Top 20
Mortgage Mistakes Home Buyers Make
(and How to Avoid Them)

Buying a home is the biggest investment most of us will ever make. Unfortunately, it's also the greatest opportunity to make a bad decision that could end up costing thousands of dollars.

In fact, top producing mortgage brokers from across the nation will tell you they see the same common mistakes come up time and time again. Avoiding these wrong moves can help to ensure a relatively pain-free lending experience.

Mortgage Mistake #1

Not improving your credit score when you have the opportunity to do so.

Insider Secret: *Prior to shopping for a home loan, do everything you can to improve your credit score.*

A solid credit history can mean qualifying for a larger loan, lower interest rate and lower monthly payments. A high credit score makes you more creditworthy in the eyes of lenders.

Prior to shopping for a home loan, do everything you can to improve your credit score. Pay your bills on time—payment history can account for up to 35 percent of your credit score, according to the American Bankers Association. The longer you pay your bills on time, the better.

Pay off or pay down credit cards, auto loans and other obligations that affect your creditworthiness. Amounts owed account for another third of your score.

Watch out for red flags like minimum-only payments, late payments and dipping into a credit line to pay for living expenses—these suggest you may be in financial difficulty.

And it goes without saying that you need to know your credit score before you sit down with a broker. Know your financial situation and be prepared to explain any potential concerns.

If you give yourself a good six months to correct errors in your credit report, and identify and address potential problem areas, you'll be in a much better position to buy when the time comes.

Mortgage Mistake #2

Making a large purchase before or during the mortgage loan process.

Insider Secret: *Prior to shopping for a home loan, do everything you can to improve your credit score.*

Gotta have a shiny new car to go with that shiny new house, right? Wrong! Here's another big no-no that could kill your ability to qualify for a loan according to the mortgage experts.

Large expenditures made before or during the mortgage loan process will jump out during a credit check and can hurt your debt-to-income ratio, especially if you're taking on a long-term obligation like a car loan. Other purchases to be avoided: expensive home appliances, furniture, vacations, etc.

Don't do anything while applying for a loan that diminishes your financial health or suggests a reduced ability to make timely payments on your home loan, mortgage professionals warn. You may need that sub-zero fridge for your new home, but at least wait until after closing.

Mortgage Mistake #3

Changing careers before or during the mortgage loan process.

Insider Secret: *A lender's decision to loan you money is based on your ability to repay; switching to a different career calls this into question.*

Going into a different line of work while shopping for a new home is a bad idea, according to top loan officers. As with making large purchases, you're calling into question your ability to repay the loan.

Say you're very successful as an accountant, but you've always wanted to work as a chef. Hold that dream in check until after you've closed on your home. A lender is basing a decision to loan you money on your ability to repay; switching to a different career calls this into question.

Switching jobs within the same field, on the other hand, isn't necessarily a bad thing if it means more money. Be sure to talk to your lender about any changes in your situation like this so you don't run into any unpleasant surprises.

Mortgage Mistake #4

Getting prequalified but not preapproved.

Insider Secret: *From the seller's perspective, you're a question mark: Can this person actually get the money?*

Prequalified simply means you've met with a mortgage broker (or lender) and talked about your ability to purchase a home. You've discussed your current income, household expenses, assets and liabilities, and other factors that may affect your ability to borrow. But you haven't been approved.

From the seller's perspective, you're a question mark: Can this person actually get the money to buy my home? Am I going to take my home off the market for someone who may not have financing to buy it? When competing with prospective buyers who have their financing already arranged, you're at a distinct disadvantage.

Pre-approval, on the other hand, means you've provided a broker with written evidence of your income, expenses, credit and other financial information. In other words, much of the work toward obtaining a loan has been done. It can make your shopping experience easier and put you in a better negotiating position when you find the right house.

Mortgage Mistake #5

Shopping around a lot for the best deal.

Insider Secret: *You could end up borrowing at a higher rate than your credit profile entitles you to.*

Of course you should do your homework and look for a good deal. If you don't, you could end up borrowing at a higher rate than your credit profile entitles you to.

But be careful how you do it. If you're talking with a number of lenders and each one is pulling your credit report to prequalify you, each inquiry can affect your credit score and make you less creditworthy.

And unless you're doing it in a very short timeframe, shopping around can lead to inaccurate comparisons. The market is constantly changing, and what is true today may not be true tomorrow.

Mortgage Mistake #6

Shopping around a lot for the best deal.

Insider Secret: *The APR measures the true cost of the loan, and shouldn't be more than one-eighth of a percent higher than the interest rate.*

If you're only looking at the interest rate, you may be ignoring something that could cost you thousands of dollars over the term of your mortgage. Make sure you're clear about the total cost of your loan. That includes the Annual Percentage Rate, or APR, loan fees, discount and origination points, etc.

You need to check what's included in the APR, cautions one top mortgage professional. "If the APR and interest rate are significantly different—say, 6 percent vs. 5.75 percent—the lender may be hiding additional fees in the APR." The APR measures the true cost of the loan, and shouldn't be more than one-eighth of a percent higher than the interest rate, he advises.

