“How to Avoid The Five Biggest First-time Homebuyer Mistakes

Mistake #1

Failure To Examine And Repair Any Credit Problems Prior To Applying For Your Loan

Many potential new home buyers have no idea what type of credit they have; what their credit score is; or how to repair any “bad credit” that may exist. Many people have never even seen a copy of their credit report. Good Credit is important to purchase a home – it’s the one thing that you can’t buy, inherit, or borrow from anyone.

Some potential homeowners fail to realize that the problem surrounding this credit issue is the fact that credit is one of the key factors in acquiring a mortgage or refinancing a current mortgage. They are also often quite surprised by what is and what may not be on their credit report!

Credit problems not only slow down the processing of getting a home loan, but can also damage your ability to make numerous other purchases, or substantially increase the interest rate you receive. You may also receive less favorable terms on the loan with lower credit scores!

So, what is “Good credit?”

Good credit usually means a person has about five or six solid pieces of seasoned commercial accounts, such as a car loan, current mortgage, Visa or Mastercard accounts, etc., that are at least two years old and that indicate no late payments.

Now granted not everyone is perfect and we all have our ups and downs, so don’t be worried if you have a few 30-day late payments or some old collection accounts on your credit report. Nowadays, credit reporting systems use a complex method of evaluating credit patterns, and issue a “credit score.” The higher the number, the less risk there is that a borrower is likely to “default” on a loan.

Most underwriters (people who approve your loan) and underwriting systems that review your track record are looking for trends. In other words, they’re looking for a history or recent pattern of good or bad credit. Isolated incidents may not affect your ability to get a loan.

“How Can I Repair My Credit?”

In most cases, a simple letter or phone call to the credit card company or business that originally approved you for “credit” can put you on the right track to having that “scar” removed from your report. It may not even be necessary though, based upon your recent credit patterns!

Sometimes they’ll require you to pay-off the balance of your debt or send in a letter explaining why you were late with your payment. DON’T pay any creditor off without talking to a qualified professional financial advisor or mortgage consultant first!

However, if you have a history of recent late payments, you’re probably going to have to let time take its course. I can help you determine that through a quick review of your credit report (at no cost or obligation). Even if you have NO credit, or no “credit score” because you are young or have not yet established a track record – doesn’t mean you can’t get a mortgage for a new home!

There are a million scenarios I could review, but I think it’s important you walk-away with two key thoughts from this: First your credit can make or break your ability to acquire a loan; and second you must know what is on your credit report, your credit score, and begin to examine and, if necessary, repair any credit problems immediately.

Mistake #2

Trying To Pay Off Debt To Qualify For A Mortgage

Many new potential homeowners are under the impression that they need to "pay off" all their outstanding debt (or the majority of it) in order to qualify for a home – not always so!

It is not only reasonable but expected that you have some other debts when applying for home financing. While you may feel more comfortable going into the home-buying process without any debt, I can tell you that in today's market – that is rare. And for good reason – an investment in your own home provides you with the ability to "leverage" your way to financial growth and prosperity.

"Can High Levels Of Debt Affect My Ability To Buy A Home?"

Yes . . . it is possible to be on the other end of the spectrum and have too much debt, but there's an easy way to determine if you have too much.

As a general guideline, most lenders/mortgage companies won't allow your monthly mortgage payment to exceed about 28 to 32 percent of your total monthly income. Correspondingly, they won't allow your total monthly debt/obligations (i.e.: credit card payments, car loans, mortgage payment, etc.) to exceed around 36 to 43 percent of your total monthly income. That does not include things like utilities, food, clothing, or other normal expenses – only credit and installment debts.

If you start exceeding those limits, you may need to begin paying off some of your debt in order to lower your monthly obligations for qualifying.

Mistake #3

Waiting To Apply For A Loan Until You Save Up For A Down Payment

"But I've got to save up a couple of thousand dollars before I can begin!" **– WRONG!**

This is a common concern that I hear among first-time homebuyers. Many people not only feel that they need to pay off their debt (above), but that they need to accumulate some money to put towards the down-payment. There are some mortgage programs available that require NO DOWN PAYMENT AT ALL! That's right – 100% financing.

Don't I Have To Be "Disabled" or Buy In A "Special Area"?

No – these programs are available to anyone out there, and can be used to purchase a home in any area. There are many sources available to obtain cash to cover the costs of getting into a new home – and while qualifications can vary, there are gift funds, non-profit organizations, government insurance programs such as FHA, VA or FmHA, and you can even get help from the Seller or the Lender themselves!

The Best Time Is Now!

An old Chinese proverb asks – "When is the best time to plant a tree?" The answer is "Thirty years ago!" When is the next best time to plant a tree? Today.

You can't undo what is already past, but you CAN start to take control of your own financial future – and the best way to start is through owning your own home.

Many people use excuses – "I'm only 19!" or "I might move in 2 years", "It's much easier to rent right now". These are just that – excuses.

Saving For A Down Payment vs. Buying NOW!

Let's say that you were looking at a $100,000 home, and instead of buying it now (at 100% financing), you were to try and "save" up for a year for a 10% for a down-payment (or you were to pay off $10,000 in debt as above). Here is an example of what may happen (assuming a conservative 4% increase in property value per year)…..

In one year, the home will now cost $104,000. We assume that you will have spent $12,000 (approx.) on rent, but have saved up the $10,000 for the down payment (or paid off debt). The 10% down payment will now require $400 more than last year, and you will have a new mortgage loan for $94,400.

