BUYERS GUIDE

PREPARING TO PURCHASE A HOME IN TODAY'S MARKET

By Jeff Robinson, Broker

TABLE OF CONTENTS

Buying a Home in Today's Market

The housing market has changed dramatically over the past few years, and **recent legal changes have reshaped how real estate transactions work**—specifically when it comes to **who pays the buyer's agent commission.**

In the past, home sellers typically covered the buyer's agent commission, making it easier for buyers to focus solely on their down payment and closing costs. However, **with new legal settlements and industry regulations, buyers may now be responsible for paying their own agent's commission**, adding a new cost to the home-buying process.

At the same time, **mortgage rates have more than doubled**—jumping from **3-4% just a couple of years ago to nearly 7% or higher today**. This shift has dramatically increased monthly mortgage payments, making affordability challenging for many buyers.

So what does this mean for you?

- You must budget for more than just the down payment and closing costs. **The buyer's agent commission is now a separate expense**—unless you negotiate a seller credit to help cover it.
- Getting pre-approved before house hunting is even more critical, as lenders will now factor **your agent's commission into your loan approval.**
- Buyers must **understand their full home-buying costs upfront** to avoid surprises and structure stronger offers in today's market.

Despite these changes, **homeownership is still possible**. You can successfully buy a home in today's market by learning how to **navigate new commission rules, explore creative financing options, and negotiate effectively**.

This guide will help you:

✓ Understand how interest rates impact affordability
✓ Break down all the costs—including agent commissions
✓ Learn how to negotiate seller credits to offset expenses
✓ Take advantage of loan programs and options

Let's dive in and ensure you're fully prepared to **buy confidently in today's evolving real estate market**.

Why Interest Rates Matter (and Why You May Be Focusing Too Much on Them)

Higher mortgage rates make homeownership **more expensive**, but **focusing on the interest rate alone** can cause you to miss out on a great opportunity.

The Hidden Costs of Lower Rates

A lower rate may come with:

- Higher upfront lender fees
- More points are paid at closing
- A higher monthly payment than expected

How to Offset Higher Interest Rates

1. **Negotiate a Seller Credit:** Instead of asking the seller to lower the price, ask them to contribute funds to buy down your rate.
2. **Explore Different Loan Options:** Adjustable-rate mortgages (ARMs) or lender-specific programs can reduce your initial payment.
3. **Plan for Future Refinancing:** Buying now means you start building equity. If rates drop, you can refinance later.

💡 **Pro Tip:** If you're also responsible for paying the buyer's agent commission, you can negotiate seller credits to offset that cost.

The 20% Down Payment Myth: How Much Do You Really Need?

For years, many homebuyers have believed that a **20% down payment** is required to purchase a home. You can buy a home with **as little as 3% down**—but there's a tradeoff.

While a lower down payment makes homeownership more **accessible**, it also means a **higher monthly mortgage payment**. Why? Because your **loan amount is larger**, and in most cases, you'll pay **private mortgage insurance (PMI)** until you reach 20% equity in your home.

How Your Down Payment Affects Your Monthly Payment

The size of your down payment directly impacts how much you pay each month for your mortgage.

- **Lower Down Payment (3-5%)** = Higher Loan Amount + Higher Monthly Payment
- **Higher Down Payment (10-20%+)** = Lower Loan Amount + Lower Monthly Payment

💡 **Key Takeaway:** The more you put down, the less you borrow—resulting in a lower monthly payment and potentially avoiding PMI costs altogether.

Using Seller Credits to Offset a Lower Down Payment

If you can't put **20% down**, that's okay! Many buyers in today's market **negotiate seller credits** to help **buy down their mortgage interest rate.**

How Seller Credits Can Help

Instead of asking the seller for a lower purchase price, you can request that they **contribute toward a rate buy-down**. A rate buy-down means:

✅ A lower interest rate
✅ A lower monthly payment
✅ More affordability, even with a smaller down payment

For example, let's say you put **5% down** on a $500,000 home, but interest rates are at **7%**. Your payment might be **too high**. However, negotiating **a seller credit** to buy down your rate could **save hundreds of dollars per month**.

