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How to buy a house in 2023

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2023 may go down in real estate history as the year of correction. After two years of a pandemic-fueled, seller-benefitting boom — with bidding wars, inventory shortages and spiraling prices all over the country — the housing market began to cool down in 2022. The impact of inflation in general and fast-rising interest rates in particular dampened buyers' interest, causing sales to slow and price appreciation to decelerate.

Those housing trends are continuing, causing 2023 to be something of a transitional year. Sellers still have an edge in many areas, thanks to continued scarcity of houses, and no one expects a dramatic crash in home prices or values. Still, the frenzied pace has definitely subsided, and many analysts see a shift towards a more balanced market, benefitting buyers.

Whatever the economic state of the real estate market, buying a house can be an exciting and emotional process for the individual. Before starting your home search, you'll want to understand the ins and outs of homebuying. Doing so will empower you to make decisions that are the best for your family — and your wallet.

A step-by-step guide for buying a house

1. Understand why you want to buy a house

Purchasing a home is a major decision that shouldn't be taken lightly. If you're not clear on why you want to buy a house, you could end up regretting your choice.

How to get started: Define your personal and financial goals. "Buyers should think about things like when they intend on moving and what they want in a home — amenities, ideal location and how long it could take them to save for a down payment," says Edwence Georges, a sales associate with RE/MAX in Westfield, New Jersey. “These are all important to help define the goals they would like to meet.”

Key takeaways

- Make a list of what’s important to you in a home. Is location the top priority? Any must-have amenities?
- Does it make sense for you financially? Would renting for another year or two improve your financial standing?
- Are you prepared for the responsibility of maintaining a home?

2. Check your credit score

Your credit score will help you determine your financing options; lenders use it (among other factors) to set your loan pricing and see if you’re able to repay your mortgage. The better your credit history, the better the chances you’ll have of securing financing with the best terms and rates.

How to get started: You can get your credit report and score from each of the three major credit reporting agencies, Equifax, Experian and TransUnion, for free once a year. Your bank or credit card company might offer free access to your score or credit report, too.

Key takeaways

- Consider how different credit score ranges impact your interest rate, monthly payments and total interest. In general, the lower your credit score, the more expensive your mortgage will be.

- Pull your credit reports from each of the credit bureaus for free every 12 months at AnnualCreditReport.com. If you discover any discrepancies, contact each agency and report the error.
- Learn other ways to get your free credit report and score.

3. Create a housing budget

Setting a realistic budget for your new home will help inform what you can afford and how much your all-in costs will be.

How to get started: The purchase price isn't the whole picture. Carefully factor in other expenses to determine what you can afford. "Buyers tend to forget to factor in other costs, like homeowners association fees and setting money aside for maintenance costs," says Paige Kruger, Realtor and founder of Signal Real Estate in Jacksonville Beach, Fla. "Just because you can afford a mortgage and a down payment doesn't mean you can afford those long-term costs after you move."

Key takeaways

- Determine the maximum loan you qualify for.
- Decide how much you can set aside for a down payment, plus a buffer fund for ongoing or unexpected maintenance costs.
- See if your monthly budget can handle the mortgage payment along with other bills such as utilities, groceries, transportation and more.

4. Save for a down payment

To avoid private mortgage insurance, or PMI, you'll need to save at least 20 percent of the home's purchase price for a down payment. Some lenders offer mortgages without PMI with lower down payments, but expect to pay a higher interest rate.

How to get started: Research the down payment requirements for the loan you want so you know exactly how much you'll need. If a friend, relative or employer has offered to provide a down payment gift, initiate a conversation early on to learn how much they plan to contribute and if there's any shortfall you'll need to cover — and secure a gift letter from them well in advance, too.

Key takeaways

- If you don't have much saved for a down payment, consider options backed by the federal government. FHA loans, insured by the Federal Housing Administration, require just 3.5 percent down, while VA loans and USDA loans have no down payment requirement.
- Conventional loans backed by Fannie Mae and Freddie Mac require just 3 percent down.
- Look into a local or state first-time homebuyer assistance program to help with closing costs or your down payment.

