

4 big money mistakes of first-time homebuyers

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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.

Following are the four biggest financial mistakes of first-time homebuyers:

Spending the maximum on housing

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.

Not getting prequalified early enough

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.

Misunderstanding the importance of a high credit score

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.

Websites such as Bankrate 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 often required before settlement.

Choosing the wrong mortgage product

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.