💡 **Pro Tip**: Always ask your lender how much it costs to buy down your rate by 0.5% or 1%—then use that amount as part of your negotiation strategy when making an offer.

Final Thoughts: Planning and Negotiating Smartly

If you're going with a lower down payment, be sure to ask the seller for credit to buy down your rate, work with a lender to understand the impact on your monthly payment, and factor in PMI if you're putting less than **20% down**.

Understanding the Loan Process – Why Getting a Mortgage Takes Time

Buying a home isn't as simple as filling out an online mortgage application and getting an instant approval. While technology has made the **pre-approval process faster**, getting fully approved for a mortgage **still takes time** because lenders must verify your **income**, **employment**, **credit history**, **assets**, and **debts** to ensure you qualify for a home loan.

Additionally, in today's market, **most agents will not show homes without a pre-approval letter**, and due to the recent industry rule changes, buyers must now sign a **Buyer Representation-Broker Compensation Agreement** before working with an agent and touring houses.

So, buyers, before you can start looking at homes, you need to:

✓ Get **pre-approved** by a lender

✓ Sign a **Buyer Representation-Broker Compensation Agreement** with your real estate agent

Pre-Approval – What It Means

A **pre-approval letter** is not the same as a full loan approval but is an essential first step.

During pre-approval, a lender will:

- Run your credit report to check your credit score and existing debts
- Verify your income and employment (see examples below)
- Review your assets (checking/savings accounts, retirement funds, etc.)
- Calculate your debt-to-income (DTI) ratio to determine affordability

💡 Pro Tip: A strong pre-approval makes your offer more competitive and speeds up the closing process once you find the right home.

Income & Employment Verification – What You Need

Lenders want to confirm that you have a stable, verifiable income that supports your ability to pay your mortgage. The documents they request depend on your employment type:

If You're a W-2 Employee (Full-Time or Part-Time)

✔ Last 2 years of W-2s
✔ Most recent 30-60 days of pay stubs
✔ Employment verification letter (if required)

If You're Self-Employed (1099, Business Owner, or Freelancer)

✔ Last 2 years of tax returns (Form 1040, including all schedules)
✔ Year-to-date profit & loss (P&L) statement
✔ Business bank statements (if applicable)

If You Have Variable or Commission-Based Income

✔ Last 2 years of tax returns
✔ Recent pay stubs (if applicable)
✔ Letter from your employer verifying average annual income

💡 **Pro Tip:** Lenders average your income over the last 24 months if you're self-employed or work on commission. If your most recent income is lower than previous years, your lower income may be used.

Why Most Agents Won't Show Homes Without Pre-Approval

In today's market, serious buyers have pre-approval letters before viewing homes because:

✔ It confirms you're **financially qualified** to buy
✔ It **prevents wasting time** on homes you can't afford
✔ Sellers often require **pre-approval letters with offers**

If You're Self-Employed (1099, Business Owner, or Freelancer)

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✔ Sellers often require **pre-approval letters with offers**

With home prices and interest rates fluctuating, many buyers **assume they qualify for more than they do**. A pre-approval ensures that **you're looking at homes within your budget** and makes your offers **stronger** when you're ready to buy.

Signing a Buyer-Broker Compensation Agreement

Another **major change** in real estate transactions is that buyers must now sign a **Buyer Representation-Broker Compensation Agreement** before working with an agent.

What is the Buyer-Broker Compensation Agreement?

- It is a **written agreement between you and your real estate agent**, outlining their services and compensation.
- **Buyers are now responsible for paying their agent's commission** unless a seller agrees to cover it.

💡 **Pro Tip:** Before signing, discuss commission terms with your agent. Some options include:

- Negotiating seller concessions to cover commission costs
- Rolling commission into closing costs
- Paying out-of-pocket if necessary

Final Thoughts: Be Prepared Before You Start House Hunting

To start touring homes, you must have:

✓ A pre-approval letter from your lender
✓ Signed Buyer-Broker Compensation Agreement with your agent

Skipping these steps will **delay your home search** and may cause you to **miss out on opportunities** when you find the right home.