5. Shop for a mortgage

Being preapproved for a mortgage is helpful when you make an offer on a house, and it gives you a firmer handle on how much you can afford.

How to get started: Shop around with at least three lenders or a mortgage broker to increase your chances of getting a low interest rate. Sign up for a Bankrate account to determine the right time to strike on your mortgage with our daily rate trends.

Key takeaways

- Work with an experienced mortgage lender who can walk you through all of the options and overall costs.
- Ask what first-time homebuyer programs or other incentives are available to you.

6. Hire a real estate agent

An experienced real estate agent can save you time and money by helping you find your dream home and by negotiating with the seller on your behalf.

How to get started: Contact several real estate agents and ask to meet with them for a conversation about your needs before choosing one. “Someone with knowledge of an area can tell if your budget is realistic or not, depending on the features you desire in a home,” Kruger says. “They can also point you to adjacent areas in your desired neighborhood or other types of considerations to help you find a house.”

Key takeaways

- Before hiring a real estate agent, find out about their track record, knowledge of your desired neighborhood and what their workload is like. You don’t want someone who is over-scheduled.
- Agents can refer you to other professionals like home inspectors, contractors, appraisers and title companies. However, you should still shop around and compare fees from other

professionals.

7. See multiple homes

Simply viewing listing photos isn't a substitute for visiting homes in person and getting to know the neighborhood and its amenities.

How to get started: Let your real estate agent know what specific kinds of homes you want to see, or search for homes online yourself. Your agent can create your profile in the local multiple listing service (MLS), a database of homes for sale, and set up automatic searches for those that meet your criteria. You may not be able to check off everything on your wish list, so you'll want to prioritize what's most important to you aside from location.

Key takeaways

- Drive through neighborhoods you like to see what's for sale, and attend open houses for homes that pique your interest. Remember to keep notes on each property you visit. After a few showings, it's easy to forget which homes you liked and why.
- Keep your schedule open so you can pounce when a great home is listed, especially in a competitive seller's market. Seeing a home and getting your offer in sooner could give you an edge over other buyers.

8. Make an offer

Understanding how to make an attractive offer on a home can help increase your chances the seller will accept it, putting you one step closer to getting those coveted keys.

How to get started: Once you find "the one," your real estate agent will help you prepare a complete offer package, including your offer price, your preapproval letter, proof of funds for a down payment (this helps in competitive markets) and terms or contingencies.

Key takeaways

- Sellers might counteroffer on your price, terms or contingencies. You can respond to the counteroffer if you wish, or reject it and move on.
- Once an offer is accepted, you'll sign a purchase agreement that includes the price of the home and estimated closing date. You'll need to pay an earnest money deposit, typically 1 percent to 2 percent of the purchase price. The seller may have a right to keep the money if you back out.
- Contingency clauses are designed to protect the buyer and typically include appraisal, financing and home inspection. If a home inspection report shows major problems, you can often back out of the contract and get a refund.

9. Get a home inspection

A home inspection helps you get an overall picture of the property's mechanical and structural issues. The inspection will help you determine how to proceed with the closing process. You might need to ask the seller for repairs, or you might decide to back out of the deal if you have a contingency in the contract.

How to get started: You can get recommendations for home inspectors from your real estate agent, but also be sure to do your own homework before choosing one. Depending on your contract and state of residence, you'll generally need to complete a home inspection 10 to 14 days after you sign a purchase agreement. As a buyer, you're usually responsible for paying the home inspector, and while the fees can vary, you'll pay an average of $281 to $402, according to HomeAdvisor.

Key takeaways

- To make sure the home inspector has enough experience, read online reviews, ask for past client references and look at their credentials.
- Look at the home inspection checklist to understand what is and isn't covered.

