

# Avoiding the 14 Most Expensive Home Buying Mistakes

*No one likes to make mistakes, they're not only time consuming but they can cost you a lot of money. This booklet is a quick read that helps you avoid the most common home buying mistakes along with suggestions on how to correct them.*

## **Mistake #1 – Not planning your move**

Many first time homebuyers who are renting get into problems with their lease. They make an offer on a home forgetting they still have several months left to go. Sometimes, there's a stiff penalty when you break a lease. Other times you'll just forfeit your deposit or the landlord may hold you to the balance left on the lease.

In one particular situation a young couple made an offer on a home with a \$1,000 deposit that was subject to mortgage approval only. When they informed their landlord they were moving he politely informed them they had three months left on their lease. They could move out but he expected a check for the three months or \$2,700 or he would enforce the terms legally. In the end, the home buyers couldn't cover both the down payment the remaining lease payments so they lost both the house and their \$1,000 deposit.

The lesson learned is if you're renting, read your lease agreement carefully. If in doubt about the terms, talk to an attorney.

In another similar lease situation, rather than have the deal fall through the sellers renegotiated the purchase agreement. They paid two months of the buyers remaining rent and upped the price to cover the third one. It was a slow market and the sellers felt that giving the buyers a concession would be cheaper than putting their home back on the market. Luckily, these sellers took a pragmatic approach to getting their home sold.

To avoid this problem, don't sign a year or six month lease and then start house hunting. Sellers are usually reluctant to take their home off the market for more than 30 days. When you're seriously ready to buy and your lease is ready to expire, see if your landlord will extend on a month-to-month arrangement with a 30-day notice.

## **Mistake #2 – Not getting a pre-approval letter**

A branch manager at First American Title Company recently estimated that about 30 percent of the transactions at her branch fall apart or get delayed before closing. The biggest reason is buyers don't have their financial ducks in a row before they make an offer.

Sometimes this results in lost time and embarrassment, other times earnest money is forfeited too.

You can solve this problem by contacting a mortgage lender before you start looking at homes. Go through the complete pre-approval process and get a letter from your mortgage lender stating you're good to go for a certain dollar amount.

This pre-approval letter gives you three big advantages:

1. You'll know exactly how much home you can afford, how much down payment you'll need and what your closing costs will be.
2. You won't waste your time looking at homes not in your price range.
3. When you do find the home of your dreams, you'll be able to make a strong bird-in-the-hand offer that sellers will find harder to counter.

When Ryan and Brittany felt they were ready to buy their first home, they met with a lender recommended by their buyer's agent. After credit check, employment and source of down payment verifications, the lender issued a pre-approval letter.

The next step was house hunting and after a couple of weeks, Ryan and Brittany found their dream home. When their agent called to arrange a time to present the offer, she was told there was a competing offer the sellers would also be considering.

Both offers were presented to the sellers and the competing offer was \$1,500 higher than Ryan and Brittany's offer. Their agent, a real pro pointed out to the sellers that her clients were loan approved and gave them the letter from the mortgage company. She pointed out that her client's offer was a bird-in-the-hand and they could close in three weeks or less and the only subject-to would be the appraisal. The competing buyer's agent had not got his clients pre-approved and their offer was subject to mortgage approval.

The sellers chose to go with the pre-approved offer over a \$1,500 higher but riskier offer. Obviously, they didn't want to take their home off the market and wait a week or two to find out if the buyers qualified. Timing and a sure-thing approach will often win out over a higher offer.

### **Mistake #3 – Not having an exit strategy**

Many younger first time home buyers buy one-bedroom condos, small two bedroom homes and PUDs. They don't stop to think that in a few years their home will become too small when kids come along and/or income increases. Too often these smaller properties are hard to sell and accumulate less equity than two or more bedroom homes will.

Nick found this out when he bought a one bedroom condo when he got his first job right out of college. Hearing that it's better to own than rent he visited a new condo project. Smitten by the amenities and lifestyle image the development offered he bought there for two years.

