

THE 25 BIGGEST HOME BUYING MISTAKES

PRESENTED BY HOMEBUYER EXPERTS

“A buyers only agency”

25 BIGGEST HOME BUYING **MISTAKES**

1. Seeking a Loan without Pre-qualification

Not being pre-approved prior to shopping for a home is the number one cause of headaches and delayed closings. When shopping for a loan you have two options; to get a pre-approval or to simply pre-qualify. Pre-approval and pre-qualification are two different things. During the pre-qualification process, a loan officer asks you a few questions and provides you a "pre-qual" letter in good faith, based on the unverified information you provided. This pre-qualification is 100% contingent on the information you provided being accurate; and is therefore unreliable as a true measure of your borrowing capability. The pre-approval process is much more thorough.

The pre-qualification process is conducted by a mortgage broker or institution to determine if you are financially capable of buying a home. Things such as gross annual income, credit history, debt to income ratio, and ability to pay are examined. You will be given a letter of pre-qualification at the end of this process. Pre-qualification determines the size of the loan you are capable of paying.

The seller knows you can close the transaction because a lender has carefully reviewed your income, assets, credit and other relevant information. In some cases (multiple offers, for example), being pre-approved can make the difference between buying and not buying a home. Some sellers - who may otherwise hold out for a better offer - will take a lower offer if they know the buyer can close on the property quickly. Additionally, if you are shopping for bank owned property or a property in short sale; the current mortgage holder will only discuss a sale of the home with pre-approved borrowers.

After it has been determined that you are pre-qualified, a pre-approval process is the next step. Here, the financial institution will determine if you qualify for the amount you wish to borrow. The mortgage company handles all the paperwork. No property has yet been identified.

2. Choosing the wrong loan.

In the past few years the lending world has seen more changes than you can count! There are lots of programs and terms most of us have never seen before like; interest only, negative amortization, hard or soft prepaids, option arms, 40 year terms, balloon payments, LIBOR, monthly adjustable, reverse mortgages, sub-prime, A-paper... We could go on all day, but that's not the point. What we want to stress is that things change everyday in "Lender World" and lenders themselves have a hard time keeping on top of everything that is available especially when you put different guidelines into the mix. So if you are a buyer PLEASE EDUCATE YOURSELF! Ask lots of questions! Understand what you are signing before you go to escrow, the escrow company will not know the details any better than you will. If you get a loan that you do not understand and your payment changes or you have a balloon payment that you can't make, you can and very likely will lose your home. This will cost you thousands of dollars by effecting your credit, insurance rates, job opportunities, interest rates on your current credit cards, tax responsibilities and over-all quality of life. Not to mention how it will impact your mental and emotional state of being. You will just feel like a "Loser!" We don't want to see this happen to anyone, so please choose the right loan.

3. Not doing a proper financial plan.

We are seeing record foreclosures today. While there are some which were due to product mistakes, most were a result of improper planning! Setting up reasonable realistic budgets with proper forecasting can alleviate this problem. This kind of work will help you match your cash flow to the proper cost home and correct mortgage product. If possible, do this work with a professional financial planner.

4. Not getting a home warranty.

Would you buy a car without getting a warranty? I think not! Even if you go to "buy a used car you are going to want at least a short-term warranty to make sure that by the time you get home you don't have to call a tow-truck! So why should a house be any different. Our advice is, GET A WARRANTY! It's not going to cover everything but it will sure make that first year of home ownership a lot easier to deal with and you can extend it for another year if you find it useful. Where would you rather spend your hard earned money, on a new plasma TV or fixing the water heater? I may be a bit biased but I've found warranties save money in the long run.

