

10 Rookie House Buyer Mistakes to Avoid

With the extension and expansion of the popular first-time home buyer tax credit, which President Obama signed into law in November, as well as price declines and attractive mortgage rates, an influx of qualified first-time buyers are rushing to take advantage of the market. Mark Zandi, the chief economist at Moody's Economy.com, projects there will be 1.84 million home sales to first-time home buyers in 2010, compared with 1.73 million in 2009. If you're a property virgin about to take the plunge, here are some common blunders to avoid--and helpful tips that could mean the difference between financial security and a mountain of debt:

1. NOT CHECKING YOUR CREDIT REPORT AND SCORE

You've clicked through hundreds of online listings, compared floor plans and square footage, and are eager to jump-start your search. But before you even think of setting foot in an open house, make sure you get a copy of your credit report. The cleaner your credit report and the higher your credit score, the more likely you are to be preapproved for a mortgage at a low interest rate. According to Keith Gumbinger of HSH.com, most homebuyers will need a credit score of about 720 to obtain the most favorable mortgage rates.

Review your credit report a few months before you begin your house hunt, and you'll have time to ensure the facts are correct and dispute mistakes before a mortgage lender checks your credit. You can access a free copy of your credit report at annualcreditreport.com once every 12 months.

2. NOT GETTING PREAPPROVED

After you've assessed your credit report, it's time to establish with a qualified lender how much you can afford. "First-time home buyers need to take the time to get an approval from their lender before looking at homes," advises Ray Boss Jr., a six-year licensed Realtor with RE/MAX Realty Group in Maryland. "This includes getting a credit check and giving their lender a copy of W-2s, pay stubs, and bank and brokerage statements." Getting preapproved can help you save time by looking for homes that you know you can afford instead of lusting after something out of your price range. And it will put you in a better position over another bidder with no preapproval.

3. NOT CREATING A LONG-TERM BUDGET

If the housing crisis proved anything, it's that mortgages were given to people who clearly did not have the means to pay them back. To avoid making this mistake, homebuyers should create a budget before even beginning their home search to determine just how much house they can really afford. A good rule of thumb is to devote no more than a third of your monthly household income to housing costs, which include mortgage principal, interest, taxes, and insurance. "A good number would be 30 percent," Zandi

says. "If you are over 35 percent, you are really pushing the envelope." There are several work sheets available online to help you figure out how your income, debts, and expenses affect what you can afford each month for the next 15 or 30 years.

4. FORGETTING ABOUT THE HIDDEN COSTS

You grossly underestimated what you can afford to pay each month. You factored in the purchase price of the home but didn't consider the cost of taxes, insurance, utilities, and fees. There are several hidden costs that first-time homebuyers neglect to prepare for. They can be anything from the closing costs to appraisal fees, escrow fees, homeowner's insurance fees, property taxes, and even moving costs. Another factor is the cost of repairs and maintenance. "When you're renting and the furnace goes out, what do you do? You call the landlord," says Tom Vanderwell, mortgage officer for Fifth Third Bank in Michigan. "When you own a house, what do you do? You have to fix it yourself." You may find there are numerous "nickel and dime" things to account for that could add up to a significant chunk of money over time.

5. NOT USING PROFESSIONAL HELP

Sure, it's possible to go out and buy a home without the aid of a professional real estate agent. But think about how much time and stress a good agent can save you. For starters, Realtors have access to all the homes on the market through the multiple listing service, or MLS, plus all the ones that are under contract and have been sold. A specialist has time to sift through all of these listings, says Boss, and make the appointments to show you the houses, create comparative market analyses to determine proper pricing, and meet with necessary inspectors. Real estate agents also can help buyers traverse a taxing, 70-page legal contract. "I would want someone who is going to look out for my interests first and foremost," says Boss. "Someone who knows the contracts, who has experience negotiating, and who can walk me through the entire process smoothly--step by step--and make sure I get the house that's right for me."

