Mistake 10: Not Budgeting for Your First Home Loan

Figuring out your budget ahead of time will save you headaches in the future. Homeownership may seem like a wise alternative to renting, but it's not necessarily going to be cheaper -- at least in the short term. If you're like most people and need to take out a loan to buy a house, you'll have to make monthly mortgage payments. It's a common mistake to assume what you can or can't afford. Before you make this decision, take a good, hard look at your income and expenses to find out the truth about what you can comfortably afford to pay every month for the next 15 or 30 years.

Mistake 9: Not Performing a Credit Check Before Home buying

So you thought you did away with grades and competitive scoring when you finished school? Turns out, a three-digit summary of your creditworthiness may be the obstacle or the key to your perfect home. Despite your present sense of financial responsibility, if you have a dark past of not always paying bills on time, it could mean you're going to have a very hard time securing a good loan during your house hunt.

Your **credit score** is a number between 300 and 850 that is meant to represent how credit-worthy you are. Credit reporting agencies calculate this number based on your **credit report**. This report shows not only how consistently you've made payments in the past, but what kind of accounts you've opened and how long you've had them. And this information, of course, is of particular interest to the companies who are considering granting you a loan now. The companies that you pay regular bills to, like utility and credit card companies, tell **credit reporting agencies** -- like Experian, Equifax and TransUnion -- about their financial dealings with you. Protecting your credit means more than shielding your information, but also actively making sure your potential lenders are seeing the right facts.

Using this information about your payment history and accounts, the agencies calculate your credit score and can offer it to interested parties like credit card companies, your prospective employer or even you. When you apply for a credit card or any kind of loan, the lender wants to know if you're likely to make payments consistently and on time. They don't have the means or the time to get to know you personally and talk to your friends to see how responsible you are with money. Instead, they'll make an inquiry into your credit history. If your credit report is less than stellar, they may reject you or tack a steep interest rate onto your loan.

Mistake 8: Not Understanding Housing Market Trends

Even with a clear idea of their own financial status -- what they can afford and how trustworthy they will appear to a lending institution -- many people fail to pay attention to the big picture. If you're anxious to buy now just because of your own financial situation or restrict yourself to a particular location, you may not see the forest for the trees.

The housing market isn't static -- it fluctuates. Sometimes it favors those looking to buy -- a **buyers' market**. Other times it favors those looking to sell -- a **sellers' market**. To understand why these shifts happen, let's look at the contributing factors, like **supply and demand**. Inhabitable or desirable housing can be scarce or in surplus. Low supply increases demand -- and prices -- to favor sellers. On the flip side, when supply is high and there are more houses on the market than buyers, the situation favors buyers. Other factors include interest rates, consumer confidence and the overall condition of the economy [source: Max]. When there are more homes for sale than buyers, prices typically go down, and this is a smart time to buy. Keeping track of all these factors can be daunting, but you'll find many websites, newspapers and magazines that organize up-to-date information for you. This includes the real estate section of the Wall Street Journal and the National Real Estate Investor magazine, among others. A good indicator of the current housing market is the **Housing Market Index (HMI)**, based on the reports of homebuilders themselves.

Mistake 7: Not Getting a Pre approved Home Loan

Getting pre-approved will mean that more sellers will take your interest and especially your bids seriously. It's easy to fall into the trap of thinking you first find the house you want, and then you can start thinking about the loan process, especially if you've already taken care of your credit. However, it's not quite that simple.

It's a good idea to put yourself in a seller's shoes. As a seller, you may be taking in several bids and trying to cipher through and compare them; you may not base it solely on amount. Were you to accept a suspiciously high offer, the buyers may not be able to live up to their bid. Once the buyer actually goes through the loan application process, he may not get as much financing as he hoped, or promised. As the seller, you've already put a lot of time and effort into selling your home, and you'd like to finish things up without too much hassle and delay -- especially before those other, more legitimate-looking bids move on.

For these reasons, sellers prefer bids from prospective buyers who already are pre-qualified or pre-approved for a loan. Some sellers may refuse to consider you at all unless you've got a pre-approval letter from your lender. In addition, some realtors won't even show a property to a buyer without this pre-approval.

