An Insider's Guide to

Avoid Costly Mistakes

When Buying a Home

By: Tom Wemett

Table of Contents

Disclaimer

A Real Estate Insider's Guide To

Avoid Costly Mistakes

When Buying a Home

This eBook is designed to provide information about the subject matter covered. It is provided with the understanding that the publisher and author are not engaged in rendering legal, accounting or other professional services. If legal or other expert assistance is required, the services of a competent professional should be sought.

Every effort has been made to make this eBook as complete and as accurate as possible. However, there may be mistakes both typographical and in content. Therefore, this text should be used only as a general guide and not as the ultimate source of information about buying a home.

The purpose of this eBook is to educate and entertain. The publisher and author shall have neither liability nor responsibility to any person or entity with respect to any loss or damage caused or alleged to be caused directly or indirectly by the information contained in this material.

If you do not wish to be bound by the above, please stop reading now.

Introduction

Home Buyers Routinely Make Very Costly Mistakes When Buying a Home

You can easily avoid these mistakes with a little insight on your part. This eBook will provide you with an outline and information to help you begin to understand some of the most important areas of concern that you should have when you begin your home buying adventure.

We have identified the dozen mistakes most often made by home buyers and we have given suggestions to help you avoid making these same mistakes yourself.

We hope you enjoy the information presented here and that you find it helpful as you begin your home buying adventure. Let us know if we can make it more useful or you have any suggestions with regard to the content.

Thank you, Tom Wemett - Author

Tom Wemett is a nationally known author, instructor and buyer representation specialist. He has earned several industry recognized designations including: ABR - Accredited Buyer Representative; CEBA - Certified Exclusive Buyer Agent; CBR - Certified Buyer Representative; CBA - Certified Buyer Agent; CRS - Certified Residential Specialist; GRI - Graduate Realtor® Institute. This version has been specially revised for MABA, the Massachusetts Association of Buyer Agents. MABA's professional "conflict-free" members are here to help you (www.massbuyeragents.org).

Mistake # 1.....

Not Reviewing Your Credit History

Many times home buyers wait until they have a property under contract or until they apply for a mortgage to have their credit reports pulled. If any errors or problems arise, sometimes great delays and heartaches result.

It can take 4 to 6 months sometimes to get inaccurate information removed from your credit reports and even longer to get your credit scores (the importance of credit scores is discussed below) to readjust and increase to where you can qualify for a mortgage. In the meantime the seller probably isn't going to wait, you may have already spent money on inspections, and you are back to square one.

Getting a copy of your credit reports and credit scores early in the process is an absolute must. The term **credit score** usually refers to your FICO score, a number based on a formula developed by the Fair Isaac Corporation, which looks at a summary of all your credit accounts and payment history.

Your FICO (credit) score determines your access to and cost of credit. Most lenders use it as the main basis for loan or credit approvals, so the higher the better and the lower the more problems. FICO score ranges from 300-850, and Fair Isaac calculates them for each of the three big credit-reporting agencies: Trans Union, Equifax, and Experian. For more information go to: myfico.com

Here's how your score is determined:

35% is determined by your payment history. Do you regularly pay your bills on time to any creditor that submits your information to the credit bureau? Overdue medical bills, utility bills and other bills may appear here.

30% is based on the amounts you owe each of your creditors, and how that compares with the total credit available to you or the total loan amount you took out (debt to equity ratio). If you're maxing out your credit cards, your score may suffer. It appears that the ideal is keep your balances below 30% of your maximum credit line.

Mistake # 1.....(Continued)

15% is based on the length of your credit history, both how long you've had each account and how long it's been since you had any activity on those accounts. The fewer and older the accounts, the better (assuming you've made timely payments).

10% is based on how many accounts you've recently opened compared with the total number of your accounts, as well as the number of recent inquiries on your report made by lenders to whom you've applied for credit. Your score can drop if it looks as if you're seeking several new sources of credit, a sign that you may be in financial trouble. (If a lender initiates an inquiry about your credit report without your knowledge, though, it should not affect your score.)

Shopping around for an auto loan or mortgage shouldn't hurt, if you keep your search to six weeks or less. But every inquiry you trigger when you apply for a credit card can affect your score. So be selective.

