

9 Common First-Time Homebuyer Mistakes

THE VAULT

HOME LOANS

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Here's some helpful advice to help you avoid nine of the most common first-time homebuyer mistakes.

Purchasing a home is a big deal, and if you don't know what you're doing, you can find yourself in over your head pretty quickly. This is especially true if this is your first time around the home-buying block. From financial missteps to overlooking crucial details, there are several common mistakes that many first-time homebuyers make in the home-buying process. Keep reading for valuable tips on how to avoid them.

Mistake No. 1: Not Saving for a Down Payment

If you're buying a home, you may wonder what the down payment requirements are. This is a very common question, and the answer is that it varies based on several factors. Depending on the loan type and the

mortgage lender, down payments run the gamut from zero to twenty percent. Most traditional mortgage lenders require a minimum down payment of three (3) percent of the purchase price of the home but saving up to put down a larger down payment makes a big difference in the long run. This is because the more you put down at closing, the lower your monthly mortgage payments will be and the less interest you will pay over the life of the loan. Consider the example below:

Loan Amount	APR	Downpayment	Term	Monthly Payment	Total Interest Payments
200.000 US\$	6,5 %	3 %	30 years	1.226,21 US\$	247.436 US\$
200.000 US\$	6,5 %	20 %	30 years	1.137,72 US\$	229.580 US\$

As you can see in the example above, a 20% down payment versus a three (3) percent down payment saves a buyer over \$17,000 in interest payments over the life of the loan.

Another benefit of a larger down payment is you will avoid paying for private mortgage insurance (PMI). PMI is a monthly fee that protects the lender if the borrower can't make their mortgage payments, and most lenders require it when the borrower has less than 20% equity in the home or property. The cost of PMI is based on the loan amount and your credit score and typically runs between 0.5–1.5% of the loan amount per year.

Mistake No. 2: Skipping Pre-Approval

A common mistake many first-time home buyers make is failing to get pre-approved for a mortgage before starting their home search. Pre-approval is just what it sounds like. Typically, it is a letter from a lender that states they are willing to lend X amount to you pending further confirmation of details.

A pre-approval is not a firm offer of credit, though a lender will want to see proof of income, assets, debts and your credit record before providing you with one. Rather, pre-approval will help you gain a clear understanding of how much you can afford. It also strengthens your position as a serious home buyer in the eyes of sellers, and some real estate agents may require pre-approval before showing you homes. A pre-approval also protects you

from falling in love with a home that is beyond your budget, which will ultimately lead to disappointment and wasted time.

Tip: Contact your mortgage lender to get pre-approved for a mortgage before you begin house hunting. This will help you narrow down your search to homes that are within your budget and streamline the buying process.

Mistake No. 3: Ignoring Hidden Costs

Many first-time buyers focus solely on the purchase price of a home and overlook additional expenses such as closing costs, property taxes, homeowners insurance, and maintenance fees. You should know that there will likely be an increase in property taxes if the house has not been on the market in the last few years or if significant upgrades have been made since it was last sold. Ignoring these hidden costs can lead to financial strain down the road and may even jeopardize your ability to keep up with mortgage payments.

Tip: When determining your budget, factor in all potential costs associated with homeownership. Work with your mortgage lender to ensure you have a clear understanding of your financial obligations beyond the initial purchase price.

Mistake No. 4: Failing to Research Neighborhoods

While HGTV does a great job of making the home-buying process look easy breezy by showcasing new furniture, fabulous kitchens, and beautiful backyards, the location of a home is just as important as the property itself. Failing to research a prospective neighborhood thoroughly can lead to buyer's remorse if you end up in an area that doesn't meet your needs or expectations. Factors to consider include proximity to schools, amenities, public transportation, safety, zoning and future development plans.

Tip: Take the time to explore different neighborhoods and consider factors such as commute times, school districts, and local amenities. Talk to the neighbors and area businesses. If you are looking for a home in an area

you are not familiar with, be sure to visit local businesses and attend community events. Don't hesitate to ask your real estate agent for help. Ask about the history and stability of the area and home values over the last 10 years. This will help you get a better feel for the local housing market and protect the investment you are about to make.

Mistake No. 5: Overextending Financially

It's easy to get caught up in the excitement of buying a home and stretch your budget to afford a larger or more expensive property. However, overextending yourself financially can lead to stress and financial instability in the long run. It's essential to choose a home that you can comfortably afford, taking into account your current income, expenses, and long-term financial goals. Remember you will have additional expenses you need to plan for, such as utilities, property tax, maintenance, furnishings, moving costs, and more - not to mention any unexpected expenses that may arise. By ignoring these expenses, you risk not seeing or planning for the full picture and stretching yourself too thin, which would be a costly mistake for your personal finances.

Tip: Stick to your budget and resist the temptation to overspend. Consider the long-term implications of your purchase and ensure that your mortgage payments are manageable, even if your financial situation changes in the future. Consider the long-term implications of your purchase and ensure that your mortgage payments are manageable, even if your financial situation changes in the future.

Mistake No. 6: Neglecting Home Inspections

Skipping a home inspection to save time or money is a common mistake that buyers often regret. A thorough inspection can uncover hidden issues with the property, such as structural damage, plumbing problems, or pest infestations, which may not be apparent during a casual viewing with your real estate agent. Neglecting to invest in a home inspection can leave you vulnerable to expensive repairs and maintenance down the line.

Tip: Always insist on a comprehensive home inspection before finalizing the purchase of a property. Hire a qualified inspector to thoroughly evaluate the home's condition and provide you with a detailed report of their findings. If the home has a special feature like a swimming pool, it's worth investing the extra couple of hundred dollars for an inspection from a specialized inspector whose knowledge extends beyond that of a general home inspector. This will give you peace of mind and help you make an informed decision about whether to proceed with the purchase.

Mistake No.7: Not Considering Resale Value

While it's essential to find a home that meets your current needs and preferences, it's also wise to consider its resale value potential. Factors such as the home's location, size, layout, and condition can all influence its marketability and resale value in the future. Failing to consider these factors can make it difficult to sell the home down the line if your circumstances change.

Tip: Consider the property's long-term prospects and potential appeal to future buyers. Look for homes in desirable neighborhoods with strong appreciation rates and features that are likely to attract a broad range of buyers.

Mistake No.8: Forgetting About Future Plans

When buying a home, it's crucial to consider your future plans and how they may impact your housing needs. Are you planning to start a family, change careers, or relocate in the near future? Failing to account for these plans can lead to prematurely outgrowing your home, or finding yourself in a location that no longer suits your lifestyle or having to sell prematurely.

Tip: When choosing a home, carefully think about your future plans and how well it will accommodate your evolving needs. Consider factors such as the size of the property, the quality of local schools, and the availability of job opportunities in the area.

Mistake No.9 Not Researching Different Lenders

Choosing the right lender is critical to the success of your home-buying journey. Look for a lender with a strong reputation for excellent customer service, competitive rates, and various loan options. Consider working with a local credit union, bank or a mortgage broker where you can benefit from personalized attention, local expertise, and commitment to serving your best interests. Being a first-time home buyer comes with a learning curve, but by educating yourself, remembering to do your homework and creating a checklist, you'll find you're armed with the knowledge you need to make smart and informed decisions. Don't forget it's okay to ask questions.