By purchasing the property at 100% financing, in one year the property is still worth $104,000. At 5% interest on a $100,000 mortgage, you have made mortgage principal and interest payments of $534.95 that are approximately 53% LESS than your rent, and have paid down your credit cards using the $2400 in savings. By owning the home, you now only owe about $98,700 on the mortgage. After one year, all things being equal, you have saved up $10,000 (which you would have originally saved for the down-payment), saved $12,000 in rent (but spent $6,419.40 in mortgage payments, netting $5,580.60, and realized appreciation of $4,000.00 but owe slightly more on the mortgage.

NET WORTH INCREASE IN 1 YEAR – APPROX. $19,580.60!

That's only a simple illustration, but you can quickly see how you can substantially increase your net worth in a short period of time! I can quickly print out a detailed report that shows you the numbers for your own situation – but you'll be amazed how well buying your own home can work for you in increasing your net worth fast!

The main point is – don't think you have to wait and save up for a down-payment. There are many programs that allow you to get in for 100% financing and no money out of your pocket. Plant your own "money tree" today.

Mistake #4

Failing To Realize (In Advance) How Much Money A Lender Is Willing To Loan You

Whether you're planning on refinancing or purchasing a new home, most lenders have certain guidelines on how much money they're willing to lend out.

Their decision is based on the loan-to-value ratios, and income/debt ratios. In other words, the lenders have limits on how much money they will loan you, based on the value of your home and your household income and expenses.

For example: If you're refinancing, most lenders won't lend you more than 80 percent of the appraised value of your home. (in this case, their loan-to-value limit is 80 percent). So, if your home appraises at $100,000, the lender will loan you a maximum of $80,000.

On the other hand, if you're planning on buying a new home, many programs will allow your loan-to-value to go as high as 100 percent (or more!).

"How Do I Know What I Qualify For?"

Take time out now to become pre-approved for a mortgage. It's simple, quick, painless – and only costs the price of the credit report. No one should charge you for a consultation and pre-approval. Only a qualified and experienced loan officer can adequately assess your situation, and with all the changes in the market be able to discuss the options with you.

You may qualify for certain programs in your area that other lenders do not know about, or have the resources to locate. By seriously reviewing where you are now, a plan can be put into place to get you started on the road to homeownership.

"I'm Self-Employed And Make Good Money But Can't Get A Loan Because I Can't Verify My Income Due To The Various Expenses I Incur That Offset My Income. Are There Any Programs Available For Someone Like Myself?"

Yes. There are a number of "no-income verification programs" available for people like yourself. There are also "Stated Income" and "Limited Asset" programs designed for small business owners and self-employed individuals. Don't let that stop you!

There are even programs for people that have been through bankruptcy – or even still in a bankruptcy! The point here is that you never know until you ASK! Don't assume that your situation puts you out-of-reach of the American Dream – owning your own home!

Mistake #5

Failure To Research and Find A Reputable, Honest and Experienced Mortgage Loan Officer To Help You Finance Your Home

Last but not least, another big mistake that many people make is not researching, interviewing and associating themselves with a quality, reputable, service-orientated mortgage banker or broker. This is probably the most important ingredient/factor in acquiring home financing.

This is an important decision in your life. We're talking about your home – in most cases – the largest purchase you will ever make. It's not something you want to treat lightly. And being associated with the right banker or broker can not only mean the difference between having your loan application approved or rejected – but saving you hours of frustration and thousands of dollars in long-term costs.

"So How Do I Find The Ideal Mortgage Lender?"

That's not very hard. There are plenty of very reputable, knowledgeable professionals out there to help you. You just need to know what questions to ask to make sure you get into the right relationship.

Here are some questions I recommend you ask:

1) Can you furnish me with the name and phone number of three past customers?

This is important. If the lender or loan officer is hesitant there's a good chance they're trying to hide something. Don't get involved with them. Always ask for references.

2) If my loan gets rejected, will you return the cost of my application fee?

Most broker/bankers will do an initial consultation free-of-charge, and provide you with a pre-approval at no cost. Once you apply for the loan, they may charge an application fee plus the cost of an appraisal and credit report. Laws vary from state-to-state, but check the application documents carefully to see what their policy is. Some states require bankers/brokers to return the application fee of the loan gets rejected. However, the law may only require them to return the money if the customer asks. (Check with your state banking commission on the details.)

Most reputable bankers and brokers will tell you about their return policy at the time of application. If they don't, you may want to reconsider who you are doing business with.

3) How long have you been in business? And have you ever had your licenses suspended by the state banking commission or any government authority?

These questions accomplish two things: 1) They demonstrate that you have educated yourself about the mortgage loan process and won't be taken advantage of; and 2) They help you decide (for yourself) if they have experience and who's going to help you finance possibly the largest and most important purchase of your life.

4) Are they a member of any professional organizations, such as the National Association of Mortgage Brokers (www.NAMB.org) or the Mortgage Bankers Association (www.MBAA.org), or any of their state affiliates, the Better Business Bureau, or local Chamber of Commerce?

This will help you determine their commitment level to the industry and the community, and provides a resource to check out their membership, length of existence, and any possible complaints on record.

I hope this little bit of information I've provided you is helpful. There's a lot more I could discuss with you and would like to discuss with you, but that should really be done through a personal, private phone consultation.

So, if you have any questions at all or would like to set-up a free, no-obligation appointment to discuss any questions you might have, please call me immediately at (209) 476-1953.

During our time together, I'll ask you a number of questions -- the answers to all of which are confidential and will be shared only between you and me.

I'll detail my basic philosophies and I'll ask you yours.

I'll tell you how I work with my clients. And I'll ask you if the service I offer is something you want for yourself. If it is, then I'll work out the perfect plan to help you finance your new home or refinance your current home. If it isn't, there will be no hard feelings.

So please give me a call immediately at (209) 476-1953. I keep normal business hours and I'm available for evening and weekend consultations as well. I wish you well on your "Road To Homeownership" and hope that I can be a resource to help guide you down that path.