover most or all of this.
MYTH	You need perfect credit.	TRUTH	FHA accepts scores as low as 580. Some programs go lower. Many first-time buyers close with scores in the 600s. Credit is reviewed as part of the whole picture, not in isolation.
MYTH	Renting is cheaper than buying.	TRUTH	When you account for equity building, tax benefits, and fixed payments vs. rising rent, owning often costs less over a 5-7 year period in most markets.
MYTH	Pre-qualification and pre-approval are the same thing.	TRUTH	Pre-qualification is an estimate based on information you provide. Pre-approval is a verified review of your actual documents. Sellers take pre-approval seriously.
MYTH	I have to wait until I have everything figured out.	TRUTH	Most buyers are not fully ready when they start the conversation. The best time to meet with a lender is before you feel ready, so you have time to prepare properly.

WHAT NOT TO DO DURING THE LOAN PROCESS

X	**Do not open new credit accounts** New inquiries and new accounts can lower your score and change your DTI.
X	**Do not make large purchases** Buying a car or furniture before closing can change your debt ratios and cause a denial.
X	**Do not change jobs** Job changes mid-process trigger additional verification and can delay or kill your loan.

X	**Do not make unexplained deposits** Large cash deposits must be documented. Undocumented funds cannot be used for closing.
X	**Do not miss any lender requests** If underwriting asks for a document, respond within 24-48 hours. Delays push your closing date.
X	**Do not co-sign on another person's loan** Co-signing adds their debt to your DTI calculation even if you never make a payment.

Ready to take the first step?

Schedule a free strategy call. We'll review your credit, income, and savings together and build a plan specific to your situation.

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