10% - The types of credit used determine the final 10%. Having installment debt like a mortgage, in which you pay a fixed amount each month, demonstrates that you can manage a large loan. But how you handle revolving debt, like credit cards, tends to carry more weight since it's seen as more predictive of future behavior. (You can pay off the balance each month or just the minimum, for example, charge to the limit of your cards or rarely use them)

What's not in your FICO credit score: Contrary to popular belief, your age, and employment history and where you live are not used in determining your credit score. This is not to say lenders when evaluating you for a loan won't consider this information, it's just that it will not factor into your FICO score calculation.

Why do mortgage lenders pay so much attention to these scores? Statistics indicate that there is a 1 in 8 chance that a borrower with a FICO score below 600 will be either severely delinquent or in default of their loan. While there is a 1 in 1,300 chance that a borrower with a score above 800 will have similar problems. It is therefore easy to see that lenders will put a lot of reliance on such credit evaluation systems.

Mistake # 1.....(Continued)

So what can you do to get and keep a higher score? First, never have any late payments. Second, don't have a sudden surge of credit activity and credit inquiries. Third, don't "tap out" your credit usage. Using more than 30% of a credit line seems to negatively impact a credit score.

Most mortgage companies will obtain your credit reports and credit scores, with information merged from all three credit reporting agencies, at no cost to you as part of a mortgage pre-qualification. This certainly is a quick, easy and less expensive means by which to check out your credit than to buy your credit report and credit score from each credit agency.

A federal law (The Fair and Accurate Credit Transactions Act of 2003 - the FACT Act) has gone into effect whereby the credit reporting agencies must provide you with one free report per 12 months. The official web site is www.annualcreditreport.com. The free report, however, doesn't include your credit score. They will still charge extra for your credit score. Additional information can be found on the Federal Trade Commission's web site. You also may be entitled to a free credit report under state law. Massachusett's law requires free credit reports be available to consumers.

Caution: the credit scores offered by the credit repositories are called consumer scores and are not the same that a lender receives. If you are applying for a car loan that score is different than the score if you are applying for a mortgage loan, which are different from the consumer score. Each uses a different scoring method to obtain the three digit score. The closest score is the FICO score through Equifax. If you obtain your free credit reports from www.annualcreditreport.com, when you get to Equifax, also ask for the FICO score. It will cost you $7.95 to do so, but it will give you a better idea of where you stand.

Mistake # 1.....(Continued)

The three Credit Repositories and their contact information are:

EQUIFAX - www.equifax.com 800-685-1111

EXPERIAN (Formerly TRW) - www.experian.com 888-397-3742

TRANSUNION - www.transunion.com 800-888-4213

Mortgage lenders pull credit information from all three credit reporting agencies as part of a mortgage application. You should also. Married couples should obtain individual reports rather than joint reports, as it is easier to challenge inaccurate information for each of you. It is also easier to challenge information on reports obtained from the credit reporting agencies separately rather than from a report, which combines information from two or all three agencies. The reports obtained through www.annualcreditreport.com are separate and thus easier to review and then challenge inaccurate information.

When you have your reports, review them, note inaccurate or unknown information, report back to the respective credit reporting agency and ask them to “validate” the inaccurate items. Most people ask the credit reporting agency to "verify" rather than "validate" the inaccurate information. It is easier for the agencies to meet the legal threshold of "verify" than it is the threshold of "validate". **The law requires the agency to "validate". Ask for the same.**

Several attempts may be necessary to obtain an accurate report from each. The credit reporting agencies are good at using delaying tactics. Keep at it. Stick to your guns.

What about negative information, such as bankruptcy, judgments, and collections? Bankruptcies "must" be removed from your credit report after 10 years and judgments, collections and other negative items after 7 years.

However, nothing in the law requires any negative item to remain for a "minimum" amount of time. It is generally thought that if you have a bankruptcy on your record or other negative item that you are figuratively in "credit prison" for 7 to 10 years.

Mistake # 1.....(Continued)

The reality, however, is that if there is "inaccurate" information being reported within an item that otherwise is accurate, you can legally challenge it and if the agencies can't validate the item and correct the inaccurate information, they must remove the item from your credit report.