5. Getting emotional in front of sellers.

Emotions can cost a Buyer tons of money! Here in the Northeast Ohio real estate market we sometimes see buyers and sellers getting together either on-purpose or by accident before there is a ratified sales contract. This is VERY dangerous. It can affect the whole negotiation process. If you are the buyer and you get all excited about the property in front of the seller, it is equivalent to playing poker with your cards on the table. “You’re never going to win!”. So keep your emotions and your tongue in check. If you know you are the kind of person that just can’t do it, then talk to your Realtor and ask them to make sure they only show you homes when the seller is not there. Trust us on this one, the Realtor will be happy to do so because it will make the negotiation process go MUCH smoother. Home purchases are a tricky thing. On one hand they are a HUGE emotional experience filled with all kinds of highs and lows. On the other hand, it can be one of the biggest business decisions of your life. Business filled with emotional exuberance can be costly by showing your hand and causing you to be on the weaker side of the negotiation table. Bottom line...”Don’t open your mouth and insert your foot!”

6. Buying more home than they can afford.

There is a rule of thumb that says you should not buy a home that costs you more per month than 20 to 25% of your take home pay. We rarely see anyone following that rule of thumb today.

Too many consumers are buying homes that take a large part of their monthly income. This leaves little room in their finances for emergencies, furniture, vacations, investing, etc. With the past relaxed lending requirements, people were buying way more home than what they could realistically afford. If you go down this road, chances are that you’ll grow to hate this home. You should own a home, the home should not own you.

7. Spending money while in escrow.

This is a big no-no! Don’t spend money on any “Big Purchases,” (over a couple of hundred dollars), while you are trying to buy a home!! The reason for this is that if you are getting a loan, at the last minute before the lender funds your loan they may pull your credit again and if your credit score has changed because you have more debt or the ratios that you originally qualified under are different, you could lose the house! So don’t buy furniture, appliances, cars, Harley’s, clothes or anything of the sort! Wait until your loan has funded, the property is closed and you have the keys and then go shopping! Also, don’t change jobs while going from approval to closing. This will cause the approval process to be redone and will cost time and, perhaps, money.

8. Waiting for a better market and interest rates.

We are in historic low times for interest rates. There have been few markets that were this attractive to buyers. Warren Buffett says “the rear view mirror is always clearer than the windshield.”

9. Forgetting about closing costs.

Think it's bad to pay tax when you eat out? Wait until you're paying closing costs, which can run 2 to 7 percent of the home's purchase price.

A mortgage lender should provide you with a specific estimate of what costs will be. But keep in mind they include such things as origination (points) on a loan, escrow fees, title and homeowners insurance, legal costs, property taxes, fees to record your need deed and notary fees. Too many people come out from closing in shock!

10. Waiting too long.

Don't wait, buy now! I know it sounds like a pushy salesman trick taught on every car lot in the country... "It might not be here tomorrow!" But when it comes time to make a home purchase, there is never a better time than right now! Let's preface that with a couple of things. You must get your credit in line, have income, and get qualified for a loan—be ready to buy. What we are talking about here is the mentality of "I'm waiting for the bottom of the market to buy," "I haven't found the right house," "I'm scared!" All of these stall tactics or procrastination can end up costing you more than you realize. Here are just a few of the areas where you could lose; interest rates could rise, area home prices could rise, you will miss out on the tax deduction and the right home for you could be purchased by someone else. Lets look at real numbers. If rates increased by $\frac{1}{2}$ of a percent on a \$300,000 loan, your payment will go up \$100 per month. That's \$36,000 over the life of the loan. That hundred sure could buy a nice dinner every month for you. We're still looking for the millionaire that doesn't own some real estate!

11. Not putting the mortgage and closing costs up for bid.

Costs ARE negotiable. A proper bid program can save thousands of dollars in both the long and short run.

12. Not reading the paperwork

You are probably thinking, "Yeah Right!" but do you know how many buyers don't read what they are signing? Most of them! If you are buying a home you're making one of, if not the largest, purchases of your life. You are about to lock yourself into payments for the next 30 years! READ WHAT YOU SIGN! We've seen multi-million dollar contracts with very experienced buyers who in their haste haven't read a contract and it cost them tens of thousands of dollars! Don't let this happen to you! It doesn't take that long and, if you needed, just ask to take the documents home and take a night to read through them. You will be glad you did! This is a big decision. You need time. Impatient decisions can lead to mistakes.

