HOMEBUYER

15 common homebuyer mistkaes

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- Looking for a home before getting preapproved
- Over looking first-time home buyer loan programs and grants
- making a small down payment

15 First Time Home Buyer Mistakes (And How to Avoid Them)

"If I only knew then what I know now." Is there something you have done in the past that, looking back, makes you have that thought? Ask homeowners that question and they will most likely bring up the first time they purchased a home. Needless to say, there are many mistakes first-time home buyers make. Some are minor, some are costly and some even lead people to purchase a home that is completely wrong for them. Luckily, all these mistakes are avoidable if you know what to look for. Here, we provide you the lens you need to spot these common mistakes before you make them. That way, you won't be that first-time homeowner looking back and saying, "If I only knew then."

1. Looking For A Home Before Getting Preapproved

Finding a first home can be both exhilarating and taxing, so it's no surprise many people want to get a jump-start on it right away. But shopping for a home before getting preapproved for a mortgage is a big mistake.

The Problem: Getting preapproved for a mortgage helps home buyers in a few ways. It ensures they have the financial ability to purchase a home, helps them understand how much home they can afford and shows sellers and real estate agents they are a serious shopper. When you shop for a home before you are approved, you run the risk of finding homes you absolutely love that fall out of your price range. And when you do that, one of two things can happen: you find a way to buy the home you can't really afford or every home in your price range just can't compare to the one you truly love. When you shop for homes before you know how much you can afford, you could ruin your whole home buying experience before you really start.

The Solution: Focus on your finances first. Make sure you have enough money saved for a down payment and closing costs, then get your preapproval with reputable, established, & recommended lender. In the meantime, instead of looking at home listings and attending open houses, start by making a list of what you want in a home. Write out the must-haves, nice-to-haves, and deal breakers. This list will come in handy once you are preapproved for a mortgage and can shop for homes – in your correct price range. Also, research neighborhoods, areas, and lifestyles to pinpoint the areas that best fit what you need in your life. Use Google Maps, Google Earth, and again, *reach out to me with your questions today*.

2. Getting A Rate Quote from Only One Lender

Getting a mortgage requires some work on your part. To even get a quote from a lender, you may need to take time out of your day to have a conversation with a loan expert and provide some documentation. It is this kind of required commitment that leads many people to work with the first lender who offers them a quote on an interest rate or APR. But choosing convenience may cost them thousands of dollars in the long run.

The Problem: When you do not shop around, you could miss out on a better deal. No two lenders are the same and each one may offer different interest rates, closing costs or other fixed fees. By getting quotes from several lenders, you will be able to choose the one that will save you the most money at the closing table or over the life of the loan.

The Solution: Shop around and get quotes from at least two different lenders. According to Freddie Mac, getting a quote from just one additional lender could save you an average of $1,500 over the life of a loan. Get a quote from five different lenders and the average savings doubles. You do not want to call just any lender to hit that magic number. Make sure all lenders are ones you will want to work with. Not sure which lenders to contact? ***If you are having a hard time deciding on a lender, feel free to reach out to me today and I will connect you with a local Knoxville lender today***.

3. Buying the Most House You Can Afford

When first-time home buyers see the amount of money they are approved for, they assume that they can purchase a house for that amount. After all, the lender reviewed their income and assets and understands their financial situation. So why would they give the home buyer more money than they can afford?

The Problem: The amount the lender says you can afford may be quite different from the amount you can afford. The lender may know your income and even your debt-to-income ratio, but that is all they look at when it comes to monthly expenses. The lender does not know how much you pay for groceries, utilities, gas, and insurance. These are additional costs you will need to include in your monthly budget. Even if you can make your mortgage payments with all your other monthly bills, a higher monthly payment can affect other areas of your life. The more money you borrow, the more time it may take for you to pay it off. The more money you borrow, the less you will be able to put towards important savings, like your 401(k), Roth IRA or emergency fund.

Do not forget, too, that a bigger home may come with other higher costs than the sale price. A bigger house means more space to heat and cool, resulting in higher utility costs. More home also means more roof, flooring, siding, and windows to maintain, replace or repair. A home that costs more due to the location may have higher property taxes, too. If the sale price is high because of the home's amenities, it may cost more to repair those fancy extras.