For example, let's say you filed bankruptcy two years ago. It is being reported accurately, except that the assets and debts are being reported as zero. Obviously, if you filed bankruptcy you would have had assets and debts.

Because these items are being reported as zero, the item is inaccurate and must be removed unless they validate the item and include the proper amounts for assets and debts. Any item being reported must be 100% accurate or it must be removed from your report.

A survey announced June 17, 2004, by U.S. PIRG (The U.S. Public Interest Research Group) found:

"One in four credit reports contains errors serious enough to cause consumers to be denied credit, a loan, an apartment or home loan or even a job, according to a new survey released U.S. PIRG.

'The big credit bureaus and big business tolerate big mistakes in credit reports,' said Ed Mierzwinski, U.S. PIRG Consumer Program Director. 'But those mistakes ruin the financial reputations of hardworking Americans.'

Three national credit bureaus, Equifax, Experian, and Trans Union, collect and compile information about consumer creditworthiness from banks, creditors and from public records such as lawsuits, tax liens and bankruptcy filings. The so-called "Big Three" each maintains a file on nearly every adult American. The resulting credit report amounts to a consumer's financial résumé. The credit score calculated from this report is a consumer's financial SAT.

Over the last decade, the state PIRGs and other consumer organizations have issued numerous reports showing that sloppy credit bureau practices are at fault for errors in consumer credit reports.

Mistake # 1.....(Continued)

'It is outrageous that inaccurate credit reports could damage 1 in 4 consumer's ability to buy a home, rent an apartment, obtain credit, open a bank account, or even get a job,' said Mierzwinski.

U.S. PIRG collected 200 surveys from adults in 30 states who reviewed their credit reports for accuracy. Key findings include:

- Twenty-five percent (25%) of the credit reports contained errors serious enough to result in the denial of credit;

- Seventy-nine percent (79%) of the credit reports contained mistakes of some kind;

- Fifty-four percent (54%) of the credit reports contained personal demographic identifying information that was misspelled, long-outdated, belonged to a stranger, or was otherwise incorrect;

- Thirty percent (30%) of the credit reports contained credit accounts that had been closed by the consumer but incorrectly remained listed as open."

So, with 79% of credit reports containing mistakes of some kind, don't you think it makes sense to check your credit early in the process?

Mistake # 2.....

Not Understanding Financing Options and Not Getting Pre-Approved For a Mortgage

Home buyers need to search out and choose the best mortgage program given their resources. This isn't an easy task and is best left to a mortgage professional.

They will be able to review your resources: the three "C's'' of homebuying: Cash, Cash Flow (Income), and Credit. Based on these they will be able to determine the right mortgage program for you as well as the amount of a mortgage that you can be approved for.

It is important for you to know how much you can qualify for and/or be comfortable borrowing to determine the price range that you should be looking in. This also will help you determine if your goals are in fact in line with reality.

In other words, you need to know how much of a mortgage you plan on getting given your desired monthly mortgage payment and compare that to homes available in that price range to see if you are comfortable with what you get for your money.

Most people are qualified for a much larger monthly mortgage payment than they are comfortable with. It really is important, especially for first time home buyers, that you stay conservative, buy your first home with a mortgage you can comfortably afford, rather than end up "house poor" as the saying goes.

Many different mortgage programs are available. There are government-backed programs such as FHA, VA (Veterans Administration), and RHCDS (Rural Housing and Community Development Service, formerly known as Farmers Home Administration), and perhaps specialty state government backed programs.

In all these programs, the government provides a guarantee to the bank as an inducement for banks to lend money with lower down payments.

Mistake # 2.....(Continued)

Other mortgage programs fall under the category of Conventional Loans. There are many variations of Conventional Loans, each with there own unique qualifying requirements.

Also included are special CRA mortgages. CRA stands for Community Reinvestment Act. Federally chartered banks and lending institutions must "reinvestment" a certain portion of their funds into low to moderate-income mortgages in their area of operation. These loans often have lower interest rates, lower down payments, down payment and closing cost grants, and more liberal qualifying requirements than other loans.

Meeting with a mortgage broker should give you the most options. A mortgage broker corresponds with dozens of banks, knows the local and state special mortgage programs and therefore not only has more options but also the ability to shop the mortgage to get the best rate and closing costs.