After meeting his one and only, Nick got married and they lived in the condo for two more years when a baby came along and suddenly the one-bedroom became a tight fit. A bigger home soon rose to the top of their priority list and they started looking. There were some nice homes they could afford, but they would have to sell the condo first.

So, Nick talked to a Realtor and found out that because quite a few units were for sale, getting a buyer was going to be a slow process. To sell it, he would probably have to discount it close to what he owed because other owners had dropped their prices to rock bottom.

The condo has been on the market a year now and there haven't been any offers. Nick is seriously considering renting it out if he doesn't get an offer in another couple of months.

As Nick learned the hard way, before you buy property think about how long you intend to live there. Remember the average home buyer stays in their home about six years. So it's important to do some what-if thinking before you commit.

#### **Mistake #4 Not checking out the neighborhood**

First-time and experienced home buyers sometimes fall into this trap. They see a house the pulls the right strings and pushes the right emotional buttons and they buy. Overlooked is the neighborhood. Questions that should be asked but often aren't, such as: Are there gangs? Is there a neighborhood crime watch group? What is the age makeup? Is it a transient neighborhood with a high turnover? How are the schools and is the home on a busy street? No matter how much you like your house, if the neighborhood doesn't fit your lifestyle, you'll be selling before too long.

Juan and Rita found this out when you bought a cute, renovated bungalow in an older neighborhood. They soon found out their neighborhood had a several teens who liked to race up and down the street, and three of the homes on their street were rentals. The yards were not being taken care of and obviously the area was going downhill.

Unfortunately, Juan and Rita were not using a Realtor when they bought the house. They had driven by the home and noticed a for sale by owner sign. The sellers were an older couple who wanted to move to a warmer climate and offered them a good deal on the home. The buyers were so focused on the home, they didn't even think about the area.

To avoid making this mistake, spend a lot of time in the neighborhood before you buy. Check out the different ways you can get to the house you're interested in. How close are shopping, schools and other areas of interest? And finally, how quiet is the neighborhood at different times and weekdays as well as on the weekend?

#### **Mistake #5 – Buying the wrong type of house**

How you can buy the wrong type of house seems far out, but it's a major reason many homeowners move. For instance, you love the picturesque look of two story homes, but find having a family room in the basement is not what you want. A ranch with an open floor plan is more what you really want for family togetherness. Or you buy a home with the laundry room in the basement, and after awhile you find going up and down stairs is a real pain.

You need to look at 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 only needs to fit one family -- yours.

Sam and Becky made this mistake when they found a charming two story in a great neighborhood near Sam's work. They were renting a home but wanted a place of their own. They made an appointment to see the home and immediately fell in love with the oak trim and crown molding as well as the formal dining room and updated kitchen.

The next weekend they took their three boys ages 5, 9 and 12 through the home. The kids loved the backyard with the big Sycamores, but understandably not too happy to leave their neighborhood and school. But it was summer so changing schools was not a problem.

An offer was made and accepted. Thirty days later the loan closed and Sam, Becky and kids moved into their own home. They were excited and the first couple weeks were fun. But then, the time came to register the kids for school and Becky found out the school was two miles away and that meant the kids would ride the bus. She also found out there were no families in the neighborhood with elementary school age kids for a possible car pool. It was a middle aged neighborhood that they soon found out they had little in common with.

It wasn't long before Becky also realized that the formal floor plan of the two story wasn't kid friendly. They wanted to be near the kitchen where mom was, not downstairs in the family room or in the upstairs bedrooms.

About a year later Sam and Becky put the home up for sale and started house hunting again. This time they were determined to be a little wiser and do some homework before they jumped at a home with enticing curb appeal.

It's important to put some thought into what your family lifestyle is and make a list of important things you want in a home. Don't be swayed by a cute restored bungalow just like the one you grew up in, if a bi-level fits your family better. Every once in awhile take a deep breath and do a reality check when you're out house shopping. Try to project what your needs will be in 5 to 10 years from now. An don't let awesome curb appeal sway you if the floor plan doesn't fit your needs.

