

STEVEN KRAUSE REAL ESTATE

# FIRST-TIME HOMEBUYER HANDBOOK

INSIDER TIPS FOR FIRST TIME HOMEBUYERS



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# FIRST-TIME HOMEBUYER HANDBOOK

ALL YOUR FIRST HOME QUESTIONS, ANSWERED

*hey there,*

# NICE TO MEET YOU!

SO YOU'RE THINKING OF BUYING YOUR FIRST HOME?

Hello! I'm Steven Krause, your local real estate guide. Ready to buy your first home?

I'm here to make the process smooth and enjoyable. With years of experience in Sonoma County,

I have the insights and skills to help you navigate your first home purchase with ease. My focus? Your needs, goals, and timeline.

Let's turn your dream of homeownership into a stress-free and successful reality. Ready to find your perfect home? Let's get started!





*01.*  
How Much Home  
*can* I Afford?

# Determining Your Budget

## GENERAL RULE OF THUMB:

Your total monthly home payment (including mortgage, property taxes, homeowner's insurance, etc.) should not exceed **28% of your gross monthly income**.

*For example: if your annual salary is \$60,000 before taxes, your monthly gross income is \$5,000. Using the 28% guideline, you should spend no more than \$1,400 per month on your home payment*

$$\$60,000/12 = \$5,000/\text{month}$$

$$\$5,000 * 0.28 = \$1,400/\text{month}$$

However, budget is just one factor. Lenders also review your debt-to-income ratio, the percentage of your monthly income that goes toward debts like credit cards and loans. Ideally, **this should be 36% or less**, including your future mortgage payment.





# Beyond the Purchase Price

THERE ARE MANY OTHER HOMEOWNERSHIP COSTS TO FACTOR IN:

## DOWN PAYMENT:

Most mortgages require 20% down to avoid private mortgage insurance (PMI). On a \$300,000 home, that's \$60,000. There are low/no down payment options available as well.

## CLOSING COSTS:

Fees paid to the lender and third parties can range from 2-5% of the purchase price. On that same \$300,000 home, budget \$6,000 to \$15,000.

## ONGOING COSTS:

Property taxes, homeowner's insurance, HOA fees, utilities, maintenance/repairs. Budget 1-4% of the home's value annually for these recurring costs.

**For example:** for a \$300,000 home with 20% down at a 6% interest rate, the total monthly payment could be around \$2,000 including mortgage, taxes, insurance, etc. But those "hidden" ongoing costs could add around \$300-\$1,000+ per month.

## GETTING PRE-APPROVED:

Before you start house hunting, secure a mortgage pre-approval—this is stronger than a pre-qualification and shows sellers you're serious and financially capable. Pre-approval is based on your income, debts, down payment, and credit profile, requiring documents like pay stubs, W2s, and bank statements. For instance, a pre-approval might indicate you can borrow up to \$300,000 with monthly payments of \$2,000, setting a clear budget limit.

Remember, pre-approval isn't final approval; it's conditional and requires a property appraisal and financial re-verification once you're under contract. Being pre-approved not only boosts your buying confidence but also strengthens your offers in competitive markets, positioning you on par with cash buyers. The home-buying process is exciting but requires careful financial preparation. By realistically calculating your budget, you'll be in a strong position to land your dream first home within your means.



A bright, modern kitchen with white cabinetry, gold pendant lights, and wooden stools. The scene is well-lit, suggesting a sunny day. The text is overlaid on a white rectangular background in the center of the image.

02.

What Kind of  
Mortgage Is *right*  
for Me?



# Types of Mortgages

MORTGAGES & INTEREST RATES

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*01.*

## CONVENTIONAL LOANS

- 620+ credit score, 3-20% down payment.
  - Up to \$647,200 loan maximum
  - Fixed or adjustable-rate; PMI if <20% down.
- 

*02.*

## FHA LOANS

- 3.5% down payment, 580+ credit score.
  - Lower income/credit eligibility than conv. loans.
  - Fixed or adjustable-rate; PMI if <20% down.
- 

*03.*

## VA LOANS

- Zero down payment for military members/veterans
- No PMI; flexible credit requirements
- Funding fees apply, can be rolled into the mortgage





## FIXED-RATE VS. ADJUSTABLE-RATE MORTGAGES

With a fixed-rate mortgage, your interest rate is set for the entire loan term, so your principal and interest payments remain constant. Common terms are 15-year or 30-year loans.

**Adjustable-rate mortgages (ARMs)** have interest rates that fluctuate over time based on market conditions. They typically start off with lower teaser rates for the first 5-10 years before potentially adjusting higher later on.

**Fixed-rate mortgages** provide stability but usually have higher initial rates than ARMs. ARMs are riskier but could save money if rates stay low long-term.

ARMs make sense if you plan to sell before the fixed period ends or can absorb potentially higher future payments. Otherwise, the stability of a fixed-rate loan is usually preferable for most first-time buyers.