Determining the amount of a mortgage you can qualify for is generally figured by applying debt to income ratios. As a rule of thumb, conventional financing requires debt to income ratios of 28/36. FHA and other forms of financing have their own requirements.

The first ratio, 28% in our example, is the maximum percentage of your gross monthly income that the bank will allow you for your total monthly mortgage payment, including: Principal (the amount you pay back to the bank every month), Interest (the profit to the bank each month), Real Estate Taxes (the real estate property taxes due for your home in your local area), Homeowners Insurance (your fire and liability insurance on your home), and PMI (Private Mortgage Insurance - a monthly insurance fee required if the down payment is less than 20%).

The second ratio, 36%, is the maximum percentage of your gross monthly income that the bank will allow you for your total monthly mortgage payment PLUS your other monthly debt payments.

Mistake # 2.....(Continued)

Why get pre-approved?

To make you a better buyer in the eyes of the seller, thus giving you greater leverage in negotiating for the best price and terms as well as knowing that you can afford and obtain mortgage financing.

A true **mortgage pre-approval** is an ***actual mortgage commitment*** subject to the buyer getting a home under contract and it appraising for at least the purchase price.

A seller is taking their home off the market for typically 45 to 60 days, during which time the buyer applies for their mortgage financing commitment. They don't want to hear 45 days into the deal that you can't get a mortgage.

A **mortgage pre-qualification**, on the other hand, is ***merely a personal opinion*** by a mortgage professional as to ability of a buyer to get a mortgage.

A true pre-approval, however, is based on a more extensive credit report pulled from all three credit repositories with information verified, and a review of bank statements and other sources of funds, W2's, pay stubs, etc. as well as verification of all information including employment.

TIP: Ask the mortgage professional to provide a pre-qualification initially but then file an application for a true pre-approval, or true mortgage commitment, with a lender at some point fairly soon after. It gives you greater leverage when negotiating.

Make sure that you get a GFE, Good Faith Estimate, of closing costs when you apply for a mortgage. As of the end of 2009, there are strict regulations with regard to the preparation of a GFE and the difference, if any, between the estimate and actual costs at closing. They don't include all costs. You may also incur closing costs such as home inspections, personal attorney, title insurance, etc. in addition to the costs noted on a GFE.

There are some "fixed" costs that won't vary between banks. These would include items such as recording fees, transfer tax, mortgage tax, flood certification fee, and credit report fee. Then there are "variable" costs that will differ between banks. They refer to these by many different names such as: commitment fee, settlement fee, underwriting fee, document prep fee, bank attorney fee, etc.

Mistake # 2.....(Continued)

The federal government came up with a way to compare loans that takes into account these differences. It is called the APR, or Annual Percentage Rate. The APR will usually be higher than the "note rate". The "note rate" is the actual interest rate you are paying. The APR uses that rate but adjusts it to include the closing costs for that loan.

Although the actual APR calculation is a little more complex than this explanation, it should give you a basic idea of how it works. Basically the way the APR is calculated is they take the amount you are borrowing and subtract off your closing costs to arrive at the actual net amount you in theory are borrowing. They then take the monthly payment based on the note rate and term of the loan and recalculate the interest based on the new net adjusted balance they calculated. In essence they back into a new interest rate. That rate is the APR.

When meeting with a mortgage professional do ask them for an estimate of closing costs so you know which one has the better deal. This won't be an official GFE, unless you actually apply for a loan, but you do need some sort of idea of your cash need for closing, including bank fees, down payment and other closing costs.

Actual costs at closing should be very close to the estimates. A variance of $100 to $200 is OK, but $500 to $1000+ is not. As mentioned above a new law went into effect the end of 2009 which helps protect borrowers from huge differences between the official GFE estimate at application and the actual costs incurred at closing.

Part of the closing process involves a review of a preliminary closing statement. That is done to make sure that items don't appear on the closing statement that didn't appear on the estimate. It also allows you time to review the individual items with your mortgage source in the event there are discrepancies.

Many times the overages are in fact accidental and you have time in which to get these corrected before closing. Trying to get a bank to refund money after the fact or attempting to get things changed at closing will be a very frustrating process.

Mistake # 3.....