By getting **pre-approved early and signing your agreement upfront**, you'll be in the best position to move forward with confidence in today's competitive market.

Pre-Qualification vs. Pre-Approval: What's the Difference?

If you're serious about buying a home, getting **pre-approved** is no longer optional—it's a **must** before you start house hunting. But many buyers get confused between **pre-qualification** and **pre-approval**, assuming they're the same thing. **They're not**.
Understanding the difference can **save time**, **prevent delays**, **and make your offer more competitive**.

What is Pre-Qualification?

Pre-qualification is a **basic estimate** of how much you can borrow. It's a **quick and informal** process based on the financial details you provide to a lender, but it **does not involve document verification or a credit check**.

How Pre-Qualification Works:

✓ You provide a **basic overview** of your income, debts, and assets (self-reported).
✓ The lender **does NOT verify** the information you provide.
✓ There is **NO credit check** involved.
✓ The lender gives you an **estimated loan amount** based on what you told them.

💡 **Example:**

You call a lender and tell them, "I make $90,000 a year, have $10,000 in savings, and my monthly debts are around $600." The lender may say, "Based on that information, you could qualify for a $400,000 loan." But this is **just an estimate—it does not mean you're approved.**

Why Pre-Qualification Isn't Enough

- Sellers **don't take pre-qualification seriously** because it's not verified.
- It does **not guarantee you can get a loan**.
- You **can't confidently make an offer** on a home with only a pre-qualification.

🚨 **Key Takeaway:** Pre-qualification is a good starting point, but it's just a rough estimate—not an actual approval.

What is Pre-Approval?

Pre-approval is a **detailed**, **verified review** of your financial situation. The lender checks your credit, verifies your income, and confirms your ability to qualify for a mortgage.

How Pre-Approval Works:

✔ You submit financial documents (pay stubs, tax returns, bank statements).
✔ The lender pulls your credit report and evaluates your credit score.
✔ Your income and employment are verified.
✔ The lender determines the exact loan amount you qualify for.
✔ You receive a pre-approval letter, which can be submitted with an offer.

💡 **Example:**

You apply with a lender and provide:

✅ W-2s from the past two years
✅ Pay stubs from the last 30 days
✅ Bank statements for the last two months
✅ Tax returns (if self-employed)
✅ Employer verification letter (if required)

The lender reviews and verifies everything, then issues a **pre-approval letter** stating:

"Based on verified income, credit, and assets, you are pre-approved for a $400,000 loan at 7% interest with a required 5% down payment."

This letter proves to sellers that you are financially capable of buying a home and can secure a mortgage.

Why Pre-Approval is Essential

- Sellers and agents require pre-approval before showing homes.
- It gives you a clear budget so you don't waste time looking at homes you can't afford.
- It strengthens your offer in competitive markets where sellers only consider buyers with solid financing.
- It helps speed up the loan process once you're under contract.

🚨 **Key Takeaway:** Pre-approval is a lender's commitment to lend you money based on verified financials. It's the gold standard in today's market.

Pre-Approval vs. Full Loan Approval

Many buyers assume that once they have pre-approval, they're fully approved. That's not the case. Final loan approval happens after you find a home, make an offer, and go through underwriting.

Here's how it works:

During underwriting, the lender re-confirms all financial details and evaluates the property before issuing a clear-to-close approval.

Agents and Sellers Require a Pre-Approval & Buyer-Broker Agreement

Because of recent real estate industry changes, most real estate agents will not show homes without:

✔ A pre-approval letter from a lender
✔ A signed Buyer-Broker Compensation Agreement

💡 **Why?**

- Pre-approval proves you're serious and financially qualified.
- The Buyer-Broker Compensation Agreement is now required due to industry rule changes, and it outlines the buyer-agent's compensation and services.

🚨 **Key Takeaway:** Before you start house hunting, and to avoid delays make sure you have:
✅ A pre-approval letter showing you're financially qualified
✅ A signed Buyer-Broker Compensation Agreement with your agent

Need Help Getting Pre-Approved?