## **Mistake #6 – Buying a home on impulse**

Too many new home buyers and existing homeowners fall into the trap of going through a model home in a new subdivision, and the next thing they know they've committed to buy. You need to look at several new home projects and 10-20 existing homes before you get serious. New homes are professionally decorated and carefully arranged to push your emotional buttons. Existing homes are sometimes spruced up or staged to do the same thing. Resist the temptation to buy before you look around and know what's available in your area.

If you're living in a one bedroom apartment, anything over 900 sq ft. can look spacious. The impulse to grab the first home that tugs on an emotional string or two is strong.

If it's a new construction, check out the builder's reputation. Talk to three or four people who bought from that builder and listen to what they have to say. This is also a great way to see what your neighbors would be like.

Mike and Linda were seriously considering buying a home in a new subdivision. They loved the style and floor plan of the models and had even talked to the builder's lender. But before they committed, they decided to check with several homeowners on one of the first streets built in the subdivision.

They learned there were some unresolved drainage problems and that several home buyers were considering legal action over. Also, many of the call backs took several weeks to get taken care of, and only then after repeated calls. It didn't take long to realize that the builder didn't have too good a reputation and further checking revealed he had taken out bankruptcy less than a year ago. That was enough for Mike and Linda to write that project off their list and move on. Luckily they did because that development was featured on a local news channel a couple of months later for the problems the homeowners were having with the builder and developer.

### **Mistake #7 – Buying a property that's hard to sell**

This is one the biggest mistakes home buyers make. It happens so often you wonder what buyers are thinking when they sign the purchase agreement. The most common reason given by these home buyers why they bought a certain property is that it was such a good deal. It was the biggest house they could find for the price.

Typical hard-to-sell properties are:

- Homes that back up to railroad tracks, freeways, industrial areas, frontage roads, etc.
- Homes that have been over improved for the area. A typical example would be a 900 sq ft. bungalow that an owner adds on to the back or side. Sometimes it's a well-planned addition that blends in, other times it's a tacky add-on.
- Neighborhoods that have become run down with a high percentage of rentals or foreclosed properties.
- Homes that stray too far from the architectural mainstream of what people are buying. Typical examples are round homes, earth-covered and conversions from other buildings, such as barns, silos, sheds etc. They can be quaint and even be featured in a home magazine, but selling and getting back the money invested is not always easy.
- Properties that have lot or landscaping problems. Examples are: a steep slope for a backyard or a gully. Little or no backyard. No privacy from neighbors. The way a house sits on a lot can also affect value.

- And of course the most common, exterior and interior colors that don't complement or fit the house. You may love bright blue, but if you paint your house that color, you've just reduced its value considerably.

In one instance of a homeowner making a property impossible to sell involved a buyer who spent \$30,000 adding on to a small 800 sq. ft. 40 year old house. It was done professionally and did blend in. Still, the end result was an older house with an add on. In this case, the most it would add to the house's value would be around \$10,000. Unfortunately, the owners had taken out a second mortgage to do the addition, and now they couldn't sell the home for anywhere near what they owned.

For them the worst case was they would have to stay in the home for a few years until they paid down the loan. It could get ugly if they have to move because of a job transfer in the next few years.

Another common reason buyers give for buying these properties is that they can fix them up or correct the problems. That may be so, but by the time they add up the costs and time, it would have been much cheaper to buy a better house or a better location.

When you look at a property and see a negative but feel other features may outweigh the problems, especially price. Slow down and think it through. There's red flags waving.

### **Mistake #8 – Overextending your budget**

A lender that Pre-qualified you for a loan may tell you that you're able to buy a \$150,000 house. But keep in mind that buying for the full amount you can qualify for may put you out of your comfort zone.

It's not uncommon for home buyers to buy the max they're qualified for and not have the cash flow to decorate or put in the yard for a few years. Some homeowners can handle this while others are frustrated with having no furniture or a dirt yard. For most people it works out better to go for a smaller house and be able to put in a yard or redecorate.