13. Not reviewing HOA documents.

If you are purchasing a home with an association, you have to read the documentation you receive. There are usually, By-Laws, Rules & Regulations, financials, a statement of the fees and a statement of any pending litigation. Be aware...not all associations are created equal. Don't assume that the rules are the same from one association to the next. We have read some that said you could have 2 cats but no dogs. What's going to happen to Fido if you purchase there? Taking your dog to the pound or moving is not an easy decision. Look at the association financials. They will tell you if there is any reserve money or if they are short and any day the fees might be raised. Make sure you check on any litigation, it could affect your loan and insurance. Buying a home is much more than just picking out the pretty one, you've got to do some work!

14. Not using a Realtor to negotiate.

We know this sounds a bit biased coming from a realtor, but let us try to explain the importance of this without sounding like we are blowing our own horn. The truth is that we even hire Realtors to work for us when making purchases for ourselves. Here is why. I don't pull my own teeth, I go to a dentist. If I break my arm, I go to a doctor not Home Depot to get some stucco patch to wrap my arm in just to save some money. I know it is very popular for buyers to go to a "For Sale By Owner" and negotiate directly with them thinking they are going to save some money, but the bottom line is..."It's not going to happen." Here is why. Do you know every fee to negotiate in the local market? Do you know what the property value is? Reality is you don't have all of the tools unless you use a Realtor to negotiate for you. Most of the time, as a buyer, it's not going to cost you a dime. The seller usually pays the commission to the Realtor representing the buyer. So if you are a buyer and you're not working with a Buyers Only Realtor for any type of purchase, new or resale, you are costing yourself lots of money. It can be in the thousands of dollars even if you are at an entry level home.

15. Not using a Buyers Agent.

Don't make buying a home more difficult by choosing the wrong agent. You want a buyer's agent who works for you and understands your needs and financial limitations. Never use a dual agent who, by law, must represent the SELLER'S best interest. Make sure the agent has significant experience in the area where you want to live and the price range that you're looking for.

If you choose wisely, you can put a trained real estate professional on your side for free! A true Buyer's agent can help you negotiate a contract, fly through the mountain of paperwork, help you find the right home and help you schedule the needed inspections and appointments necessary when you do find your dream home. Best of all a Buyer's Agent's services are normally free since they are paid from a share of the listing fees which are paid by the seller.

16. Forgetting to consider resale.

It's easy when you're house hunting to forget what it's going to be like to sell your home down the road. But as you tour homes, put yourself in the perspective of the sellers. You may be drawn to a home that has quirky features or no closets or just one tiny bathroom (You can use armoires. Share showers.) But others may not be as enthusiastic. When you buy, think about the day it comes time to sell.

17. Buying the most expensive home on the block

It's wonderful when you find your dream house, but, if it's the most expensive home on the block, you could have a problem. Quite simply, your neighbors' lower home values will dampen yours. Remember, people who buy a \$500,000 home usually want to be surrounded by other \$500,000 homes, not tiny \$50,000 bungalows. Buyers should steer clear of homes that cost 50 percent more than neighborhood homes.

18. Buying the wrong property

Buyers often make mistakes when purchasing in what seems like the most simple of issues, they just choose the wrong property. We say this because we've seen buyers stay in a home a short time because it was too small or in the wrong part of town. We even had a buyer insist on a golf course lot and then after closing decided they were afraid of golf balls. Other times we've seen buyers "Keep up with the Joneses" by getting in over their heads in a house that is too big or too expensive for them and it eats them alive. So our advice when it comes to "Home Shopping" is to really sit down and make a list of what it is you "Need" and not just you're "Wants." You will find they are different. You have to keep in mind that buying a home is one of the largest purchases in most people's lives and emotions take over and run the show. Do your homework, know what you need, shop and then when you find it, GET EXCITED!

