

## How to Buy a House Step by Step

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If you want to know how to buy a house, you've come to the right place!

When you start thinking about buying a house, it's easy to let your emotions run the show.

Before you know it, you're stalking homes for sale on your home-browsing app, rearranging your schedule so you can do drive-by viewings, and researching creative financing options that would allow you to buy a house with next to nothing down.

It's all too easy to land a house you can't afford, and that mistake can affect your ability to build wealth in the long run. But understanding the steps of the home-buying process empowers you to make smart decisions about your purchase.

To help you feel confident throughout your entire home-buying journey, let's break down the major steps to buying a house. Ready, set, go!

## **10 Steps to Buying a House**

Use this step-by-step plan to buy a house the smart way.

1. [Decide if you're ready to buy.](#)
2. [Figure out how much house you can afford.](#)
3. [Save for a down payment.](#)
4. [Get preapproved for a mortgage.](#)
5. [Find the right real estate agent.](#)
6. [Go house hunting.](#)
7. [Make an offer on a house.](#)
8. [Get a home inspection and appraisal.](#)
9. [Be patient getting your mortgage finalized.](#)
10. [Close on your house—\*finally!\*](#)

### **Step 1: Decide if You're Ready to Buy**

First, how do you know it's the [right time to buy a house](#)? Before you begin the home-buying process, we recommend paying off debt and saving up three to six months of expenses in an emergency fund. Being financially ready to buy a house is important. Why?



[Find expert agents to help you buy your home.](#)

When you no longer have a landlord, the responsibility of paying for repairs falls on you. So what happens if your water heater bursts after just three months in your new home?

When you don't have room in your budget and no savings to fall back on, you may be eating ramen for the rest of the month to get that fixed. But if you have a full emergency fund and no debt draining your monthly budget, an unexpected repair won't rock your whole life.

Another thing to consider before buying is your life stage. It doesn't make sense to buy a house if you may move next year. The process of buying and selling a house is expensive, so make sure you feel confident you'll be in that area for the next five to seven years. This is one of the reasons we recommend waiting at least a year after getting married to buy a house.

## **Step 2: Figure Out How Much House You Can Afford**

Okay, your next step is to set a home-buying budget. We recommend never buying a house that comes with a monthly payment more than 25% of your monthly take-home pay—

otherwise, you'd be house poor! Plus, this leaves plenty of room in your budget to *tame the beast* known as home maintenance and achieve other goals like saving for retirement.

To be clear, that 25% limit includes principal, interest, property taxes, home insurance and private mortgage insurance (PMI)—and don't forget to take homeowners association (HOA) fees into consideration. Use our [mortgage calculator](#) to try out different home prices within your budget.

Once you know [how much you can afford to spend](#) on your new home, stick to it. And if you're buying a home with your spouse, make sure you're both on the same page about your budget.

### **Step 3: Save for a Down Payment**

It's tempting to jump straight into looking at homes in your area. After all, shopping for a home is way more fun than patiently saving up enough money to buy one! But a weak down payment is a recipe for regret when it comes to your home purchase.

Don't shortchange your future by having a short-term perspective. You'll build years of memories in your home. You'll share countless meals in the kitchen and spend hours enjoying warm summer days in the backyard. Don't let those moments get overshadowed by financial stress. Do the hard work of saving up a big down payment!

### **How Much Should You Save?**

Just like any goal, buying a home the smart way takes planning and preparation. The most time-consuming task is saving cash for the down payment, closing costs and other moving expenses.

- [Down payment](#): We recommend putting down an absolute minimum of 10% on your new home, but 20% or more is even better because you avoid private mortgage insurance (PMI). That's an extra cost added to your monthly mortgage payment, and it doesn't go toward paying off your mortgage balance.
- [Closing costs and prepaids](#): One of the real estate agents in our [Endorsed Local Providers \(ELP\)](#) program advises his clients to save around 3% of a home's purchase price for closing costs and prepaids. But that percentage can vary depending on how expensive fees and taxes are in your area. Closing costs are the fees charged by title companies and lenders involved in your real estate transaction. Prepaids cover any prorated property taxes and insurance items.
- [Moving and other expenses](#): Moving expenses can vary from hundreds to thousands of dollars depending on how much you're moving and how far away your new home is from your current place. To help with budgeting, you can call moving companies in your area for quotes ahead of time. If you plan to make updates to your home—like repainting, installing blinds, or buying new furniture—you'll need cash for that too!

Ready to get your savings rolling? You can do this! [Saving for a down payment](#) isn't rocket science. Set a plan and focus on your milestones and you'll have that down payment before you know it. You've got what it takes!