APRs can be confusing. Because the rules used in computing APR are not well defined, different lenders can calculate their APRs differently.

Certain fees are included in everyone's APR. They include both discount and origination points, prepaid interest, Private Mortgage Insurance (if required), and loan processing, underwriting and document preparation fees.

Other fees *MAY* be included—loan application fees and credit life insurance that pays off the mortgage in the event of the borrower's death, for example.

But there are several other fees that are usually NOT included: escrow, attorney, title preparation, notary, home inspection, recording and appraisal fees, for example. Credit report charges and transfer taxes usually aren't included as well.

In other words, make sure you're comparing apples to apples when examining different lenders' rates. And when paying points, make sure to distinguish between the discount points, which are charged by the lender to reduce your interest rate, and the origination points, which are charged for originating the loan.

Mortgage Mistake #7

Believing a rate quote that's too good to be true.

Insider Secret: *If one broker is quoting you an unbelievable rate and everyone else is in another ballpark, run for the exit.*

It's a cliché but it's true, If something seems too good to be true, it probably is. If one broker is quoting you an unbelievable rate and everyone else is in another ballpark, run for the exit. All lenders have to operate in the same economic world, and a rate out of line with everyone else's is cause for skepticism.

Some brokers will use an artificially low rate to entice customers. Then they'll move the process far enough along until it's too late to do anything when your rate "suddenly" increases for any one of a variety of handy excuses. Remember, if your rate isn't locked in, you're not protected against this kind of unethical behavior.

Mortgage Mistake #8

Not getting a written good faith estimate.

Insider Secret: *The good faith estimate is an itemized list of the costs associated with the loan you're considering and to whom these costs are paid.*

When you apply for a loan, lenders are required by law to provide you with a "good faith estimate" within three days of receiving your application. This is an itemized list of the costs associated with the loan you're considering and to whom these costs are paid to. Although these figures are just estimates and may change at closing, they're a good guide for reviewing changes and asking questions.

When comparing different lenders and programs, using the good faith estimate is one way to do comparison shopping to make sure you don't overpay thousands of dollars at closing.

Mortgage Mistake #9

Not bothering to understand your loan program.

Insider Secret: *There are a lot of loans, and some of them are pretty complicated.*

The good news is that there are loan programs to fit every buyer and situation. The bad news? That's a lot of loans, and some of them are pretty complicated. Make sure you understand what you're agreeing to before you sign the papers. Remember, this is one of the biggest financial decisions you're liable to make—treat it that way.

You shouldn't choose a loan just for the interest rate, or because it offers the lowest monthly payment, There are other variables that can end up making life uncomfortable or costing you money if you don't understand how the program works."

For example, what kind of program is it? Fixed-rate? Adjustable? Are there any special programs that make sense for your circumstances? What about the terms? How long you're planning to live in a house can affect your choice.

Are you paying points? These are prepaid interest charged by the lender. One point equals one percent of the face amount of your loan. Some points are paid up front; others are bundled into the loan, saving you money initially but costing more over the life of your loan.

Other factors that affect total cost should also be considered. For example, the monthly payment on an adjustable rate or interest-only loan will rise over time. Your current income may be sufficient for today's payment, but what about future payments? Do you expect your income to grow as well?

If you're unclear about certain aspects of a program, just ask. Your broker is there to explain it to you. While a broker can explain the details and help point you in the right direction, you know best whether a program fits your lifestyle, your budget, and your long-term plans. You're the one who has to live with it once it's done, not your broker.

Mortgage Mistake #10

Choosing the wrong loan.

Insider Secret: *Retirement, relocation...these are just some of the issues that can affect the kind of home loan you should consider.*

There's a loan to fit every buyer. Which buyer are you? Are you planning to stay in your new home until retirement? Is this a transitional home you'll be out of in five years? Any chance your employer might move you out of the area in the near future? These are just some of the issues that can impact the kind of home loan you should consider.

A 30-year fixed-rate mortgage is great when rates are low and you've found the house you want to grow old in, but if this is a short-time starter home, think again. An adjustable-rate mortgage may not be wise if interest rates start rising and your income doesn't. Suddenly that affordable monthly payment isn't so affordable anymore.

Use common sense. Pick the program that fits your budget and your life circumstances. Don't let the emotion of the home-buying moment blind you to fiscal reality.

Mortgage Mistake #11

Not finding out if your loan has a prepayment penalty.

Insider Secret: *You could be hit with a prepayment penalty.*

If you don't complete the terms of your loan—for example, if you decide to refinance—you could be hit with a prepayment penalty.

Mortgage Mistake #12

Signing documents without reading them.

Insider Secret: *In your excitement, don't rush through the process and fail to review the paperwork.*

Buying a new home is an exciting, emotional time. But in your excitement, don't rush through the process and fail to review the paperwork. Ask for all loan papers in advance of signing and give yourself ample time to review them. If you're unclear what something means, ask for an explanation.

Mortgage Mistake #13

Borrowing too much money.

