

## 5 Mistakes First Time Home Buyers Make

Buying your first home is exciting. But don't start picking paint colors and building that white picket fence just yet. You may be overlooking some critical financial details of homeownership that could end up turning your dreams of owning a home into a nightmare.

To assure your first home purchase doesn't cause you a lot of hardship or put your financial future at risk, you must avoid these five first time home buying mistakes:

1. **Shopping for a house before shopping for a mortgage** - If you have never purchased a house, you may not realize that market conditions often require a preapproval letter (not a prequalification). Sellers and Realtors are not interested in showing homes to a buyer who cannot prove he can afford to buy it. Waiting until you find the perfect house to get a preapproval is a colossal mistake. In the time it takes to get pre-approved, another buyer can make an offer, take the house, and slam the door in your face. Taking the time to get quotes from multiple mortgage lenders is crucial when you are purchasing a home. Neglecting to do so can mean more costs upfront, a higher interest rate, and a more expensive home buying process in general
2. **Emptying your savings on a down payment** - Remember the 80's movie, *Funny Farm*, with Chevy Chase? You may need to keep a few spare dollars to tip the mailman, pay the movers, buy a payphone, or you know, remove the dead body from the backyard. Many people are willing to empty their entire savings to afford the house they want, not savings for the unexpected expenses that come with homeownership. You will need at least three months of living

expenses in savings AFTER you have paid closing costs, moving expenses, and your down payment.

3. **Applying for other credit before closing** - It's hard to walk through your future new home, without visualizing what you will do with each room. You'll want to start shopping for new furniture, appliances, and decorations too - but fight the urge. Do not buy any large purchases or finance so much as a doormat for your new house. Your preapproval is based on a snapshot of your financial situation at the time it is given. Do not do anything that will change this situation before your closing date, or you'll risk losing your approval with your lender. Most lenders will check your credit score during the preapproval process and again just before your scheduled closing date.
4. **Underestimating the cost of homeownership** - Don't let the excitement of homeownership take an unexpected turn. Once the keys are in your hands and you take the customary selfie in your new front yard, you now have the responsibility of being a homeowner. You can expect additional expenses on top of your monthly mortgage payment, such as property taxes, homeowners insurance, and a water heater that decided to leak. Depending on where you live, you may also have to HOA fees. When determining how much of a payment you can afford for a home, build these expenses into your budget
5. **Not researching downpayment assistance programs** - Today's mortgage isn't your parent's mortgage. The once-held belief that you must have a 20 percent down payment is a myth. The average down payment on a home is 13%, according to the National Association of Realtors. While you can usually avoid private mortgage insurance (PMI) by putting 20% down, it's not always needed - consider other mortgage options. You can put as little as 3 percent down for some

conventional mortgages (note: you'll pay PMI ). There are also government-insured loans that only require 3.5 percent down or, in some cases, 0% down. Do your research. Check with your local or state government for special housing programs created for first-time buyers.

The Bottom Line... As a first time home buyer, learn from the mistakes of those eager and unprepared buyers before you. Make sure you're pre-approved before you start searching for a home, compare lenders, know all of your options, and being truthful (with yourself and your lender) you can avoid making the same mistakes.