## Step 4: Get Preapproved for a Mortgage

The best way to buy a home is with cash. It may sound crazy, but people like you do it every day! If that's not feasible for you, you'll need a home mortgage loan.

### How Do You Get Preapproved?

In a quick conversation with you about your income, assets and down payment, a [lender can prequalify you to buy a house](#). Getting *preapproved* takes a little more work. A lender will need to verify your financial information and submit your loan for preliminary underwriting. But it pays off when you begin your home search because a preapproval letter shows that you're a serious buyer.

### Which Mortgage Option Is Right for You?

Bad financing turns your biggest asset into a liability. That's why getting the right mortgage is so important! Setting your boundaries on the front end makes it easier to find a home you love that's in your budget.

Here are the guidelines we recommend:

- **A fixed-rate conventional loan:** With this option, your interest rate is secure for the life of the loan, leaving you protected from rising rates. Any other mortgage option is a terrible idea.
- **A 15-year term:** Your mortgage payment will be higher with a 15-year term, but you'll knock out your mortgage in half the time of a 30-year term and save tens of thousands in interest.

## **Step 5: Find the Right Real Estate Agent**

Though your search for homes may *start* online, it shouldn't *end* there. You can do a lot of research on your own, but you need the help of an expert when it comes to actually finding and securing your perfect home.

A buyer's agent can help you navigate through the home-buying process. In some cases, they may even be able to help you find a house before it hits the market, giving you a competitive edge. And when it comes to making an offer, your agent will negotiate on your behalf so you don't pay a penny more than you have to.

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### **How Much Does a Buyer's Agent Cost?**

A real estate agent will advocate for your best interest and is a crucial part of your home-buying team. But they don't work for free. So how much should you be prepared to pay?

How does *nothing* sound?

That's right! In most cases, the *seller* pays your real estate agent's fees, so using a buyer's agent is free to you. Why would you not want to have a true pro in your corner as you make your biggest investment?

### **How to Choose the Best Buyer's Agent**

You may know a lot of real estate agents in your area. But keep in mind that not all agents bring the same knowledge and experience to the table. Don't work with an amateur just because they know your cousin's sister-in-law's best friend from 10 years ago.

If you're trying to spend time with a friend or family member, catch up over coffee. Don't work with them to make your biggest purchase. You want an expert who can show you how to buy a home!

When you're [interviewing a real estate agent](#), don't settle. A true rock star will have:

- Specific experience assisting home buyers like you
- Full-time real estate experience for at least several years
- Great communication skills
- A super-serving attitude that makes you feel like you're their only client
- An impressively long list of sold homes every year
- Exceptional experience in your local market

A true pro won't shy away from tough questions. They'll be a mover and a shaker, ready to fight for your best interests as you're searching for the right house and negotiating the terms of the



contract. As a home buyer, working with a rock star agent is one of the biggest advantages you can give yourself!

### **Step 6: Go House Hunting**

After you've been preapproved for a mortgage, you're ready for the fun part: finding your perfect home! To get started, first create a list of must-have home features. If you're [buying a home with your spouse](#), make separate lists and compare.

Once you have clarity on the features you both want, share them with your real estate agent and use those criteria as the foundation of your home search. Your agent will be able to help you set realistic expectations and target your search to areas you can afford.

### **Think Long-Term**

When you're looking for the perfect home, it may be hard to imagine you'll ever sell it. But just remember, even if you think it's your forever home, you should shop with resale value in mind.

Here are some [house-hunting tips](#) to help you make a smart investment:

- **Don't compromise on location or layout.** These are two things you can't change about the home you buy. No amount of curb appeal can make up for a truly terrible floorplan. And buying a great house in a not-so-great neighborhood is a bad idea. If you don't love the location or layout, chances are potential buyers years from now won't either.
- **Look past the surface.** Don't let an ugly lime-green bathroom keep you from an otherwise great home. Other buyers may not be able to look past those easy-to-fix

details like décor and paint color, which could score you a deal. That lime-green bathroom may mean more green in your pocket!

- **Buy the least expensive home in the best neighborhood you can afford.** That gives your home's value room to grow in the future. Keep in mind that future buyers who are shopping in a \$200,000 neighborhood won't be looking for a \$300,000 home.
- **Pay attention to home values in that area.** Are they rising or declining? Are businesses booming or closing? You can tell a lot about home values in a neighborhood by what's happening in the community.
- **Research the school districts.** Even if you don't have kids, school districts can be an important factor when you sell. Homes in neighborhoods near great schools are generally known to sell for more money due to high competition—home-buying parents will move heaven and earth to snag those prime locations!

With all that said, it could take a month or more before you find a house that's right for you and your budget. So hang in there and don't compromise on your must-haves!

### **Step 7: Make an Offer on a House**

Once you've found the right home, it's time to get serious! That means submitting an offer and signing a contract agreement with the sellers.