Now that qualifying ratios are more credit driven than in the past, lenders are approving debt ratios as high as 65 percent. That means your house payment and all other debts equal 65 percent of your income. Some families can handle that kind of debt load while others would go bankrupt fast. It's up to you to look at your lifestyle and realistically determine what you can handle.

However, there's another way to look at the amount of home you can buy. Some people claim you should buy the most home you possibly can now. As your income goes up and home values go up you win. You not only save a move but you end up with more equity and a home you'll enjoy more.

This approach worked for many owners who bought in the last 30 years and have watched their home's value soar dramatically. Many of these homeowners say they

struggled in the beginning, but as their incomes went up the house payments became a smaller part of their paycheck.

Fred and Rhonda was one of those homeowners who bought their home in 1979 for \$32,000 and recently sold it \$196,000. According to Fred, their house payment in the beginning took nearly a third of his income. By the time they sold it, it was nearly paid off and took less than 10 percent of his paycheck. Neither way is right or wrong, it just depends on your values and priorities.

### **Mistake #9 – Not protecting yourself when you make an offer**

Many home buyers in the excitement of finding their dream home and writing up an offer, forget to add contingencies that will protect them. A contingency is a clause that added to an offer and makes it subject to a certain event. Common contingencies are financing approval, house inspection, closing on a certain date, replacing a roof, etc.

It's true that some contingencies will weaken your offer such selling your house first or adding a list of repairs. But there are others that you need to add to protect yourself.

For instance, one buyer's agent insisted on putting in a subject to final loan approval contingency in her client's offer even though he was approved for a mortgage. Unfortunately, two days before closing the buyer was laid off his job due to downsizing eliminating any chance of final loan approval. His agent saved him from losing a \$1,000 deposit.

The most critical clauses you should consider adding are:

- ! Always make your offer subject to a professional inspection. If you find problems then you have some leverage to fix them or walk away and get your deposit back.
- ! Making your offer subject to final loan approval will protect you from something unforeseen. For instance, should you get a laid off during the loan process you'll lose the house but not your deposit.
- ! If you've made an offer on a new home and your old home hasn't closed yet, add a clause making it subject to the old house closing and funding.
- ! You want the offer subject to the home appraising for at least the sales price. If the appraisal comes in low, you'll have the option of negotiating the lower price or walking away.

Along with final loan approval, inspection contingencies are the most important protection for a home buyer. In one particular case, a home inspector found a cracked combustion chamber in the gas furnace. This can allow carbon monoxide to escape into

the house with lethal consequences. The sellers quickly had the furnace replaced and the deal closed. Luckily, a potential serious incident was avoided.

In another case, an inspector found problems with the wiring. It was not only old, but the owner had tried to cut costs and do some rewiring himself. The wiring was not only not up to code but was dangerous with illegal splices and unconnected hot wires in the attic. In this case the buyers simply negated the offer and got their deposit back because it was subject to a satisfactory inspection .

### **Mistake #10 – Getting family, relatives and friends too involved**

Not involving family or friends can sometimes be difficult. If mom and dad are putting up the down or co-signing on the mortgage, then they'll be a big part of the deal. Otherwise, getting too many opinions can be worse than no opinions at all.

Often, those whose opinions you seek will see your enthusiasm and support your decision even it's a bad one. Or someone who doesn't know what they're talking about will point out problems and bad mouth a good home.

Greg and Linda found this out when they bought their first home. Naturally, they were excited and wanted to get as many friends and relatives involved as they could. Unfortunately, it didn't work out quite as they hoped. The more friends they took through the home, the more confused they got. Some friends loved it, others didn't. One uncle even told them they were making a big mistake by moving into that neighborhood.

After a week of getting bombarded by mixed messages, Greg and Linda developed such a bad case of buyer's remorse that they called their agent and told him they were backing out. They couldn't stand the pressure and would gladly forfeit their \$500 deposit.