### **Let's look at an example:**

*On a \$300,000 30-year mortgage with 20% down...*

*A 6% fixed rate would mean a \$1,199 principal + interest payment*

*A 5% ARM could start around \$1,073 but likely adjust higher over time*

# Interest Rates and Your Costs

Even a 1% difference in mortgage rates can mean tens of thousands paid over the loan's lifetime. On that same \$300,000 mortgage, a 5% rate means \$279,766 in interest paid over 30 years. At 6%, it jumps to \$347,285 - that's a \$67,519 increase!

Mortgage rates also influence how much home you can afford. At 5% on an \$80,000 income, you may qualify for a \$400,000 mortgage. But at 7%, that maximum may drop to \$325,000.

## GETTING PRE-APPROVED AND SHOPPING RATES

Get pre-approved early and shop multiple lenders to secure the best overall rates and fees. Comparing the annual percentage rates (APRs) on loan estimates is more accurate than just looking at quoted interest rates.

Pre-approval letters show sellers you're a qualified, motivated buyer up to certain loan amounts. But rates can change daily, so keep monitoring and lock your rate once you find the right property.





03.

How *much*  
Down Payment  
Do I Need?

# Common Down Payment Amounts

MORTGAGES & INTEREST RATES

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*01.*

## CONVENTIONAL LOANS

- Minimum 3% down payment
  - 20% down avoids PMI
  - Higher credit score requirements (typically 620+)
- 

*02.*

## FHA LOANS

- Minimum 3.5% down payment
  - PMI required
  - More flexible credit score requirements
- 

*03.*

## VA LOANS

- 0% down payment option for military/veterans
- Funding fee can be rolled into the loan amount
- No monthly mortgage insurance required



# Down Payment Strategies

## LOW OR NO DOWN PAYMENT OPTIONS

- **FHA LOANS**  
As mentioned, you can qualify with just 3.5% down through this government-backed program.
- **VA LOANS**  
For military members, veterans, and eligible spouses, VA loans provide 100% financing with zero down payment required.
- **USDA LOANS**  
In specified rural areas, income-eligible buyers can get a USDA home loan with no money down
- **DOWN PAYMENT ASSISTANCE PROGRAMS**  
Many states, counties and non-profits offer down payment grants or second low-interest mortgages for first-time and low-income buyers
- **FIRST-TIME HOMEBUYER TAX CREDIT**  
The one-time \$10,000 federal tax credit provides more funds for a down payment

*Even with low/no down options, having some reserves for closing costs, prepaid expenses (taxes, insurance) and emergency funds is still advisable.*





# Tips for Saving Your Down Payment

## WAYS TO BUILD YOUR HOME BUYING FUND

- Set up automatic transfers to dedicated savings accounts
- Cut back on discretionary expenses like dining out, entertainment, etc..
- Get a side gig or temporary second job
- Bank employment bonuses, tax refunds, and cash gifts
- Use financial apps to track spending and set saving goals
- Consider tapping retirement accounts for a down payment (with cautions)
- Look into down payment assistance programs in your area

*The more you cut costs and increase your income, the quicker you'll save for a down payment. Remember to budget for closing costs and other buying expenses.*



04

How Do I Choose  
the *right* Home  
for Me?



# Finding the Right Home

## DEFINING YOUR MUST-HAVES

With your budget and pre-approval ready, start the exciting search for your first home!

To find the right fit among many options, make two lists of your must-have features and nice-to-haves. This helps prioritize essentials and identify areas for compromise.

### MUST-HAVES:

*(ex: # of bedrooms, location, home office, etc.)*

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### NICE-TO-HAVES:

*(ex: fireplace, patio, pool, gym, fence )*

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# Neighborhoods & Location

## WHAT TO CONSIDER FOR YOUR LIFESTYLE

- **SCHOOL DISTRICTS**  
Check school boundaries, ratings, and reviews.
- **COMMUTE TIMES**  
Assess distance and traffic patterns to work or public transit.
- **NEIGHBORHOOD VIBE**  
Visit at different times to observe traffic, parking, and upkeep.
- **AMENITIES**  
Identify nearby essentials like grocery stores, parks, and hospitals.
- **HOMEOWNER ASSOCIATIONS**  
Learn about HOA fees and community rules.
- **CRIME RATES**  
Review local crime statistics and safety data online.
- **FUTURE PLANS**  
Research any upcoming local developments or zoning changes





05.

How Can I Craft  
a *strong* Offer &  
Negotiate  
*effectively*?



# Making an Offer and Negotiating

## WHAT TO CONSIDER FOR YOUR LIFESTYLE

Regardless of whether it's a seller's or buyer's market, submitting a well-crafted offer from the start puts you in the best position to get your contract considered and negotiated.

Offer a reasonable amount based on the home's value and your budget; lowballing only leads to higher counteroffers

Analyze recent comparable sales to understand the home's likely worth, then make an offer at the price you're willing and able to pay.

## MAKING A COMPETITIVE OFFER

If the sellers don't accept or want to negotiate higher, you have to be willing to walk away if their ask exceeds your capability or comfort level. Don't Overextend.