### **What's Included in Your Offer?**

Your real estate agent will work with you to submit a solid offer. If you end up in a bidding war with other buyers, keep a cool head and put your best foot forward. Things like being preapproved with your lender and having a flexible closing date can help make your offer strong.

Your purchase agreement will include details of the real estate transaction like:

- Buyer and seller information
- Property address
- Purchase price, lender information and down payment amount
- [Earnest money deposit](#) (similar to a security deposit)
- Items to be left with the home (like appliances or furniture)
- Contingencies like the home inspection, appraisal and final mortgage approval
- Closing date

Sometimes agreeing on terms is quick and painless, but it can also be one of the hardest parts of the process. If your negotiations get intense, remind yourself that both parties want the same thing. The sellers want to sell their home, and you want to buy it!

Sometimes it pays to compromise on little details if that will move the process forward. A good real estate agent will give you advice about when to give in and when to hold firm.

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## **Step 8: Get a Home Inspection and Appraisal**

Once you get to this step, you'll officially be under contract on your new home! That's something to celebrate. Being under contract also means you're done with the most time-consuming stages of the home-buying process. Cheers to that!

But now that you're under contract, what should you expect? Your main task now is to work through the contingencies in the contract.

*Contingencies* are simply conditions that must be met in order for the home purchase to take place. They provide a safety net for you to back out of a sale without losing your deposit if something goes wrong.

Even if you're in a competitive market, don't let your emotions lead the charge. You should never skip these contingencies because they offer important protection for your home purchase.

### **Home Inspection**

As a buyer, you have the right to a [professional home inspection](#) before you purchase the house, and you would be crazy not to do it! This is one of the most important precautions you can take before purchasing a home because it keeps you from being blindsided by structural

issues or expensive repairs. If the inspection reveals major problems with the home, you can ask the seller to fix the problem, reduce the price, or cancel the contract.

You can also consider getting other professional evaluations like a termite inspection or radon test, depending on the advice of your real estate agent and the age and condition of the home you're purchasing.

### **Appraisal**

If you're getting a home loan, your lender will require an appraisal to assess the value of the property. An appraisal protects you from paying more than the home's true value. If the appraisal comes in lower than your offer price, your real estate agent can provide the best guidance for what to do next.

### **Step 9: Be Patient Getting Your Mortgage Finalized**

If you did get a mortgage, you'll have another step before you can close on your home: getting final loan approval. Prepare to be patient for this part. Your lender will be digging through a ton of your financial details to finalize your mortgage, which could [take more than a month](#) to hammer out before your closing date.

Whatever you do, don't open a credit card, take on more debt, or change jobs once you're under contract. Taking on more debt is a dumb idea in general. Plus any changes in your financial situation can jeopardize your loan process.

## **Step 10: Close on Your House—*Finally!***

You did it! All the planning, house hunting and waiting are over. The final step in the home-buying process is closing on your new place!

Before you get the keys for your new home and officially call it your own, you have one more sprint ahead of you: paperwork. That's right! Bring on the hand cramps!

You should receive a copy of your closing documents to review ahead of time so there are no surprises on closing day. Most likely, you'll pay for:

- Closing costs
- Prorated property tax
- Homeowners association fees (if this applies to your neighborhood)
- [Home insurance](#)

If there are any confusing terms or conditions as you work through the paperwork, don't be shy about asking questions! This is one of the biggest purchases you'll ever make, and you should know exactly what you're signing up for.

Once you sign all the paperwork, it's time to breathe a sigh of relief. You're officially a homeowner. Congratulations! The home-buying process may not be easy, but having a beautiful new home to call your own is worth it in the end.

### **What if I'm a First-Time Home Buyer?**

If you're buying a home for the first time, all these steps might look a little intimidating. Don't worry—if you follow our plan and stay on budget, homeownership will be a blessing instead of a curse. But if you want help that's more specific to your situation, check out our [tips for first-time home buyers](#).

### **Get More Resources on How to Buy a Home**

This is a lot of information. That's why we packaged all of this info into a single guide for you—along with bonus resources and tools to set you up for success on your home-buying journey.

Get your free [Ramsey Home Buyers Guide](#)!

### **Ready to Start the Home-Buying Process?**

If you're ready to get the ball rolling on your home purchase, finding a real estate agent is your next step. But how do you find an agent you can trust? Try our Endorsed Local Providers (ELP) program—for decades, we've been vetting agents who meet our high standards for excellence. The agents we recommend will walk you through the home-buying process to help you make a smart investment that fits your needs and your budget.

[Find a real estate pro today!](#)



## ABOUT THE AUTHOR

### **Ramsey Solutions**

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