So how do you avoid this situation?

First, rely on your agent. He or she is a professional who knows the areas and pitfalls.

Second, trust your own research. You've undoubtedly looked at a dozen or so homes in your price range, so you should have a pretty good idea of values and neighborhoods by the time you're ready to make a decision.

Third, when you find a home you want to make an offer on, the last thing you want to do is involve uncle Louie or cousin Joe who happens to be a contractor. Now matter how good they are, builders or contractors are not professional home inspectors. They may be skilled in their particular trade, but they're not trained to find the potential problems a professional home inspector is. Don't make the mistake of trying to save a few hundred dollars by short cutting the inspection process. Having anyone other than a professional who will inspect the house and give you a written report can come back to haunt you.

Going back to the seller with a written report from a pro that the roof needs to be replaced carries some weight. Going back and telling the sellers that uncle Louie says you have a bad roof, doesn't quite cut it.

The bottom line is go with the advise of your buyer's agent and home inspector, they're the pros who can help you the most. If you want to involve family, relatives and friends have a barbecue at your new house after they help you move in.

### **Mistake #11 – Not being able to make a decision**

When you're searching for the right house you should take your time and look at as many homes as you need to get a good feel for the market. Once you've narrowed down your choices and decided on your dream home, then it's the time to move swiftly. Many first time home buyers lose a house or two they like before they realize that they have to move quickly. Indecision can cost them the home of their dreams.

Todd and Alex found this out when they were looking for their first home. After looking at over two dozen houses and not seeing anything that they liked. They were getting a little discouraged when their Realtor called about a home that had just come the market.

When Todd and Alex drove by it was the home they were looking for. An updated two bedroom cottage with newly painted yellow siding, full basement and a detached double car garage. It had been on the market less than a day. Their agent wanted them to put together an offer immediately, because he didn't think it would last long.

But, as much as they wanted the home, Todd and Alex hesitated. They were scared to make a commitment and wanted to wait until the weekend when their parents could go through it. Unfortunately for them, the weekend walk-through never happened. Another couple also loved the home, made an offer and the for sale sign got a bright red diagonal sold sticker.

If you like the home chances are other buyers will also. It's not uncommon for a home to sit on the market for weeks with no action and then suddenly two or three offers come in at the same time.

Fear of making a mistake is usually the culprit. The best way to work through this is talk it over with your broker, lender or someone who has bought a house before. Once you get it out in the open, it becomes easier to deal with.

Buyers remorse is the industry term for this fear and it applies to not only buying a house but a new car, appliance, engagement ring or whatever. Most home buyers get it somewhere along the way. Knowing that's it out there lurking and will probably strike when you least expect it, should make it easier to deal with it when it grabs you.

### **Mistake #12 – Not getting a buyers broker early on**

A good buyers broker on your side is the best thing you can do to find the home you're looking for and get the best deal. These agents know the market, the best neighborhoods and what type of loan will best fit your situation. You'll save a lot of wheel spinning if you get an agent in the beginning. The best part is the fee is typically paid by the sellers who are glad to pay it to get their home sold to a qualified buyer.

Max and Andrea were first time home buyers who had been looking for three months and were getting frustrated. Every weekend they circled ads, toured open houses and called on signs. The bewildering array of choices only added to the confusion. Finally, one of Andrea's co-workers suggested they talk to Carol, an agent she knew through her school's PTA.

The first thing Carol did when she met with Max and Andrea was ask them if they were working with a mortgage lender. When they said no, she told them step number one in buying a home is find out what you can afford. She then arranged for them to meet with a mortgage lender to get the process started.

A couple of hours later, the lender called Carol and told her that Max and Andrea looked pretty good. There were a couple of small credit problems he had to clear up but that shouldn't be too difficult, and they could go up to about \$150,000.

Meeting with the buyers again, Carol quickly determined what type of home, the number of bedrooms and amenities they wanted along with areas within a reasonable commuting distance of work. The next step was enter the information into the multiple listing data base.

