

Your next move: Sign up for our newsletter.

[Sign up now](#)[Saving Money](#)[Managing Debt](#)[Building Credit](#)[Newsletter](#)**MORTGAGES**[Advertiser Disclosure](#)

# 8 Common Mistakes First-Time Home Buyers Make, According to Chris Hogan

**Alex Gailey**

October 22, 2020 | 10 MIN READ

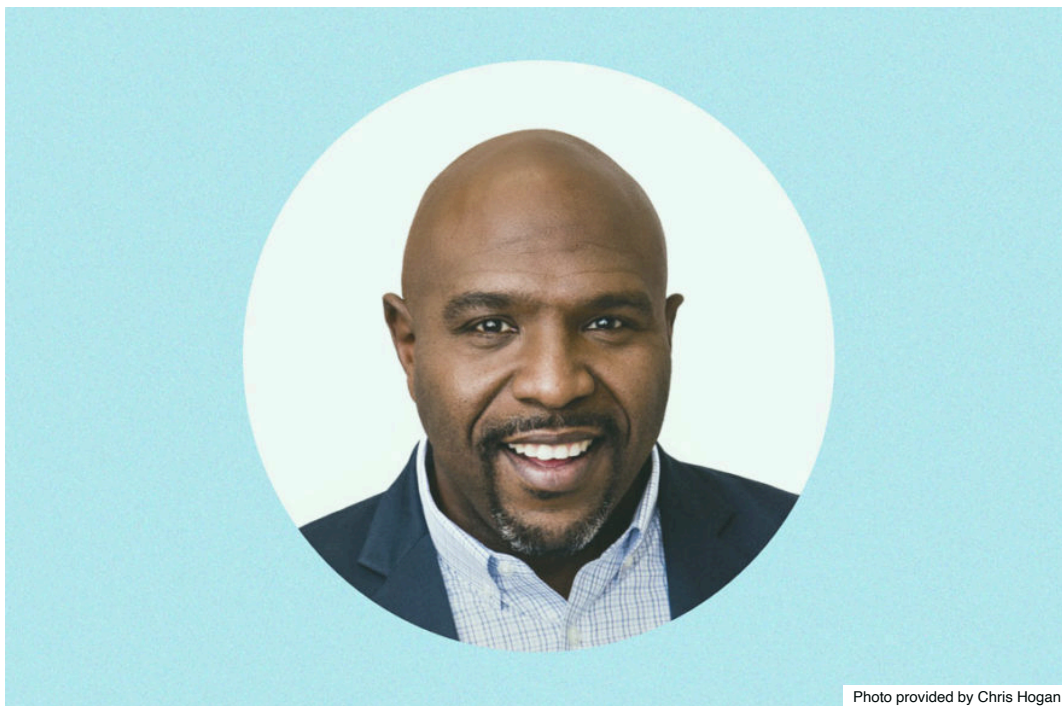


Photo provided by Chris Hogan

10 MIN READ

[PREV](#)[NEXT](#)

Your next move: Sign up for our newsletter.

Sign up now

## Editorial Independence

We want to help you make more informed decisions. Some links on this page — clearly marked — may take you to a partner website and may result in us earning a referral commission. For more information, see [How We Make Money](#).

Buying a home is stressful — especially if it's your first time.

In fact, about 40% of first-time home buyers said it was the most stressful event of their entire lives, according to a [2018 survey by Homes.com](#).

It's no wonder. Traps abound, from choosing the wrong mortgage to taking on too much debt.

“It's the American dream. You get excited. But you need to be prepared for it,” says [Chris Hogan](#), a personal finance expert at Ramsey Solutions, the financial counseling and education company founded by author Dave Ramsey. Hogan is a best-selling author himself, host of the podcast “The Chris Hogan Show,” and a former All-American football player with a professional background in banking and mortgages.

Your next move: Sign up for our newsletter.

Sign up now

Those who are looking to make the leap in 2020, amid a volatile housing market and a deeply uncertain economic outlook, should be extra cautious about making the wrong move. By anticipating and avoiding these eight first-time home buyer mistakes, you can set yourself up for success.

