

Home Trends

7 first-time homebuyer mistakes to avoid

by Beth Braverman @CNNMoney

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It's tough being a first-time buyer in today's housing market.

Home prices are hitting record highs in many parts of the country, often selling for more than the asking price, and going from list to close in a record 37 days, according to Redfin.

"We've never seen a faster or more competitive market," says Redfin spokeswoman Rachel Musiker. "Basically this market isn't for the faint of heart."

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Don't make it even harder (or more expensive) for yourself by making these common mistakes:

1. Assuming you won't get approved for a mortgage

Ideally, you'd like to have as little debt as possible, an impeccable credit score, and a 20% down payment before borrowing money for a home. However, even borrowers with less can get loans in today's market, thanks to options like Federal Housing Authority loans, which are meant to help out low-income and first-time buyers.

2. Interviewing only one lender

The fees and rates offered by lenders may vary substantially, and they all offer different service levels

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3. Not getting pre-approved early on

Getting pre-approved for a mortgage serves two important purposes: First, it gives you a realistic understanding of how much you can spend on the house. Second, it shows sellers that you're serious and gives you slightly more standing if you're competing for homes with all-cash buyers.

Make it less stressful by gathering up relevant financial documents like bank statements, tax returns, and pay stubs, and by checking your credit report for errors in advance. "Given the competitive interest rate environment and the competitive housing market, it's a good idea to be prepared and organized before you start the process," says Keith Gumbinger, vice president of HSH.com.

4. Maxing out your mortgage limit

Just because a lender says that you can borrow a certain amount, doesn't mean you should borrow that much. Staying below that limit will give you more financial flexibility to cover the [added expenses that come with purchasing a home](#), as well as long-term changes to your income.

Create a [budget](#) that includes how much money you can spend on housing costs each month, and then use those numbers to figure out what your "real" limit should be.

5. Letting your emotions control your decisions

Buying a home can be a long and frustrating process. These days, starter homes go quickly, and it's common for first-time buyers to experience rejection on the first offers they make. In that kind of environment, it's easy to fall in love with a house that's out of your budget, or get caught up in the heat of a bidding war and end up paying more than you expected.

"It's OK to get excited when you think you've found your house, but you don't want to put yourself in a bad spot," says David Tina, President of the Greater Las Vegas Association of Realtors.

6. Waiving contingencies without understanding the risks

In highly competitive markets, it's becoming increasingly common for buyers to make offers that aren't contingent on financing or inspection. While waiving contingencies can make your bid more desirable to a seller, it can make the transaction much more risky for you. Have a conversation with your realtor and a lawyer before opting out of contingencies in your contract. In a worst-case scenario, you may end up losing your deposit.

7. Allowing your credit score to change before the close

A pre-approval letter is not a guarantee of funding, and if your credit score or income levels change drastically between the pre-approval and the closing of the loan, lenders may change their terms or rescind the offer entirely. While you're home shopping, be sure to pay all your bills on time and steer clear of new credit accounts, even if that means you have to wait to pick out your furniture. If possible, try not to switch jobs until after you close, particularly if you're moving into a new industry.

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