But don't be afraid to make your best offer upfront - one that makes sense for your situation. If it's meant to be, the sellers will work with you.

If not, at least you'll know you put your best foot forward without overextending.

# Making a Competitive Offer

## TIPS TO MAKE YOUR OFFER MORE COMPETITIVE

- **COME IN STRONG**  
Analyze recent comparable sales and offer a competitive price from the beginning.
- **INCREASE EARNEST MONEY DEPOSIT**  
A standard deposit of 1-3% signals commitment; a higher deposit of 5-10% strengthens your offer.
- **FLEXIBLE / SHORTCLOSE**  
Offer a fast close of 30 days or less to appeal to sellers needing quick transactions
- **LIMIT CONTINGENCIES**  
Reduce contingencies to minimize deal risks and show commitment.
- **ESCALATION CLAUSE**  
Use an escalation clause to outbid others by a set amount, like \$5,000 up to \$500k
- **BE WILLING TO GO OVER ASKING**  
In competitive markets, offering above asking price is often necessary to secure a home.
- **PRE-OFFER INSPECTIONS**  
Pre-inspect the property to waive inspection contingencies, demonstrating serious intent.



# Navigating Negotiations

## COMMON ITEMS TO FURTHER NEGOTIATE INCLUDE

### CLOSING COSTS

Ask sellers to pay a portion of loan costs or splitting certain fees is standard.

### REPAIRS

After inspections, request sellers to make necessary repairs or provide repair credits.

### INCLUDED ITEMS

Negotiate for appliances, equipment, furnishings, etc. to convey.

### OCCUPANCY TERMS

Set rent back or lease back terms if one party needs to remain for a period.

### CONTINGENCIES

Set reasonable timeframes for contingencies like appraisal and mortgage approval.



## THE HOME STRETCH:

Once any negotiations are wrapped up, the final hurdles are likely the appraisal and final walk-through inspection:

Appraisal - The lender will require an independent appraiser to assess the property's market value. If it appraises lower than the sale price, renegotiations may be needed.

Final Walk-Through Inspection - You or your inspector should thoroughly re-examine the property for any new issues prior to closing. Confirm any agreed-upon repairs were completed.

Stay on top of your lender to ensure you are meeting all deadlines. Sort out homeowner's insurance, change over utilities, and make any required wire transfers for downpayment and closing costs.

Then pat yourself on the back - you made it through the negotiation marathon! The next step is the closing table



06.

What Should I  
Expect *during* the  
Closing Process?



# The Closing Process

After months of preparation, you've reached the closing stage of your home purchase. Before receiving the keys, it's crucial to understand what the closing process entails.

## UNDERSTANDING CLOSING COSTS

Besides your downpayment, you'll also need funds for closing costs at settlement, typically 3-6% of the loan amount, which can total thousands of dollars. Common closing costs include:

### Lender Fees:

- Origination fees
- Discount points to buy down rate
- Appraisal fee
- Credit report fee

### Prepays/Impounds:

- Prepaid mortgage interest
- Property tax impound (% upfront)
- Homeowner's insurance premium

### Title/Recording Fees:

- Title search and examination
- Lender's title insurance policy
- Transfer taxes and recording fees

### Other Settlement Charges:

- Survey fee
- HOA fees (if applicable)
- Home warranty premium





# The Final Walkthrough

## ENSURING EVERYTHING IS IN ORDER

A few days before closing, you'll get to do one final walkthrough of the property. This is your last chance to ensure:

- No new damage has occurred since inspections
- All contracted repairs have been completed
- All appliances, fixtures and other inclusions are still present
- Systems and utilities are operational
- The home is vacated and cleaned out by sellers

*This walkthrough also allows you to begin planning your move and taking measurements. Bring a camera to document any issues before closing. If there are any major concerns, you can potentially delay or terminate the deal.*



# Closing Day Logistics

## WHAT TO CONSIDER FOR YOUR LIFESTYLE

On closing day, you'll attend a meeting to finalize paperwork and actually transfer ownership of the property. The closing agent or attorney will review and have you sign the mortgage, deed, transfer documents, and disclosures.

Plan for the closing to take about 1-2 hours as you thoroughly review and sign all documents. The seller may be there too, or you may just be signing separately.

After signing and securing funds, you'll receive the deed and keys—congratulations on your new home!

### You'll need to bring:

- Cashier's check or wire transfer for your downpayment and closing costs
- Photo ID
- Evidence of homeowner's insurance coverage
- Copy of sales contract and any amendments

Confirm possession terms in your contract, arrange utilities and movers, update your addresses, and enjoy owning your new home!



# THANK YOU !

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Thank you for choosing me to help you in the task of buying your home. I look forward to working with you to help you achieve all of your real estate goals.

Reach out at [sk@wrealestate.net](mailto:sk@wrealestate.net), and don't forget to follow me on Instagram at [stevenkrauserealestate](https://www.instagram.com/stevenkrauserealestate) for ongoing tips and updates. Let's turn your dream of homeownership into reality with the best resources at your disposal. Ready to begin? Let's dive in!

Steven Krause

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