Mistake 6: Not Considering Home Resale Value

Put yourself in the seller's shoes and consider how easily you'd be able to turn around and sell the house yourself. As a homebuyer, the process of selling a house may not cross your mind yet. After making the difficult decision to buy your first house, you may even feel obligated to live there forever.
However, life is full of unexpected changes. Job transfers, family illnesses, falling in love with someone who lives on the other side of the country -- any of these might call you to pick up and leave your beloved house behind at any time. Or, say you were to fall on hard financial times and your mortgage payments, which seem reasonable now, later become a major liability. If or when the time comes, will your house be easy to sell? And will selling it give you a nice sum to put down on another home?

You're making an investment, so it would be a mistake to ignore these questions. When you are looking at particular houses, it may be a good idea to consider the preferences of other typical homebuyers -- not just your own [source: Greary]. Maybe this means choosing a home that has several bathrooms and a nice big yard even if you have no personal preference about these features. And it helps to know about the loud factory nearby. Although you may be a sound sleeper in the early mornings, your future prospective buyers may not be. It also helps to know if developers plan to improve the neighborhood soon, which may boost the value after you purchase a home.

When you're shopping for a house, if you already know you want to resell it later, keep in mind that you're taking a risk. If you've have seen house flipping shows, where nonprofessionals intend to buy, renovate and sell a home, you have an idea about how difficult and unpredictable selling a house can be. Don't bank on the idea that you'll come out ahead.

Mistake 5: Blindly Following Your Realtor's Advice

Get familiar with the role of a real estate agent to understand what his or her motivations and take their words with a grain of salt. As we've seen, first-time homebuyers have a lot of confusing matters to deal with. From fixing credit to trying to figure out complex housing market trends, they have a lot on their plate during what is already a stressful financial decision. This is why real estate agents, who try to facilitate the process, appear as godsends to some buyers.

However, this means that confused, trusting homebuyers often forget to consider the motivations and the limits of a real estate agent. First, to understand the role of real estate agents better, let's take a look at different kinds:

- **Seller's Agent**: A seller hires a seller's agent to help him or her sell a home. These kinds of real estate agents are very common, and chances are, if you look into several houses during your search, you will encounter one. As they were hired to help sell the house, take note that they might embellish its positive features and play down the negative aspects of the house.

- **Buyer's Agent**: As a buyer, you can hire a buyer's agent. Unlike the seller's agent, a buyer's agent's job is not to sell a particular home, but to find you a home you'd be interested in and help you along in the purchase. But finding the appropriate buyer's agent for you is crucial. Interviewing several and finding one with significant experience would probably be wise. Also, avoid signing with a buyer's agent who requires a long-term contract [source: Brodrick].
- **Dual Agent**: These agents represent both the buyer and the seller in a negotiation. A dual agent can't divulge confidential information about one client to another. However, this type of agent could face a conflict of interest. So you may be better represented in this transaction by an agent who's working just for you.

So, as you deal with real estate agents, remember whose interests they represent. Although an agent may offer financial advice, take it with a grain of salt and keep in mind that they're not experts in personal finance. Also, a seller's agent may not tell you the true reason why the client is selling the house. He probably won't tell you how low of an offer a seller is willing to accept. Likewise, if you'd rather not buy a home at the highest price, don't tell the seller's agent the most you'd pay for a house.

Mistake 4: Trusting a Verbal Agreement When Home buying

A handshake won't hold up in court if a seller decides to go back on his word, but a signed agreement will.

You've jumped through all the hoops -- you did the research, got pre-approved, found the house you want and put in an impressive bid to show you're serious. After some back-and-forth haggling, finally you get the call -- the seller has accepted your bid! A day later, you rush over to finish off the paperwork only to find when you get there that the seller has backed out. A few hours after the seller agreed to your offer, another buyer swooped in and outbid you. You've fallen for the oldest mistake in the book -- trusting a verbal agreement.

These sorts of double-crosses happen all the time. So, it's always good to secure agreements in writing before you start celebrating and packing up the moving truck. Verbal agreements are not binding, and you will find that you have little legal recourse.

This unwritten rule goes for the real estate agents as well. If you choose to hire a buyer's agent, wait until you have a signed an agreement with the agent as a matter of housekeeping. It should state that the agent will keep your information confidential, so that they won't, for example, go telling the seller how much you're willing to shell out. It should also specify that you won't owe the agent normal compensation if you end up finding a house on your own, without his help.