10 Rookie House Buyer Mistakes to Avoid

6. PICKING YOUR REAL ESTATE AGENT AND LENDER BLINDLY

“One of the mistakes a lot of people make is finding a Realtor they aren’t comfortable with,” says Boss. Begin your search at the National Association of Exclusive Buyer Agents, a nonprofit that represents buyers. Or ask relatives, friends, neighbors, and coworkers for referrals.

First-time homebuyers, Boss says, are generally more time-consuming than the average buyer and require more attention. A good real estate agent will be friendly and accommodating, show only homes that fit your parameters, and help you with strategies during the bidding process—but never pressure you into something you’re not comfortable with. “It’s important that the Realtor be experienced with first-time buyers, understand their wants and needs, and be able to connect with them well,” says Boss.

Similarly, the buyers should feel at ease with and have complete confidence in their mortgage lender, and they should fully discuss and understand their financing options with that lender. “Don’t apologize for asking questions,” says Vanderwell, who stresses the importance of knowing what you’re getting into. “There’s a pretty substantial chunk of people who are in really rough straits right now and would not have been had they done their homework.”

7. THINKING YOU’LL GET EVERYTHING ON YOUR “WISH LIST”

Another mistake people make is being too close-minded while searching for their home, says Boss. He suggests sitting down with your real estate broker before searching for a home and creating a need/want list. Some of the items you might want to include as “must haves” or deal breakers are the towns you’d want to live in, square footage, or accessibility to transportation. The second part of the list would be things you don’t necessarily need but wish to have, such as a garage, new kitchen appliances, or an extra room for an office. “As you search for your home, you may realize there are certain parameters you really want or don’t want,” says Boss. “Understand that a certain amount of flexibility is essential.” Your aim is to be able to afford everything you need—as well as some items you want—all while staying within a long-term budget.

8. NOT KEEPING YOUR FEELINGS IN CHECK BEFORE HIRING A HOME INSPECTOR

You’ve already chosen the perfect paint color to match your living room set. But hold on: Before you start picking out accent pillows for your sofa, you need to bring in a home inspector to check the safety of your potential new home. Inspectors will evaluate the structure, construction,

and mechanical systems of the home and will give you the approximate price of repairs that may be needed. They will examine everything from the electrical system, water heater, and HVAC system to the foundation and floors.

Buyers should find and hire their own inspector--independent of the real estate broker--to ensure there isn’t a conflict of interest. When you make your offer, make sure the seller is aware that your offer is contingent on the house passing inspection. You can also add a clause to the contract stating that the seller will pay up to a certain amount for any repairs required as a result of the inspection.

9. NOT RESEARCHING YOUR NEIGHBORHOOD

You may be living in your dream home, but your neighborhood’s a nightmare. Or you may have children or are planning to have children in the near future, but you didn’t consider the quality of the school districts or parks in the vicinity. You should ask yourself a number of questions during your home search, such as “Are there good schools nearby?” and “Do I feel safe coming home at night?”

Boss suggests that if schools are an important factor, you should go check them out personally. Speak with the principals or the parents waiting on the steps outside to pick up their kids. To learn more about the community, open up the local newspaper, Boss says. You can find out about community events or even how good the local high school football team is. Today’s buyers can gather all sorts of neighborhood information from real estate blogs and websites like Zillow and Trulia. (U.S. News has a partnership with Trulia.) “It is the responsibility of the buyer to check crime reports, school options, churches, and shopping,” says Boss. “Remember, you can change your house, but you can’t change the neighborhood.”

10. NOT CONSIDERING THE RESALE VALUE OF YOUR HOME

You’ve just started the home-buying process. The prospect of selling a home hasn’t even crossed your mind. Besides, you’re thinking you might live in whatever home you buy forever. Yet life is full of surprises, whether it is a job transfer or having another child or taking care of an incapacitated relative.

When the time comes to put your house on the market, will your home be easy or difficult to sell? While you’re on the hunt, it’s a good idea to account for preferences of the typical homebuyer. Just because you love to landscape or enjoy a bright-pink backsplash doesn’t mean a prospective buyer will. “How we make our plans initially has a big impact on our ability to adjust those plans and to deal with whatever comes our way,” says Vanderwell.