If you need recommendations for a great lender or want to discuss how to structure your home-buying strategy, let's talk!
📞 **Call or Text:** (925) 325-2007
📧 **Email:** jeff@jeffdoesrealestate.com

Hidden Costs of Buying a Home: What to Budget for Beyond the Down Payment

Many buyers assume that their only major upfront cost is the down payment, but several additional costs are involved in purchasing a home. Understanding these costs in advance will help you avoid surprises and set a realistic budget.

Buyer's Agent Commission: A New Factor in Home Buying

Traditionally, the seller paid both the listing agent and the buyer's agent commission. However, under new industry rules, buyers may now be responsible for paying their agent's commission—unless the seller agrees to cover some or all of it as part of the negotiations.

How Much is the Buyer's Agent Commission?

- The commission is negotiable but typically ranges from **2% to 3%** of the home price.
- Some sellers may offer to cover part or all of the commission to make their home more appealing.
- If the seller does not offer to cover it, buyers need to factor this into their closing costs or negotiate a seller credit to help offset the expense.

💡 **Pro Tip:** When making an offer, ask your agent to run the numbers and see if the seller offers any commission toward buyer representation. If not, work with your agent to negotiate a seller credit to help cover the cost.

Closing Costs (2-5% of Purchase Price)

Closing costs include lender fees, title insurance, escrow fees, and other necessary expenses. These costs typically range between **2% and 5%** of the home's purchase price.

Common Closing Costs:

- Loan Origination Fees
- Appraisal Fee
- Credit Report Fee
- Title and Escrow Fees
- Prepaid Property Taxes & Insurance

💡 **Pro Tip**: Request a **closing cost estimate** from your lender before offering to clearly show your total costs.

Property Taxes & Homeowners Insurance

Many buyers don't realize that their monthly mortgage payment includes property taxes and homeowners insurance, which can add hundreds of dollars per month.

- Property Taxes: Vary based on location but typically range from 0.5% to 2.5% of the home's value annually.
- Homeowners Insurance: Required by lenders and varies based on home size, location, and coverage level.

💡 **Pro Tip:** Ask your lender to estimate your full mortgage payment (including taxes & insurance) to avoid budget surprises.

Moving & Immediate Home Repairs

Once you own the home, additional expenses can include:

✅ Moving costs (truck rental, movers, temporary storage)
✅ Immediate repairs (painting, flooring, fixtures)
✅ Utility setup fees (electricity, water, internet)
💡 **Pro Tip:** Set aside 1-2% of the home price for unexpected expenses within the first year.

Homeowners Association (HOA) Fees (If Applicable)

If you're buying a condo or home in a community with an HOA, you'll have monthly HOA dues that cover amenities and maintenance. Fees can range from $100 to over $500 per month, depending on the property.

💡 **Pro Tip:** Review the HOA documents before buying to understand the rules, fees, and any potential increases.

Key Takeaway: Know Your Full Home-Buying Budget

When buying a home, it's not just about the down payment. You also need to budget for:

✅ Buyer's Agent Commission (if the seller doesn't cover it)
✅ Closing Costs
✅ Property Taxes & Insurance
✅ Moving & Repairs
✅ HOA Fees (if applicable)

By planning for ALL these costs in advance, you can make smarter financial decisions and avoid surprises.

Need Help Understanding Your Total Home-Buying Costs?

If you're unsure how to factor in the buyer's agent commission or negotiate seller credits, let's talk! I'll walk you through your options and help you structure a competitive offer.

- 📞 Call or Text: (925) 325-2007
- 📧 Email: jeff@jeffdoesrealestate.com

About the Author

With years of experience navigating the ever-changing real estate market, Jeff Robinson is a dedicated real estate broker and industry expert committed to helping buyers make informed decisions.

As the host of the **As The Market Turns** podcast and the author of multiple real estate guides and eBooks, Jeff stays ahead of market trends, ensuring his clients and readers are equipped with the latest strategies to succeed—especially in today's high-interest rate environment and new commission structure changes.

Jeff specializes in helping homebuyers:
✔️ Understand new industry regulations, including the Buyer-Broker Compensation Agreement
✔️ Navigate the mortgage process with the right financial strategy
✔️ Negotiate seller credits to reduce costs and make homeownership more affordable

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