If you will not think of the future costs, consider the higher costs at closing. Not only will you be paying a higher sale price but since the down payment is a percentage of the sale price, you will also pay a higher down payment. For example, a 3% down payment on a $150,000 house, is $4,500. For a $200,000 home, a 3% down payment would be $6,000.

The Solution: Once you are preapproved for a certain amount of money, use that as a starting point (knowing that it is the absolute maximum you can spend), but not the final number. Make a list of every monthly expense you have, adding a buffer for higher utility costs and expenses you may not have in an apartment, like water and trash collection. Not sure how much to add as a buffer? According to EnergyStar.gov, the typical U.S. household spends about $2,000 on utilities annually, so add about $200 to your monthly costs. Subtract your total expenses from your monthly income and see what is leftover. From there, determine how much money you want to comfortably live on once you subtract your mortgage payment. That will be the real amount you can afford for a home. Once you have the monthly payment you are willing to pay on your mortgage, talk to your lender to learn how much you should borrow based on that number. Remember, the mortgage payment should include any interest, escrow, and private mortgage insurance payments you will have. Your lender will be able to plug those numbers in and provide a better estimate of how much home you can truly afford.

4. Overlooking First-Time Home Buyer Loan Programs and Grants

Many people overlook first-time home buyer loan programs and grants when shopping for their first home because they don't think they qualify or they don't even know these programs exist.

The Problem: These loan programs and grants are available to make owning a house more affordable and achievable for many people. By overlooking first-time home buyer programs, you could be missing out on the assistance you need, causing you to wait longer to purchase a home or decide not to move on in the process.

The Solution: Many states and cities provide first-time home buyer programs and grants specifically for residents of the area. Take the time to learn more about these from your local government or visit our post on first-time home buyer loan programs. As for the national programs, here are a few to get you started:

- The Good Neighbor Next Door program offers a discount on HUD homes for teachers, firefighters, emergency medical technicians and law enforcement officers.
- Fannie Mae's HomeReady program helps low- to moderate-income home buyers purchase a home with only a 3% down payment required.
- Freddie Mac's Home Possible and Home One℠ programs also helps lower-income buyers by providing down payment options as low as 3%.

Be aware that some lenders will not offer financing for homes purchased through some of these programs.

5. Forgetting About VA, USDA And FHA Loans

Since conventional loans are some of the most popular loan options, many people forget about the unique borrowing options afforded by VA loans, USDA loans and FHA loans. These three loans are often more affordable options, so not looking into them could be costly.

The Problem: If you don't consider one of these loans, you could miss out on such benefits as no down payment, lower credit score requirements, no mortgage insurance and the ability to roll your closing costs into the loan.

The Solution: Learn more about each of these loans and compare them to the conventional loan. Decide if any of them are a better option for you based on benefits and eligibility requirements. Here is a quick rundown of each one:

- The VA loan allows you to qualify with a lower credit score and higher debt and may not require a down payment or mortgage insurance. To qualify, you must get a Certificate of Eligibility from the VA, have a debt-to-income ratio of no more than 60% and a minimum FICO® Score of 620.

- The USDA loan requires no down payment and may allow you to roll your closing costs into your loan. Backed by the U.S. Department of Agriculture, this loan has eligibility requirements that include a minimum FICO® Score of 640, a household income that falls below the USDA limit and a home that is located within an eligible rural or suburban area.

- The FHA loan may be beneficial for people who have had financial issues in the past and may have trouble qualifying for other loans. Therefore, the FHA loan's eligibility requirements are its benefits. To qualify, you need a minimum FICO® Score of 580 and a minimum down payment of 3.5%. You may also still qualify to get the loan even if you have filed for bankruptcy or struggled financially in the past.

6. Making A Small Down Payment

The cost of the house itself is a huge expense, but it may not always feel that way since you break it up into monthly payments. The down payment, on the other hand, may feel like more of a hit since all of it is due at closing. And most of the time, it is several thousand dollars. It is understandable, then, that buyers are tempted to make a small down payment when purchasing their first home.

The Problem: Making a small down payment may feel like you are saving money now, but it could end up costing you much more down the line. That is because the less money you put down, the more you'll pay in interest and the more you'll have to borrow from your lender. Along with that, any down payment that is less than 20% will require an additional private mortgage insurance payment each month.