19. Putting up "Non-Refundable" earnest money.

This is like giving the Sellers a check and saying, "Here, you keep this. Even if we don't buy your home, you can keep our money". That's just not smart. If your Agent recommends it, find another agent because they don't have your best interest at stake. In most cases 500 to 1,000 dollars of refundable dollars will suffice as earnest money.

20. Not inspecting the property.

We can't stress enough how important it is to have a licensed home inspector go through the property you are planning to purchase! This goes for every property everywhere. Inspectors do this every day! How many houses have you inspected? Besides, you are probably in love with what you are buying and the last thing you are going to do is say is "It's broken & I don't want it unless you fix it!" We think this is just as important when it comes to new construction. New homes always look shiny and new and what could be wrong? Well, lots! Just recently a new home was inspected and there was no insulation in the ceiling! Other times we've seen wrong breakers, wrong windows, missing pieces, a/c units not cooling properly or at all. Resale homes are often the castle of "Week-End-Warriors". Too many home improvement projects can create lots of problems for you the new owner if they were not completed or installed correctly. This is the best money you will ever spend. It will be nice to know after you close that everything is in working order and the house you just bought and have to pay for every month can now become your home!

Home inspections typically run \$300 to \$600 and usually include a check of a home's heating and air condition systems, plumbing and electrical works, roof, walls, foundation/structure, drainage, the garage and basement. What's frequently not covered? Termite, radon, asbestos, mold and lead inspections.

Underground heating oil storage tanks also should be inspected before you buy since leaking tanks cause huge environmental, legal and financial problems. (A seller's disclosure statement should reveal if there's an underground tank on the property.) The Environmental Protection Agency has tank guidelines for homeowners -- plus contacts at state Department of Environmental Protection offices -- so you can find pros to help.

Bottom line: you should never buy a home without having it inspected. After all, you don't want to learn that you've bought a house that's filled with termites or has a frazzled electrical system. If you're building a new home, an inspection can ensure that all the work has been finished properly.

21. Never going back to check on the neighborhood.

If you're like most homebuyers, you probably spent many weekends looking for a new dwelling. But what happens to the neighborhood on weekdays or after dark? Is the house that's "convenient to town" sitting on a main thoroughfare that fills up with cars come commute time?

The only way to answer these questions is to go back and see what the neighborhood is like at various times of the day and week. Do your neighbors spend weekends with the stereo blaring? You want to know as much about the neighborhood as possible before you buy.

22. Picking the wrong community.

Some places are just flat-out expensive, and you'll probably have to search for a location that's affordable. That doesn't mean you should choose the cheapest locale. If you don't like the location you'll be unhappy. What's more, you'll probably have a hard time selling your property if the community isn't good. Ask around and read the local papers to know how the community is faring economically, what the major issues are, how many resources it offers. Even within a neighborhood, location matters. Is it on the busiest street? Is there a shopping center out the back window? Make sure you have thought every aspect through.

Don't neglect the schools. Gather such data as test scores, statistics on the percentage of kids who graduate and go to college, the student/teacher ratio, etc..

23. Falling in love with the home.

The one group of consumers who are taken advantage of the most are those that "fall in love" with a home.

They will accept any terms set by a Seller. They will buy the home and tell themselves "It just needs a little work, I can do that myself." Even though they have never picked up a hammer in their life. They let their "love" cloud their vision and judgement and end up paying hefty 'stupid tax'. Remember, they are building more houses every day.

24. Overlooking how the house will function for your family.

How do you really live? Do you really need a formal dining room and living room? Would you be happier with an eat-in kitchen and a great room and a den to use as a home office? The house may have gorgeous curb appeal, but you don't live on the lawn. No matter how attractive the exterior, you need a livable home. The house only needs to fit one family -- yours.

25. Not checking out the builder's reputation on a new home.

Talk to three or four people who live in the builder's homes and see what they have to say. If one builder did all the houses in a neighborhood, talk to the residents and get their input. (It's also a great way to see what your neighbors would be like.)

BIGGEST MISTAKE-NOT BUYING AT ALL

If you can afford a home and you don't make that purchase, you'll lose the benefit of tax deductions, building home equity and increasing net worth.