# Buying a Home When You Have Debt

Buying a home when you have debt is like running a marathon with weights around your ankles, says Hogan.

Before taking on a huge new mortgage, you should be financially unencumbered.

“I’ve seen people jump ahead and buy a home when they’re in debt, and then lo and behold something in the house breaks and they don’t have the money to fix it. So it ends up being more of a curse than a blessing,” Hogan says.

Instead, Hogan advises people to “push pause” on buying a home until they’ve tackled all of their existing debt first, including credit cards, car loans, and even student loan debt.

Once you’ve paid off your debt, Hogan suggests building up an emergency fund of three to six months’ worth of expenses — and *then* saving for a home down payment.

Your next move: Sign up for our newsletter.

Sign up now

that way have said it's so much easier to enjoy the house, not just buy one."

## Not Saving Enough for a Down Payment

If you're getting a mortgage, one of the worst mistakes you can make is not putting down a large enough down payment. Hogan says any amount less than 10% is way too low.

"Save as much as possible," Hogan says. "I recommend saving at least 20% of the total house price to avoid paying private mortgage insurance."

A larger down payment lets you get a smaller mortgage, giving you more equity in the home and potentially lower monthly payments — and you'll pay a lot less interest over the life of a loan.

The reality is most people don't put 20% down on a home. The down payment is the biggest hurdle to buying a home, and it takes more than seven years for an average home buyer to save a 20% down payment on a typical-valued home, according to Zillow research. The average first-time home buyer puts 5% down on a house, according to the National Association of Realtors.

If you're having trouble saving for a sizable down payment, consider whether you're financially ready to buy a home. And if you've decided that putting down a smaller down payment makes sense for you, explore your options. Technically, you can put down as little as 3% for a conventional mortgage or 3.5% for a Federal Housing Administration (FHA) loan. Plus, there are some grant programs for first-time home buyers at the local and state level. A good lender will be in tune with what's available in your market, explain how private mortgage insurance factors in, and help you navigate your options.

Your next move: Sign up for our newsletter.

Sign up now

# Afford

Before you start touring houses, figure out how much house you can afford. In many cases, lenders will preapprove you for more than you need or would be wise to spend.

So if you haven't already, it's worth looking at what you have coming in and going out, and how much of your income you want your monthly mortgage payments to take up.

"A house payment should never cost more than 25% of your take-home pay," Hogan says. "That includes principal, interest, property taxes, homeowners insurance. And depending on your situation, it also includes private mortgage insurance and homeowner association fees."

A mortgage payment you can't afford is a particularly heavy burden, because it's hard to change without selling the home or moving, says Liz Sylvan, a certified financial planner at Cultivating Wealth in New York.

"If your mortgage turns out to be too much of a monthly payment, then you could find yourself in a difficult position," Sylvan says.

## Allowing the Market to Dictate Your Moves

It's easy to get excited about buying a home when mortgage rates are hovering near historic lows, as they are now, but Hogan says it's worth pausing to figure out whether you're making an impulsive decision.

"People are getting antsy because rates are low. But with money things, you don't want to do anything in a rush," Hogan says. Buying a house is an emotional process, and you don't want to confuse your feelings with logic by rushing

Your next move: Sign up for our newsletter.

Sign up now

Regardless of low interest rates, if you don't have the cash for a down payment and the means to budget for a mortgage payment and other home-ownership costs, then it's not the best time for you to buy a home. And anyway, most experts don't predict interest rates to rise anytime soon.

### PRO TIP

Before you consider buying a home, make a solid plan to pay off all your debt (personal loans, credit cards, students loans), build an emergency fund, and start saving for a down payment.

## Not Getting Preapproved

Getting preapproved — not just prequalified — gives you a leg up on the home-buying process. A mortgage preapproval letter not only tells a seller you're serious, but also means the paperwork process will move faster if your offer is accepted.