The Solution: Give yourself the time you need to save up for a down payment before you decide to purchase a home. Aim to have 20% of your ideal purchase price, so you can avoid paying PMI. If you do not want to wait that long, save as much as you can. Keep this in mind: the more of a down payment you pay now, the less money you will need to borrow and the more equity you'll start out with. And since your loan-to-value ratio will be lower, you'll be less of a risk to lenders, which can get you better rates. With a lower mortgage balance and better rates, you will pay less each month and ultimately reduce the total interest you pay on the loan. That could equate to thousands of dollars saved.

7. Draining Your Savings for A Down Payment

When people are ready to buy their first home, they will not want anything getting in their way, not even a down payment. And so, many people are tempted to drain their savings in order to come up with enough money to put down to purchase a home.

The Problem: There are a lot of hidden and unexpected costs that come with owning a home. We will explore some of those later. If you don't have extra money set aside to handle these costs – or any other emergency expenses – you could put yourself in serious financial straits, causing you to accumulate more debt, miss payments or go to collections.

The Solution: When deciding if it is the right time to purchase a home, make sure you have enough money to pay your down payment and closing costs without draining your savings. You want to have a savings account or emergency fund with at least 3 months of living expenses saved up. If you do not, take the time to save up more money so it doesn't end up costing you later.

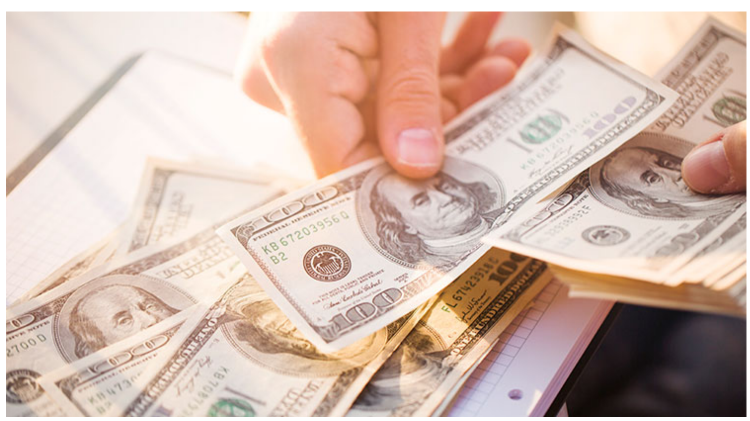
8. Not Planning for Closing Costs

With such a big emphasis on the purchase price and the down payment, many people fail to plan for closing costs. Due at the time the buyer closes on their home, these costs can be just as much as the down payment, if not more. That is a lot of money to be unprepared to pay at the end of your home buying process.

The Problem: If you fail to plan for closing costs, you'll either need to pull more money out of your savings, borrow from family or walk away from the deal – which will cost you even more, like your earnest money deposit and anything you paid for the appraisal and inspection.

The Solution: To prepare for closing costs, it helps to learn what is included in this major expense. While some of these may not be included in your closing costs, here is a list of common fees:

- Appraisal
- Home inspection
- Property taxes
- Title and attorney fees
- Lender fees
- Application fee
- Prepaid interest
- Loan origination fee
- Discount points, optional
- Title search fee
- Mortgage insurance application fee



- Upfront mortgage insurance, optional
- Lender and owner title insurance
  Other costs like flood certification, and homeowner’s association, assumption and specific mortgage fees will depend on where the home is located and the type of loan you get.

  When it comes to these costs, expect to pay about 5% of the purchase price of the home. That means, if you are buying a home for $150,000, prepare to pay about $7,500 in closing costs *in addition* to your down payment.

9. Not Getting A Contingent Home Inspection

Because a home inspection may not be required to get a mortgage, some people make the mistake of not getting one. They usually choose to skip it because they do not want to pay the additional cost of one. What they do not understand is, by cutting corners, they may end up spending thousands more.

The Problem: A home inspection protects the lender and the home buyer from purchasing a home that may not be worth the purchase price or have serious issues like structural damage. An inspection dives deep into the inner workings of the home, making sure the foundation is in good health, the roof does not need repair, everything is up to code and there aren’t any other red flags. If you do not get a home inspection, you could end up paying thousands of dollars to fix an issue that could have been resolved at a cost to the seller (or used to negotiate a lower price) before you purchased the home.

