

Real: Mistakes first-time home buyers make

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First-time homebuyers almost always make a few mistakes when buying their home. Perhaps they pay too much, choose the wrong type of mortgage or neglect to budget for needed home improvements.

Working with a trustworthy, experienced lender can help prevent such mistakes. But consumers also need to take responsibility for their budgets and choices.

"Before buying a home, consumers need to develop a short- and long-term perspective on their purchase," says Michael Harrison, area director for MetLife Home Loans in Southwest Ohio.

One mistake comes when lenders qualify buyers based on their incomes and debt-to-income ratios without considering how much the borrowers spend on items such as transportation, savings, food and other necessities.

"A lot of first-time buyers are optimistic about the future and excited about buying a home, so they borrow the absolute maximum they can afford instead of allowing themselves wiggle room for a partial loss of income or for future expenses such as children," Harrison says.

Financial experts recommend that consumers decide how much they want to spend each month on housing before meeting with a lender.

"Every buyer should create their own budget and know their limits," says Stephen Adamo, president of Weichert Financial Services in Morris Plains, N.J.

Adamo says many first-time homebuyers experience a sizable change in their housing payments. Some new owners may go from \$500 per month in rent to a monthly mortgage payment of \$2,000, he says.

"You need to deal with payment shock," Adamo says.

Meeting with a lender for a buyer consultation and prequalification for a mortgage should be the first step toward homeownership. Yet many first-time homebuyers wait until they are ready to start house hunting before contacting a lender.

"It's never too early to set up a free buyer consultation with a lender," Adamo says. "Every buyer needs to get prequalified early enough in the process so that they can make some changes if they need to or correct errors on their credit report."

Some buyers may need to spend up to a year saving more money, increasing their incomes or cleaning up their credit before making an offer on a home.

A buyer consultation should include creating long-term financial goals and strategies for buying property, Adamo says.

While most consumers know it's important to have a high credit score, not everyone understands how costly a low score can be.

"All mortgage lending is done with a tier of interest rates and terms based on consumer credit scores," Harrison says. "A credit score of 720 or above will earn you the best rates and can potentially save you thousands of dollars."

A score of 680 to 720 can get you good mortgage rates, while a FICO score of 620 is usually about the lowest score to qualify for most loans, Harrison says.

Consumers should learn about credit scores the minute they start working, Harrison says. Many Websites provide information about how to improve your credit score.

Even after a mortgage approval, consumers must avoid applying for new credit or taking on new debt, Adamo says, because a second credit check is now often required before settlement.

First-time homebuyers today typically opt for a 30-year fixed-rate mortgage. Their conservatism is a reaction to stories about the dangers of interest-only mortgages and adjustable-rate mortgages.

But Harrison says home loan alternatives to a 30-year-fixed sometimes make more sense. For example, buyers certain they will be relocated by their companies within five years may find a 5/1 ARM "could be a much better mortgage," he says.

"There's no reason to pay a premium for a product you don't need like a 30-year loan," Harrison says.

Homebuyers eager to build equity in their homes or who are older and want to live mortgage-free in retirement should consider a 15-year fixed-rate loan or, if they can afford it, even a 10-year mortgage to reach their goals.

Mortgage rates returned to record lows this week.

The average 30-year fixed-rate mortgage fell 3 basis points, to 4.74 percent. A basis point is one-hundredth of a percentage point. The rate marks a return to a record low in the nearly 25-year

history of the weekly Bankrate survey. The all-time low mark of 4.74 percent was first set two weeks ago.

This week's average 15-year fixed-rate -- a popular option for refinancing -- fell 5 basis points, to a record-low 4.18 percent.

The average jumbo 30-year fixed sank 7 basis points, to 5.43 percent. That too, is an all-time Bankrate low.

Adjustable-rate mortgages also fell this week. The one-year adjustable-rate mortgage edged down 1 basis point, to 4.8 percent. Meanwhile, the popular 5/1 ARM fell 6 basis points, to a record low of 4.06 percent.

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