7 Pitfalls to avoid when buying your first home.

Volume 2

Mortgage Whitepaper Series

Johnson Bank®

The decision to buy your first home can feel a lot like riding a roller coaster. It's exciting. It's scary. It makes your heart race and your stomach drop, but when it's all over there's a smile on your face.

How can you make sure that thrill ride doesn't turn into a fear factor? We've all heard a home buying horror story — a friend who couldn't get a mortgage...the co-worker who had to make extensive repairs. The right amount of prep work can make your home buying process a success. Avoiding these seven pitfalls can help:

1) Going it alone

No homebuyer is expected to handle the process on his or her own, no matter how many times they've "gone through it" before. First-time homebuyers are no exception. From finding a lender to working with a realtor, never underestimate the value professional experience brings. With the various laws and best practices to consider — both to protect the buyer as well as the seller — the buying process can seem hugely complicated to those who have never done it before. Qualified real estate professionals help watch out for their customers, educating them on the buying process and making sure all the necessary paperwork is in place. Finding a good lender is the best place to start. Ask friends, family and colleagues for their recommendations, and then interview a few lenders to find one you're comfortable with. He or she can then refer other qualified professionals, like realtors, to help you in the process.

2) Not knowing how much you can afford

With so many home options on the market, it's easy to get overwhelmed. Knowing how much you can afford ahead of time will help you focus your search. This is done by getting pre-approved for a loan — a process through which a lender reviews your income and credit to determine how much money you can borrow. This will help you determine in what price range you should look and help ensure that you don't lose the home of your dreams because you weren't able to secure a loan. In some cases a pre-approval can even make you more attractive to the seller if there are multiple bids on the same property. A word to the wise: affordability is different than approval. You may be approved for a $250,000 mortgage, but other loans, credit card debt and lifestyle spending may be too much on top of that monthly mortgage payment. As a general guideline, don't exceed 28% of your gross (before-tax) monthly income for housing, or 36% for housing and other debt (car loan, student loans, credit cards, etc.); however, all situations are unique and you should work with your lender to determine the best percentage for your specific needs.

3) Ignoring your credit score

Thanks to news stories and television advertising, more people know the term "credit score," but that doesn't mean everyone knows why it's important. A credit score is based on a formula that includes factors such as payment history, amounts owed, length of credit history, new credit and types of credit used. The number typically ranges from 450 on the low side to 850 on the higher end. Lenders look at the score to determine how likely it is that a borrower will make prompt payments on a new loan. Borrowers who have a lower average score often pay a higher interest rate or higher closing costs, and have less financing options. In the case of a married couple or co-borrowers, both persons scores affect the loan — so learning each other's credit scores and working to improve them, if necessary, can prove beneficial in the long run.

A thorough inspection will detail any current or potential problems...

4) Thinking special programs don't apply to you

Because the government and financial institutions recognize that homeownership is as good for the individual as it is for the economy, there are numerous programs and options available from local, state and federal agencies. The Wisconsin Housing and Economic Development Authority (WHEDA), for instance, offers lower interest rates for first-time homebuyers. (Other states have similar programs.) There also are programs available to help homebuyers secure money to assist with down payment and closing costs. Many lenders, too, have programs unique to their institution, so be sure to ask what offers may apply to you.

5) Shortcutting the inspections

Once you secure a pre-approval and have an accepted offer to purchase a home, the most important step is to get a qualified home inspection. This is not the time to save a few hundred dollars by having Uncle Henry take a look through the house or by skipping the inspection altogether. Yes, the seller is required to provide a condition report outlining everything that needs repair – but there may be something the seller is unaware of. A thorough inspection will detail any current or potential problems, like a roof that will need to be replaced in four years or a water heater that is on its last leg. This helps to inform you, the buyer, of possible repairs and costs after the home is yours. And by hiring a home inspector, you're working with a professional who will provide an unbiased, thorough inspection based on the latest industry standards.

> ...working with a responsible, reputable lender, you know that the loan you receive is a loan you can afford.

6) Not knowing the responsibilities of ownership

It's important to go into the home buying process with a complete understanding of what you will need. Sit down with your lender and ask what paperwork you need to provide and what the timelines will be. Securing homeowner's insurance, for instance, is the buyer's responsibility – and proof of that insurance must be brought with you when you close on the home. You also need to consider future maintenance and upkeep on the property. If you put every penny toward the down payment, how will you buy a lawn mower, garbage cans and window treatments? If you are buying a newly constructed home, do you have money set aside for items that aren't included, like landscaping the yard? And if a condominium is your home of choice, will you have enough to pay the monthly maintenance or condominium association fees? Consider the possibilities and ask your lender or realtor to point out other needs you should be aware of.

7) Not working with a reputable lender

Lately the news has been filled with stories of homeowners forced into foreclosure because they took out loans they couldn't afford. At the root of many of these stories were brokers or lenders who put people into loans they couldn't afford in the long run – loans with adjustable rates that skyrocketed, for instance. By working with a respected, reputable lender, you know that the loan you receive is a loan you can afford. That's because a good lender knows the difference between "approval" and "affordable." Just because you qualify for a $250,000 loan, it doesn't mean you can comfortably afford a $250,000 home. Similarly, a good lender will help you learn your credit score and work with you to improve it. And a good lender understands and offers special programs when they are in the best interest of the buyer.

The best way to start to find a good lender is to ask friends and family who they would recommend. Also, escrow officers and realtors know mortgage lenders who are trustworthy and close loans smoothly. As with any business you may work with, it is always a good idea to contact your local Better Business Bureau or bbb.org to make sure your lender is in good standing and able to help you succeed in your first home buying experience.

For more information, please call Johnson Bank at 1.800.661.2446. Johnson Financial Group is a premier financial services company offering comprehensive financial solutions in the areas of banking, trust, insurance and investment management through Johnson Bank and Johnson Insurance.

7703