Mistake 3: Forgetting About the Hidden Costs of Home buying

If everything goes according to plan, you may be closing a deal and reaching the end of your home buying journey. Even here, you could make the common mistake of thinking all of this will be painless. Closing costs, which include several fees that cover final housekeeping matters, are just one example of hidden fees that many first-time homebuyers neglect to prepare for. They can cost you a few thousand dollars or up to 5 percent of the purchase price [source: Greary].

Fees often pop up in the fine print of numerous agreements homebuyers sign.

While there are other fees you may pay in your home purchase, here's a list of common fees you should expect to pay:

- **Appraisal Fee**: When you apply for a home loan, the lender needs to make sure everything is on the up-and-up. They want to know if you are borrowing $700,000 for a $300,000 house. That's why you send an appraiser to estimate the cost of the house you are purchasing, and you'll pay a fee for this.
- **Credit Report Fee**: Although you may see your credit report annually for free, your lender might require that you cover the costs they pay to view and verify your report. This may be in addition to a **loan application fee** you pay your lender.
- **Escrow Fee**: This fee pays for a third, neutral party to handle the funds during final negotiations.
- **Notary Fee**: To get the business documents notarized, you will be asked to pay the fee for a notary.
- **Homeowner's Insurance Fees**: Your lender will most likely require you to purchase homeowner's insurance which may include additional fees.
- **Property taxes**: If the seller has already paid property taxes on the home, you may need to reimburse him or her [source: Motley Fool]. See if you qualify for any property tax exemptions and register for them.

Moving costs, although not exactly hidden, are easy to overlook in the stress of home buying. People become **house poor** when they have spent so much on buying a home that they don't have enough to afford other common expenditures.

And don't forget about the costs of getting a house inspection…

Mistake 2: Skipping the Home Inspection

Getting a professional to inspect a house is the only way to ensure there are no major problems.

We learned in Mistake #4 not to take someone at his or her word until you get a written, signed agreement. Likewise, when you're buying a house for the first time, you can't just depend on asking the seller or real estate agent about problems with the foundation or plumbing. Not only might the seller or agent be less than candid about the answers, but chances are they're not construction experts.

If you skip the step of getting your own professional inspection, you risk living in a home that costs almost as much in repairs as you paid for it in the first place. As much as you're attracted to unique fixtures and structures in old houses, they may turn into a major liability.

So, when you make your offer to the seller, make sure they know that your offer is contingent on your approval of the house passing inspections. Before the inspector gets to work, make sure you agree on what he or she will check. This should include the overall foundation and structural features of the house, plumbing, the presence of mold or pest infestations, heating and air conditioning, as well as the electrical system. It's also a good idea to make sure the inspector is reputable.

Mistake 1: Falling In Love with a House

Falling in love can be an amazing thing. It makes you happy to be alive and allows you to see the inner beauty of another. Falling in love can also be a terrible thing. It makes a fool out of you and blinds you to someone's faults until the spell wears off and it's too late. Likewise, although it sounds ideal, falling in love with a house could be your worst financial mistake. It easily leads to a **Mr. Blandings syndrome**, where you stubbornly ignore the solid advice of friends and experts.

Who ever loved that loved not at first sight? But beware what a home's love spell can do to your wallet. Sure, different people have different needs. Some people seek out homes that they feel an emotional connection to. But, you should still take extra caution once you find your dream house -- think about how you will feel once the honeymoon phase's over. You may choose to overlook a home's idiosyncrasies now, but you may suffer buyer's remorse when you must deal with a cramped kitchen or creaky floorboards everyday.

Ultimately, falling in love with a house will very likely blind you to its financial value. You might find yourself offering a bid that far exceeds the true worth of the house, which makes for a bad investment. And, if you expose your infatuation to the seller or the seller's agent, they'll realize you'll be willing to overpay.

Not only can it lead to overpaying, but it can also allow you to fall into the several of the other mistakes that we've discussed in this list, such as trusting a verbal agreement, not considering resale value and foregoing an inspection.

Overall, when buying a house, it's a good idea to keep a cool head and an open mind, and always be prepared for the worst. Murphy's Law, which could have been written specifically for home buying, states that if something can go wrong, it will. Still thirsting for more home buying information?

Information comes from: McGrath, Jane. "10 First-time Homebuyer Mistakes" 01 August 2008. HowStuffWorks.com. <http://tlc.howstuffworks.com/home/10-first-time-homebuyer-mistakes.htm> 31 December 2010.