



## 7 THINGS YOU SHOULD NEVER DO BEFORE BUYING A HOUSE

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*Here are some of the most common mistakes first-time home buyers make, why they matter, and how to avoid them.*

### 1. Don't finance a car or another big item before buying

Jim Roberts, president of True North Mortgage, says the biggest mistake buyers can make is to finance a car just before applying for a mortgage loan. "Equally troublesome is when buyers wish to go out and purchase new furniture and appliances on credit before their new mortgage closes," he explains.

"All of these activities are a big no-no, as lenders will do a final credit inquiry check before closing; if new debts were added, it could jeopardize the loan approval."

Taking out a loan on a car or financing a big-ticket item like a boat, wedding, or vacation can increase your debt-to-income ratio (DTI), making you look like a less attractive borrower to a lender.

### 2. Don't max out credit card debt

Maxing out a credit card is one of the worst things you can do before closing on a home loan. "The extra debt payment amount will offset your income and result in you qualifying for less mortgage financing," Washington says. "It will also lower your credit score, which could increase the cost of your loan."

Roberts notes that, in the credit scoring system, the actual debt amount doesn't matter — you could owe \$2,000 or \$20,000. "What they care about is how much you owe relative to your credit limits," says Roberts.

For the best mortgage rate — and in the interest of keeping debt levels down — try to keep your credit utilization below 30% of your total credit limit.

For instance, if your credit card allows up to \$3,000, try to maintain a balance below \$900. And pay the card off in full every month, if you can. This will improve your credit score, reduce your debts, and help you qualify for the best possible home loan.

### 3. Don't quit your job or change careers before buying

Demonstrating consistent employment is essential when applying and getting approved for a mortgage loan. "Job changes can create lending issues, especially if your pay structure changes from salary to commission, as this necessitates a longer track record of earnings — typically two years when it comes to commissions," Roberts adds.

"A change from salary to hourly can also create some lending headaches, as hourly earners can have variations in their income simply based on how much they work," he explains. Aim for a consistent employment history of two years or more at the same employer or at least in the same line of work.

### 4. Don't assume you need 20% down

Many first-time buyers assume they need a 20% down payment to buy a house. But while having 20% down comes with perks — like avoiding private mortgage insurance (PMI) — it's not always the best option. Waiting until you have 20 percent down can push your home buying timeline out by years. Luckily, there are several loan programs available today that require little to no down payment. These include:

- A 0% down VA loan (available to qualified military/veteran borrowers)
- A 0% down USDA loan (available in select rural and suburban areas)
- A 3.5% down FHA loan
- A 5-10% down conventional mortgage

"Also, some conventional loans can require as little as 3% down if you pay mortgage insurance," Washington points out. Typically, you need to pay mortgage insurance if you put less than 20 percent down. But the good news is that mortgage insurance companies today charge more affordable monthly premiums than they did years ago for borrowers with good credit.

### 5. Don't shop for houses without getting preapproved

Before you go house hunting, it's crucial to get a mortgage preapproval. Otherwise, you could be setting yourself up for disappointment. "If a prospective buyer finds a house they love and afterward tries to get preapproved for a loan, the home may be gone before they finish getting preapproved. In addition, many sellers want to show their home to serious buyers only and will request a preapproval letter from the buyer," says Washington.

The preapproval process involves applying with a lender who will check your income, credit history, and assets. Only after verifying these documents can a lender approve you for a home loan and tell you your real price range.

### 6. Don't go with the first mortgage lender you talk to

"Although many lenders' rates are very close in price to others, some lenders charge rates that are above average. Getting a bad loan with a higher interest rate can be very expensive in the long run, so be sure to shop around and get quotes in writing from several different mortgage lenders," Washington recommends. So, when you're getting quotes, try checking with a few different types of lenders. Check rates at your current bank, but also look at online mortgage lenders, credit unions, and maybe even a mortgage broker.

### 7. Don't make any big financial changes before closing

Once you have a signed purchase agreement and you're approved for a home loan, you'll go through the final stages of underwriting. This is mostly a waiting game while the lender re-checks your financials and issues final approval. But don't be lulled into thinking it's a done deal. Nothing is official until you've signed the final closing papers. The last thing you want to do while waiting for final loan approval is to make major financial changes, such as:

- Purchasing a car
- Significantly increasing your credit card balance
- Opening up new credit cards
- Changing careers
- Applying for new loans or lines of credit

So maintain a financial quiet period prior to closing, and don't do anything that could put your final approval — and your home purchase — in jeopardy.