10. Negotiate repairs and credits

Your home inspection report may reveal major or minor issues. Major problems will likely need to be dealt with before your mortgage lender will finalize your loan, while minor issues can often wait till you take possession of the home.

How to get started: Enlist your agent's help to negotiate with the seller. Ask for the seller to either do the repairs or give you a credit at closing.

Key takeaways

- If there are hazards like structural damage or improper electrical wiring, your lender might not approve your loan. Likewise, you might not have the budget or desire to handle such repairs after buying the home.
- Some sellers won't agree to extensive repairs, and that's why a home inspection contingency is a good idea — to give you a way out of the purchase if the home isn't in ideal shape.

11. Secure your financing

Getting final loan approval means you need to keep your finances and credit in line during underwriting. Once you're ready to close, you won't want to open new credit lines or make other major purchases until the paperwork is signed.

How to get started: Respond promptly to requests for more documentation and double-check your loan estimate to ensure all the details are correct so there are no hiccups later. You may need to submit additional paperwork as your lender completes the underwriting process, such as:

- Bank statements
- Tax returns
- Additional proof of income
- Gift letter or written statements explaining major deposits into your bank account

Key takeaways

- A preapproval doesn't mean you're in the clear — that's not the case until a lender has given the final stamp of approval.
- Keep your finances and credit in good shape from preapproval until closing day. If you can, avoid changing jobs before closing on your new home, too.
- Also, avoid running up credit cards, taking out new loans or closing credit accounts. Doing any of these things can hurt your credit score or impact your debt-to-income ratio, and that can imperil your final loan approval.

12. Do a final walk-through

A final walk-through is an opportunity to view the property before it becomes yours. This is your last chance to view the home, ask questions and address any outstanding issues before the house becomes your responsibility.

How to get started: Come with your home inspection checklist and other documents, like repair invoices and receipts for any work the owner conducted, to ensure everything was done as agreed upon and that the home is in move-in ready condition.

Key takeaways

- Ask your real estate agent to be there so they can act as a witness and help answer any questions you may have.
- If repairs or issues haven't been addressed, have your agent communicate immediately with the seller and your lender. Your closing date might have to be delayed to ensure those issues are remedied first.

13. Close on your house

Once all contingencies have been met, you're happy with the final walk-through and the closing agent has given the green light to close, it's time to make it official and close on your home. In this final step, your lender will issue you a "clear to close" status on your loan.

How to get started: Three business days before your closing date, the lender will provide you with a closing disclosure that outlines all of your loan details, such as the monthly payment, loan type and term, interest rate, annual percentage rate (APR), loan fees and how much money you must bring to closing. At the closing, you (the buyer) will attend, along with your real estate agent, possibly the seller's agent, the seller, in some cases, and the closing agent, who may be a representative from the escrow or title company or a real estate attorney. This is also the time where you'll wire your closing costs and down payment, depending on the escrow company's procedures.

Key takeaways

- Before closing, review the closing disclosure carefully and compare it to the loan estimate to ensure closing fees and loan terms are the same. Ask questions about your loan and correct any errors (like your name or personal details) before you sign closing paperwork.
- On closing day, review all of the documents you sign carefully, and ask for clarification on anything you don't understand.
- Make sure you've been provided all house keys, entry codes and garage door openers before leaving the closing.
- You'll leave closing with copies of the paperwork (or a digital file) and your new house keys. Be sure to store your paperwork in a safe place for future reference.

Once all of the paperwork has been signed, the home is officially yours and you'll get those house keys. Congratulations! Now comes the fun part: moving in and making the house your home.

What to consider

What to know before buying

Having a clear picture of your budget is important before starting the buying process. What kinds of monthly payments will be feasible for you and your family? How much house can you afford? Do your income and credit qualify you to borrow as much as you need for a home in your designated area — or for an assistance program of some sort? What are the non-negotiables you are looking for in a house?

Is now a good time to buy a house?