The Solution: This is an easy one – get a home inspection done. Make sure you attend the inspection so you can learn more about the home and have any issues pointed out to you and explained right then and there. If there are any issues found, you will need to work with the seller to get them resolved or use it as a reason to lower the purchase price of the home.

10. Not Factoring in The Neighborhood And Yard

Some people get so focused on the home itself that they forget to consider other important factors, such as the neighborhood, yard, school district and proximity to amenities.

The Problem: You may absolutely love the home itself, but if the neighborhood, school district or surrounding area are bad, you will not love living there. Along the same lines, you may have difficulty selling the home when it comes time.

As for the yard, you will want to make sure it is the size you want and is in good condition. If not, you may experience buyer’s remorse or never want to go outside. On the flip side, you may have to spend a ton of time outside maintaining the landscaping and possibly a ton of money fixing such issues as flooding or poor drainage.

The Solution: Take your time to research the area around the home. Drive around the neighborhood and see how your potential neighbors take care of their home and yards. See if there are a lot of kids running around and if there are parks nearby. Go on Google Maps and see what restaurants and businesses are within walking or convenient driving distance. Learn more about the school district, what it is rated, how safe it is and the programs it offers. Even if you are not planning on having kids, consider how the school district will affect resale value. Look at crime statistics for the area, too, as that can affect how safe you feel in your home and walking around the neighborhood.

When it comes to the exterior of the home, pay attention to the yard. Does it have proper grading? Is water pooling anywhere? What type of soil does it have? All these characteristics can impact whether you'll get water in the home or have damage to the foundation. When looking at the yard, consider its size. Do you want plenty of room for the kids or dogs to run around? Are you willing to sacrifice half your weekends tending to that space? If you hate yardwork, you will regret purchasing a home on a giant plot of land.

11. Forgetting About Moving Costs

When purchasing a home, the focus is mostly on the costs you will incur, including the purchase price, down payment and closing costs. But there is another expense you will encounter soon after you close: the cost to move into your new home. With all that is involved in buying the actual house, many first-time home buyers have a hard time seeing into the near future. Sure, they know they must move their stuff, but they often forget that it costs money to do so.

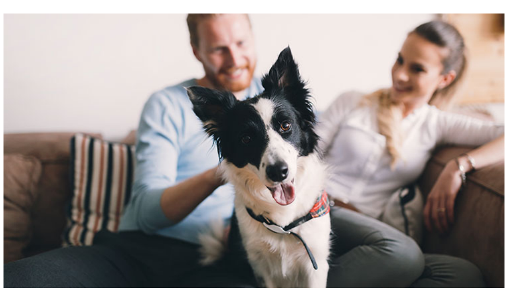
The Problem: After spending all that money on a down payment and closing costs, you don't want to be surprised to learn the spending isn't over. If you do not factor in moving costs, you'll have a harder time spending more money when your finances may have already taken a big hit from the home purchase. This could put a whole damper on what is supposed to be an exciting day.

The Solution: Decide whether you will be hiring movers or enlisting the help of family and friends, then do your research. If you will be moving stuff on your own, you may still need to rent a truck. Just as you should shop around for a lender, you should shop around for moving trucks or moving companies to see where you can get the best deal. To keep costs low, consider moving on a weekday, when there is less demand.

Once you know how much it will cost to transport your things, factor in costs to pack them. You will need to buy or rent such supplies as moving boxes, packing tape, packing blankets, dollies and bubble wrap, to name a few. To cut costs on these items, ask around and see if anyone has anything from their recent move. You may also be able to get free boxes from local thrift stores, used bookstores or liquor stores.

12. Ignoring the Hidden Costs Of Owning A Home

Many first-time home buyers are unaware of the [hidden costs of owning a home] because they've never owned a home. When moving from an apartment to a home, there can be a number of additional costs you've never experienced paying on your own because a landlord or maintenance person took care of it or it was just cheaper or nonexistent in an apartment. These hidden costs include:



- Higher utility bills
- New utilities like trash removal and recycling
- Property taxes
- Homeowners insurance
- Outdoor maintenance and equipment
- Maintenance and repair
- Tools for home improvement and maintenance
- Furniture to fill more space

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The Problem: When you do not anticipate these costs, you may end up going over your monthly budget or going into more debt to pay for them.

