

6 biggest mistakes homebuyers make

Buying a home is the biggest purchase most people will ever make, yet many go into it blind. Here are the most common – and costly – mistakes homebuyers make.

1. Not Knowing Your Credit Score

If you're even toying with the idea of buying a home, you must find out exactly what your FICO score is. If you find it is less than ideal, wage a systematic campaign to raise it. Too many borrowers ignore this step and get surprised when they get interest rate quotes.

Once you've pored over your credit history and corrected any errors, your next step is to pay down revolving debt balances to no more than 30% usage. That will help raise your score significantly.

Why does it matter?

The lower your score, the higher your costs of borrowing. Fannie Mae and Freddie Mac, for example, charge higher up-front fees to borrowers with credit scores below 740.

For a buyer with a credit score between 680 and 700, the fee comes to 1.5% of the mortgage principal. On a \$200,000 mortgage, that adds up to \$3,000. Someone with a 740 score pays nothing.

Lower-score borrowers also get saddled with higher interest rates, about 0.4 percentage point more for the below 700 borrower. That costs an extra \$62 a month -- \$744 a year -- on a \$200,000, 30-year, fixed rate loan.



ILLUSTRATION: BARD EDLUND/CNNMONEY.COM

2. Buying a Car before a House

Anytime consumers open new credit accounts -- credit card, auto loan, etc. -- their FICO score could drop, according to Craig Watts, a spokesman for Fair Isaac, the creator of FICO scores.

"Hence the admonition to not open other new accounts while your mortgage application is in process," he said.

A big purchase would use up a considerable proportion of a borrower's total credit limit, which results in a drop in the score. Lenders often continue to check credit scores in the weeks before closing.

"The lender will likely slam on the brakes if the applicant's credit scores have suddenly dropped below the minimum required for the requested loan rate," Watts said.



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3. Skimping on a Home Inspection

Buying a pig in a poke can cost buyers big bucks -- just when they can least afford it. So it's vital to find all the costly flaws before you buy.

Many homes on the market today are distressed properties -- foreclosures and short sales -- and that only increases the importance of good inspections, according to David Tamny, president of the American Society of Home Inspectors.

"The owners usually didn't have the money to keep up these homes," he said. "There's a lot of deferred maintenance."

A home inspection can find problems with the foundation, electrical, plumbing, roof, attic insulation, and heating and air conditioning. In some states, separate licensed inspectors offer mold or termite inspections.

Often homebuyers, who may be strapped for cash, stint on inspections and look for the cheapest way to go. That can lead to disaster.

"The cost of repairs far exceeds the cost of inspection," said Tamny.



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4. No Lawyer

Nearly everyone involved in a real estate transaction -- the seller, the buyer's real estate agent, the seller's agent and the mortgage broker -- has a vested interest in getting the deal done because they only get paid when the house is sold. So they may push a deal even if it's not in the best interest of the buyer.

One of the best defenses against making an expensive purchase you'll regret is to hire a real estate attorney -- even in cities where it's not standard practice. These professionals charge flat fees and their advice is objective.

It's nice to have someone on your side.



PHOTO: PIXLAND/THINKSTOCK

5. No Contingencies

When signing a sales contract, buyers usually have to put up 1% to 3% in "earnest money," which they don't get back if they pull out of the deal except under certain conditions spelled out in the contract.

Sellers try to limit the grounds for canceling, and inexperienced buyers may sign contracts that don't include common exceptions, such as uncovering major problems during the home inspection, failing to obtain financing and failure of the house to appraise.

Failure to obtain financing is common these days because lenders have become very picky; underwriting is very strict.

Even if your mortgage company is still willing to finance your purchase, the house itself may be worth less than you've contracted to pay for it, and the lender will pull its approval.

With residential real estate markets still slow, sellers usually accept contingency clauses, but if they resist, it may be better to rethink the deal. Losing a deposit of \$2,000 to \$6,000 on a \$200,000 home hurts.



PHOTO: STOCKBYTE/THINKSTOCK

6. Not Budgeting for Insurance

Don't underestimate insurance costs and fail to budget for them.

Many homebuyers don't understand just what is -- and what is not -- covered. Standard policies pay for theft and wind, fire, lightning, hail and explosion damage. Not covered is flooding, earthquake damage or problems caused by neglect of routine maintenance, according to Jeanne Salvatore, spokeswoman for the Insurance Information Institute, an industry-sponsored educational group.

"The most important thing is before you buy a home, find out what it will cost to insure it," she said. "Insurance needs to be calculated into the cost of owning a home. Unlike a mortgage, which you can pay off, you'll be responsible for the insurance costs forever."

For flood insurance, most buyers use the National Flood Insurance Program. Earthquake coverage may be available through a state authority or some private companies.

Depending on location, flood insurance can run into a lot of money. The cost of \$250,000 worth of government flood coverage on the building and \$100,000 of its contents can go as high as \$5,714 in high-risk, coastal areas.



PHOTO: PHOTODISC/THINKSTOCK

7. Buying a "NEW" Home in Texas before Considering the Risks (added by HOT)

Unfortunately Texas laws give consumers more protection when buying Existing homes than when buying New. Until this imbalance is corrected, it will remain safer to buy older homes, and demand for new homes will suffer. Here some more resources for Texas homeowners:

- [Six Advantages of buying an Existing versus a New home in Texas](#) (HOT's side-by-side comparison)
- [10 Things Builders Won't Tell You](#) (Wall Street Journal)
- [10 Things Contractors Won't Tell You](#) (Wall Street Journal)
- [Lemon Laws](#) protect you when buying a new or used car, but there's no Lemon Law for homes.
- [HuttoParke](#) home values were decimated by bad building practices that are as devastating as bad lending practices.
- [Licensing](#) protects the public, elevates professions, and improves the economy. That's why we introduced HB 2243 to abolish the TRCC and replace builder registration with licensing under the unbiased TDLR (Texas Department of Licensing & Regulation), which has 100 years of experience. Unfortunately, HB 2243 got caught up in a parliamentary error and did not get a vote on the House floor.

You personally need a license to drive a car or catch a fish, and the person who cuts your hair or tows your car needs a license, but the one who builds you home doesn't, even though it's your biggest investment.