Insider Secret: *If you're a first-time homebuyer, you may be overlooking expenses you didn't have to worry about as a renter.*

Most of us would like the nicest house we can afford but some of us want the house that may be a little beyond our grasp. Qualifying for a larger loan doesn't mean you have to take it.

Make sure you've realistically assessed all the costs associated with buying a house—your monthly payment, property taxes, insurance, utilities, maintenance and repairs for starters. If you're a first-time home buyer, you may be overlooking expenses you didn't have to worry about as a renter. Overextending yourself can lead to a life of stress and sacrifice for you and your family.

While many experts suggest limiting your housing costs to no more than a third of your gross income, consider limiting yourself to a quarter.

This can be especially tough in markets where housing prices have gone through the roof in recent years. Some homeowners are spending 40 or even 50 percent of their gross income on housing costs. Don't be one of those people; it's a sure road to financial ruin.

Mortgage Mistake #14

Committing all your cash.

Insider Secret: *Putting your last dime into that new house doesn't leave you with anything in the event of an emergency.*

If you're borrowing more than you should, chances are you also may be spending more than you should. Putting your last dime into that new house doesn't leave you with anything in the event of an emergency. Moving expenses, unforeseen repairs, a sick child, loss of a job—the list is long. Make sure you have a reserve fund of at least three months.

Mortgage Mistake #15

Not getting your closing costs in writing.

Insider Secret: *"So-and-so quoted me a really low rate, but when I ask about the closing costs they're clueless."*

This is my number-one complaint," says one loan officer. "People come to me all the time saying, 'So-and-so quoted me a really low rate,' but when I ask about the closing costs they're clueless." That's unfortunate, because those costs can run anywhere from 2–7 percent of the selling price of the house. They include lender, attorney, inspection, tax and title fees.

One top producing loan officer says she's seen plenty of brokers fail to disclose all the fees included at closing. She always provides her customers with a separate written agreement so that there's no confusion about what a borrower is paying for.

If the non-recurring costs exceed what she quoted, that loan officer will pay the difference.

Mortgage Mistake #16

Taking a lender's word that
your rate is locked in.

Insider Secret: *Be sure that your written rate lock includes the interest rate, lock length and program details.*

A handshake deal is a nice idea, but in the real world be sure to get it in writing. Taking a broker's word that your rate has been locked in might end up biting you.

"Some brokers will let the rate float even after claiming to lock it in hopes of making a greater profit," says one California loan professional. "If the rate goes down more, they can lock it in, charge you the rate they quoted and pocket the difference. But if the rate goes up, they'll claim it happened before they had time to lock it, and you'll be stuck at the higher rate."

Be sure that your written rate lock includes the interest rate, lock length and program details.

Mortgage Mistake #17

Taking your time turning in your paperwork.

Insider Secret: *Delays can end up costing you money.*

If your broker requests additional documents, get them in as quickly as possible; delays can end up costing you money. That's the advice of many top real estate finance leaders from across North America. These professionals advise their clients not to drag their feet, not to end up thinking they have all the time in the world. If they hold up the appraisal or otherwise delay the loan closing, they can run the risk of losing their rate lock. This is not a good scenario.

Mortgage Mistake #18

Withholding information from
your mortgage lender.

Insider Secret: *If you fudge on your credit score and claim a 700 instead of 600, you may not qualify for the rate your lender quotes you.*

Your loan is priced based on a variety of factors: size of the loan, your credit rating, the home you're buying, your ability to document income and assets, etc. If you supply your broker with inaccurate or incomplete information, it may affect the cost of the loan or even your ability to qualify for a particular deal.

"I take my customers at their word, so I ask them not to lie," explains one of California's leading mortgage brokers. "Those lies will only end up hurting them." For example, if you fudge on your credit score and claim a 700 instead of 600, you may not qualify for the rate your lender quotes you.

"I had a situation once where I couldn't verify a customer's employment," this broker says. "It turns out that he was laid off shortly before we started, but he hadn't informed me. Luckily he landed another job and we were able to close, but it just as easily could have been an unhappy ending."

Mortgage Mistake #19

Not shopping for home insurance
until it's time to close.

Insider Secret: *If you wait until the last minute to find home insurance, you may find there's no time to shop around.*

There's a lot to do when you're buying a home. Wait until the last minute to find home insurance and you may find there's no time to shop around for the best deal. It's better to start looking as soon as you have an accepted offer.

Mortgage Mistake #20

Not hiring a real estate professional.

Insider Secret: *Hiring a professional real estate agent can help you negotiate the best deal possible and will save you time and money.*

Okay, this one isn't a mortgage mistake. But hiring a professional real estate agent who knows the market can help you find the house that fits your needs, negotiate the best deal possible and will save you time, money and sleepless nights.

Avoiding the mistakes outlined here AND putting a real estate pro on your team will make your home-buying experience a satisfying one.

I hope this information has helped you to prepare for this next transition in your life. Even if you do not plan on becoming a client of mine, please feel free to contact me as a resource for more information on how you can best prepare your home to get the most out of your real estate investment. In today's market, every little bit of information helps, and I have many valuable insider secrets to share with you. Give me a call today.

Sincerely, Jon Hall

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