The Solution: Look at the list above and figure out how much each expense will be. Add that amount to your savings goal and have it saved before you move in. Once you live in the home for some time, you will have a better idea of how much you need to budget for each category each month. For the costs that are not monthly, put that money into your emergency fund.

13. Waiting for The Perfect Home

Buying a home is a big financial and personal commitment. It is not easy to just up and move a home, so it's no surprise people want to purchase something they'll like living in for years to come. However, expecting to find the perfect home is a mistake many first-time home buyer make.

The Problem: If you are waiting for the perfect home, you may be passing up perfectly good homes that are a great price or in a great location. Along with that, you are making your search too narrow, which will just prolong the process. If you wait too long, you may pay more if interest rates, home prices or market demands rise.

The Solution: From number of rooms, type of windows, square footage and cosmetic touches to fancy appliances, location, structural health and more, there are so many factors that go into a home, that it will be almost impossible to find one that meets every single want and need for every person in your family. Instead of focusing on all the must-haves and deal breakers, add a third and fourth column to your list – the nice-to-haves and the will-compromise factors. Remember, too, that it is not always about the perfect look or the perfect amenities. It is about being the perfect place to raise your family or live the lifestyle you want. You will never be able to do that if you keep looking and waiting for something that doesn't exist.

14. Applying for Credit Before Closing

After the offer is accepted, it can be hard to fight the urge to buy all the things for your new home. With new furniture, appliances, and decorations to buy, many people apply for new lines of credit before closing on a house. What they fail to realize is, by doing this, they could be affecting their chances of getting the loan needed to close on the home.

The Problem: Lenders do not just check your credit score during the preapproval process. Most will also check it just before your scheduled closing day. If you apply for credit before closing, it could cause your score to drop significantly. And if it drops below the score required for you to qualify for your loan, you may not be able to secure financing for your new home. Here is how applying for new credit drops your score:

- It puts a hard inquiry on your report (10% of your score).
- It lowers your average credit age (15% of your score).
- It increases your utilization if you spend money on it (30% of your score).
Along with dropping your credit score, maxing out your cards or racking up charges also increase your debt-to-income ratio, which needs to be under 50% to qualify for a home loan.

The Solution: Refrain from opening new lines of credit or increasing additional balances before you close on the home. Better yet, try not to make any significant changes to your finances as you go through the home buying process. Do not close any accounts and or make any late payments as these actions can have a major impact on your score, too.

15. Thinking About Your Next Home Too Soon

After the thrill of the home buying process is over and things have settled down, some people already start thinking about moving out of their first home and on to the next. This can happen for several reasons, including:

- Buyer's remorse
- Ending a relationship
- Changing jobs
- Feeling restless
- Growing their families sooner than they thought
- Experiencing financial difficulties

Whatever the reason, selling a home too soon may have financial consequences.

The Problem: Moving out soon after you move in won't give you enough time to build equity in the home nor make up for the down payment and closing costs you just paid (and will pay again for a new home). And if you sell your house within a few years of your purchase, you will also have to pay a capital gains tax. This is a tax on the amount of money you make by selling the home. If you sell a year after purchasing the house, you will be taxed around 15% on any profit you make from the sale. If you have owned the home less than a year, you'll be taxed at your regular rate, depending on what tax bracket you fall into.

The Solution: To build up your equity and offset the costs of purchasing your home, it is recommended you live in the home for at least 5 years before home. To avoid paying taxes, you must own the home for 5 years and live in it as your primary residence for at least 2 of those 5 years. Those 2 years of residence do not have to be consecutive.

If you absolutely need to move out of the home due to a major life event, consider renting the home if you have already lived in it for 2 years.

The Bottom Line

Home buying is a complex process with many potential pitfalls, but ultimately, it can be a good financial and personal decision for those ready to make the commitment. Now that you're equipped with our home buying tips and know what mistakes to avoid, let our loan experts help you find the right mortgage, get preapproved and jump-start your home buying journey. Call me today to help you. There is no obligation or commitment to use my aid. Let me show you my worth early on so when you are ready to pull the trigger, we can make it happen without delay.

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