It also makes you a more educated buyer because it lets you know the amount of money you can borrow from a lender to buy a home. The lender uses your credit, income, assets, and debts to determine whether you qualify for a mortgage and for how much.

Even after you're preapproved, check in with your lender regularly to make sure you still qualify since lending standards have tightened during the COVID-19 pandemic.

## Getting the Wrong Kind of Mortgage

10 MIN READ

PREV

NEXT

Your next move: Sign up for our newsletter.

Sign up now

For example, fixed-rate mortgages allow you to lock in your interest rates, while adjustable-rate mortgages have an APR that will change with the markets over time — so when rates go up, your payment could go up too.

One of the first decisions you'll have to make is the term of your mortgage, or how long your payment plan will last. Roughly 90% of homeowners choose a [30-year fixed-rate mortgage](#), according to [Freddie Mac](#).

Hogan says you should take out a [15-year fixed-rate mortgage](#) instead. The [30-year mortgage](#) is more popular because it generally requires less cash up front and offers lower payments month to month. But the trade-off is that you'll pay more interest over the long term.

“You'll make your payments comfortably with a 30-year mortgage, but it's a better deal to pay the extra \$400 to \$500 a month by going with a 15-year fixed-rate mortgage,” Hogan says. “You'll pay your mortgage off in half the time.”

Compare [different offers](#) to see how the term of your mortgage will affect your monthly payments and total interest. If you feel more comfortable going with a 30-year mortgage, you also have the option to pay it off as if it's a [15-year mortgage](#) by making additional payments toward the principal each month. Hogan says some people can pay off their mortgage in as little as 11 years this way.

“Lenders want you to stay in debt as long as possible because they earn interest off of you. People will typically sign on for a 30-year mortgage, and there's even talk of a 40-year mortgage coming down the pike,” Hogan says. “There's no reason to sign on for a 30-year mortgage. You're going to pay so much more interest over the life of the loan.”

## Choosing the Wrong Lender

When it comes to picking a mortgage lender, you want someone who talks *with*

Your next move: Sign up for our newsletter.

Sign up now

“It’s really important to work with the right lender, because this is your largest monetary asset,” Hogan said. “You want someone who’s going to educate you and guide you.”

A good lender who has your best interest in mind will give you multiple options to choose from for a down payment, a mortgage term, and other variables that go into buying a house.

Hogan says the biggest red flag to look out for with a lender is getting no explanation behind their financial recommendations. And if you feel rushed during the process, Hogan says that’s another red flag.

“You don’t want to deal with a lender that’s not really taking the time to explain all the nuisances and details of what it’s going to take and what you’re going to need at closing,” Hogan says. “It’s a lot of documents and paperwork, so you want to make sure you understand all the numbers — where they are and how they work.”

Hogan says there’s nothing wrong with waiting or slowing down the process to be really clear on the numbers. “This is your decision and something you’ll have to pay for. This is not an emotional decision, this is a business decision. So you don’t want to rush it.”

Kevin Mahoney, a certified financial planner and founder of Illumint financial planning firm in Washington, D.C., encourages people to ask around for a recommendation of a good lender and start that process early on. “A good lender can often save people some money and perhaps prevent them from going down a sub-optimal road,” Mahoney says. “It’ll help you narrow down what’s realistic based on what the lender is telling you.”

## Cosianina Your Mortgage

10 MIN READ

PREV

NEXT

Your next move: Sign up for our newsletter.

[Sign up now](#)

member, or a spouse who has a strong credit score and a steady income.

That's a serious mistake, Hogan says.

On paper, it sounds like a good idea to have someone with stronger financial standing help you buy a home. However, Hogan says it's high risk and low reward for both parties involved. With a cosigner, you may be able to lock in a better interest rate and lower fees — but if you can't make payments on your mortgage, the cosigner will be responsible for the bill.

If you can't afford to buy a house without a cosigner, Hogan recommends postponing your purchase. "This helps protect your financial future and sets you up for home-buying success," Hogan says.

## Related Articles

---