Yes and no. Mortgage rates reached record lows in early 2021 but jumped way up in 2022. Meanwhile, strong demand for homes pushed prices higher and frustrated many potential homebuyers. According to the CoreLogic Case-Shiller Home Price Index, property prices rose by double-digit percentages through Q1 2022. But as the weather got warmer, home prices got cooler; the rate of price appreciation continued to slow down through the fall, however — as did sales. By December, existing-home sales had faded for the eleventh straight month.

This price deceleration and decline in sales are signs that the record-breaking housing market has finally begun to cool. Realtors report slowing price gains and rising inventories, and since November 2022, mortgage rates have begun to dip. In the hottest markets especially, such as Northern California, prices have already retreated. That's all good news for buyers.

But there's plenty of uncertainty about where home values go from here. The National Association of Realtors and the Mortgage Bankers Association expect home prices to be essentially flat in 2023. Others say prices could fall 20 percent or more. Who's right? Who knows?

And who cares? So long as you're financially prepared for homeownership and plan to own the property for five years or more, you should be able to weather the ups and downs of the market.

Just be careful if there's a sudden spike in prices again. "I would be careful about buying near the top of the market, especially if I want to be in the home for only a few years," says Ken H. Johnson, a real estate economist at Florida Atlantic University and co-author of the Beracha, Hardin & Johnson Buy vs. Rent Index. "If you look to buy, bargain aggressively and be willing to walk away."

Should I buy a house?

Taking the leap to homeownership can provide a feeling of pride while boosting your long-term financial outlook, if you go in well-prepared and with your eyes open.

When thinking about buying a home, consider whether you want to put down roots or maintain flexibility with your living situation. How secure is your job, and can you comfortably budget for home repairs and maintenance on top of monthly housing payments? Are you ready to stay in one place? Do you have kids or family members to consider?

When should I buy a house?

In normal times, spring is the traditional start of the home-buying season, with many listings typically hitting the market; it ends in the autumn. The market still hasn't quite returned to normal since the coronavirus upended that schedule, however. Now, there's action all year 'round, with fresh offerings appearing in every season.

At any rate, your own financial readiness is more important than the time of year. This means having your finances organized and your credit in order so that you'll be able to smoothly secure a reasonable mortgage.

Prepare for extra costs

Everyone thinks of the down payment as the big home-buying expense. But homeownership involves some additional costs that you should be ready for. First of all, potential homebuyers should have enough money set aside to cover closing costs, which can range from 2 percent to 4 percent of the purchase price.

When budgeting for your monthly mortgage payment, factor in not only the principal amount and interest, but also property taxes, homeowners insurance, homeowners association fees (if applicable), plus private mortgage insurance if you're putting down less than 20 percent. Don't forget to set aside money for ongoing maintenance and those unexpected repairs that are bound to pop up, too.

Local markets have a major impactThe market you're shopping in has a major impact on what to brace for as a homebuyer. Each market will have its own quirks to consider; the property taxes, cost of living, job market, and housing competition in California will yield different buying conditions than Florida or Texas, for example. So don't assume the situation will be the same wherever you go. Partnering with a knowledgeable local agent can help you to know when to press for what you want versus making necessary concessions, and what will be the big-ticket items in your house-buying budget.

Bottom line: Taking the first step

Buying a home involves a lot of moving parts and complex steps, but this guide — along with the professional expertise of your real estate agent and mortgage lender — can help you navigate the process smoothly. By doing your homework ahead of time, you'll have more confidence in your decision and relish getting those coveted house keys on closing day.

Working to come up with a down payment and repair your credit in advance of shopping for a home will help you to secure the most favorable mortgage terms you can qualify for. Once you have laid the financial groundwork, find a local agent whose expertise you can trust to help navigate a particular market.

FAQs

What is a good credit score to buy a house?

Should I buy a house now or wait until 2024?

When should I hire a real estate agent?

How much should I offer on a home?

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