

5 Mortgage Mistakes and How to Avoid Them

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Buying a home is an exciting time, and some people get so caught up in all the excitement that sometimes focus is lost and bad decision are made. If you want to make good decisions about your mortgage, take a look at five common mistakes people make when buying a home

Not Shopping Around for a Mortgage

Most people go to the bank they use every day; they know you (sort of) and will probably give you a good mortgage because you bank there, right? Not necessarily. You need to shop around. Aside from the house price, you need to focus on acquiring a *competitive mortgage interest rate*. You won't know what that is until you shop around. Pay attention to the *types* of mortgages you are offered and the *fees* that are associated with each rate and package. This will include whether you will be required to carry private mortgage insurance.

Applying for a Mortgage with Bad Credit

Sure, you can be approved for a mortgage with a bad credit score if you have a really good income and down payment, but is that worth all the extra you will pay in interest over the lifetime of the loan because of a bad credit score? It could be thousands of extra in interest if you get a mortgage with a bad score. Although it may seem hard, it may make more financial sense to stay where you are until you pay your debts and collections off.

You need a good personal credit score (FICO score) of at least 650-700 to acquire a decent mortgage rate. Scores of 750 and above will get you the best rates. The FICO score will also affect your down. Credit companies take your financial information and analyze it to predict what kind of credit risk you will be. To improve your credit score: examine it carefully and dispute any errors, reduce your debt, and meet scheduled payments on time.

Making Yourself House-Rich and Cash-Poor

Committing too much of your income to an expensive home can leave you with little to no money left over for anything else at the end of the month. Maybe you didn't calculate the associated costs of insurance or homeowner's fees that put you over the top. In either case, being cash-poor means you won't be able to pay for an unexpected

auto repair, save for the kids' college fund, build a retirement, or take a fun vacation. Before you start looking you should complete a budget and understand what you are capable of reasonably paying each month. Approval for a certain mortgage amount does not mean that it will necessarily *work for you*. Make a detailed budget with room to spare to calculate a payment level that let you have a life.

Not Understanding Different Loan Types Pros and Cons

There is an array of home loan types available for the homebuyer. You may have several options that have been recommended, but these should be carefully considered. For example, if you decide to skip a *Fixed-rate Mortgage* at one interest rate in favor of an *Adjustable-rate Mortgage* at a lower current rate, you should be prepared for a possible change in the bank rate down the road that could send your rate, and payments, soaring.

Not Reading the Fine Print

For most people, a mortgage will be the biggest single financial transaction in their lifetime. That makes *reading the document* and *understanding the terminology* a very good idea. This document will likely contain clauses that could cost you a great deal of extra expense over the life of the mortgage. It is important to check all the numbers in the document to ensure they are as agreed to, and understand what penalties you will pay your lender whenever you break the terms of your contract for such things as a refinancing, prepayment, late payment, or to pay off the entire loan before the end of the term. Fees abound and many conditions may surprise you and are worth noting.

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