Since this database is updated continuously, Carol limited the search to homes that had come on the market in the last two weeks. She knew that the best homes don't last too long so those are the ones you want to look for first. If the first list doesn't produce a winner, the search is extended back to, say 30 - 60 days and so on. However keep in mind, the longer a home has been on the market the greater the chances it's either over priced or a dump where the buffalo roam.

In the first search, Carol pulled up 14 homes that fit the buyer's criteria and the search was on. The first eight homes they looked over the next two days were nice, but didn't quite fit. But on the third day of looking the tenth home on the list turned out to be the winner, it was what the buyers were looking for.

Max and Andrea quickly made an offer and Carol presented it to the sellers that evening. It was accepted with a closing scheduled in three weeks.

It's true you can find a home on your own, but why spin your wheels and go through the hassle when you can have the services of a professional that will make sure you make the right moves.

So, how do you find a good broker? Ask other people you know who have bought homes if they can recommend a good agent. An excellent source are mortgage lenders and title people. They know who are bringing in the deals and how good a job they're doing for their clients.

Once you find a good Realtor, it's in your best interests to work with him or her on an exclusive basis. You may be asked to sign a Buyers Agency Agreement. If you specify that it can be cancelled by either party you'll have a way out if you find you can't work that agent.

Working with several agents at the same time is usually not as productive. None of them are likely to consider you a serious client whom they are willing to spend time on searching out the best homes. To find your dream home you'll want an agent who will stay on top of the best buys as they pop on the market.

### **Mistake #13 – Not getting a professional home inspection**

Steve and Tiffney were so excited to find the charming brick bungalow on a tree-lined street. It was in an area they had been looking at for several months and it had just come on the market that morning.

Their enthusiasm was high as they went through the home, noting all the wood trim and spacious floor plan of a 1940s bungalow. It was exactly what they were looking for. A home where they could strip off the layers of paint and wallpaper and restore to it's former charm.

Since Steve and Tiffney could come with a 20 percent down payment, they opted to finance conventionally to avoid PMI costs. The deal closed three weeks later and two happy buyers moved in ready to start their renovation project.

It didn't take long before the new homeowners discovered the problems. The gas company tagged the furnace because the service tech suspected it had a cracked chamber and the vent pipe was too near a wood joist. Other problems, typical of older homes that haven't been upgraded, added up.

Unfortunately, the buyers had spent most of their money buying the home and didn't have funds for the major problems they encountered.

Interestingly, Steve and Tiffney felt that the bank's appraiser would find any problems and list them on the appraisal. In reality, an appraiser is interested only in the overall value of the home as compared to others recently sold in the neighborhood. The appraiser's job is to ensure the home is worth what the bank loans on it.

So what should have Steve and Tiffney done differently? First, they should have hired a profession inspector. The inspection report would have outlined exactly what problems

lurked under the rafters, joists and in the dark spots of the basement. The buyers will know the condition of the appliances, furnace, water heater and plumbing.

The buyers will have a list of problems and about how much it'll cost to fix them. they'll go into the sale with both eyes open and don't have to max out their credit cards on unforeseen repairs.

### **Mistake #14 – Not checking out the homeowners association first**

In most states homeowner associations (HOA) have broad powers to enforce the rules and collect fees and assessments. If you don't follow the rules or pay your monthly fees they can lien your property and ultimately foreclose.

Having a strong HOA is a double edged sword. Strict rules can keep the project looking uniform and inviting thus maintaining it's value. The opposite edge is you may not like the rules and changing them is not always easy.

Changing HOA rules usually entails the use of good old American politics. You and like minded people get together and elect a new board. If you can get a majority of the homeowners to go along with your proposals, Great. If not you can try again next election.

So you don't end up in a project with rules you don't like, get a copy from the association secretary and read them over carefully. Also find out what other rules have been proposed but not yet voted on. This will give you a feel for what direction the homeowners in the project are headed.