Not Having a Clear Idea of One's Needs and Wants.

Once a buyer has a clear understanding of financing options and the price range they can afford given their resources, the next item of business is to have a clear idea of their needs and wants. Too many buyers just go out looking at homes without a clear understanding of what they really are looking for.

We recommend that you sit down and list the specifics of what you need and what you think you want as well as features that would be considered pluses and those that would be considered minuses.

If more than one person is involved in the purchase we suggest that each of you do your own list and then come together to compare and combine them into one list.

Start with the basics:

How many bedrooms?

How many bathrooms?

How many car garage?

What style of home?

What general location?

What age of home?

Then go into more specific options that you would like, such as:

Swimming pool? Fenced yard? Fireplace? Finished basement? Air Conditioning? Hardwood Floors? Porch and/or Deck?

Mistake # 3.....(Continued)

Another idea is to list **"why"** a particular feature is important to you. For example, you may desire three bedrooms. Yet, one so-called bedroom is intended to be used as a den or office. So perhaps a two bedroom home with a separate den-office would meet your needs.

It is also important that you **separate "needs" from "wants"**. For example, you may want a two and a half car garage but really only need a one and a half car garage. The two and a half car garage would be a real plus, but if the home with a one and a half car garage meets your other needs it may end up being the home you most desire. After all, you might be able to expand the garage into a two and a half car garage within your budget.

A caution is in order. You need to keep your options as open as possible. If you restrict your search to the absolute ideal home you may not have many to choose from and you may become very frustrated and stressed out with the process.

Buyers need to stay flexible in order to have a sufficient number of homes to look at. Search only on the very minimum of features that you consider absolute musts. Stay flexible on the rest. The ideal home probably doesn't exist out there. Yet, there are many homes that will come close if you remain flexible.

Mistake # 4.....

Not Setting Realistic Goals.

It is very easy to get carried away with what you think you want. It is understandable. We are constantly shown pictures of fancy homes, new home communities, Home-a-ramas, etc.

However, it is most important to remain in touch with reality. Most people end up owning several homes over their lifetime. Sometimes a particular home is currently out of reach for buyers at a particular time.

It is important to understand that the home you purchase probably isn't the last home that you will ever own. It is better to buy wisely and within your means than to be "house poor" as the saying goes.

Once you are comfortable with financing options and have a good understanding of what you are willing to pay, and have a good idea in mind with respect to features and options that you would at least like as a minimum, your next step is to see if these are in line with one another.

Do this by checking out homes for sale. This can be done very easily on the Internet. Go to www.realtor.com for a comprehensive database of listed property.

Also check out www.trulia.com or www.zillow.com or for-sale-by-owner web sites in your area. "Google" - "for sale by owner", your city, your state. This should bring up some national but also local for sale by owner property web sites.

Do the homes in your price range appear to have the features and options that you want? If not, then you may need to reconsider your home buying decision. You may need to wait for another year to build up more money for a larger down payment or to pay off some more debt so that you can afford a larger monthly payment, or adjust your features list and consider a home "less ideal".

Save yourself a lot of time, effort, and heartache. Make sure that your needs are in line with your financial abilities. Be realistic, you will feel much better about your home buying adventure.

Mistake # 5.....

Not Becoming Familiar With the Market For Homes in the Area Being Considered

It is vital that you know the market. You must develop a gut feel for value.

How do you do that?

See lots of homes for sale. Don't buy the first home you see, although sometimes it ends up being the best of the bunch. The only way to be sure about the home you decide to purchase is to get out and see other homes similar to it. Also, only by seeing lots of homes will you know what to offer for the home you decide to buy.

Open houses are a great way to get a feel for what is available. If your price range is up to $350,000, still go through homes up to $375,000. Sometimes you might come across a home that compares to some you saw priced at $375,000 but they are asking only $345,000. It could very well mean that there is a very motivated seller who has priced their home to sell.

A word of caution: The agent (or seller) who is holding the open house has a goal in mind. They want to find a buyer who falls in love with the home. They may ask you personal questions designed to help them "sell" you this particular home.

DON'T give them personal information that could be used against you.

Don't let them know how interested you are in the home.

How much of a mortgage you qualify for.

The price range of homes you are considering

Where you work, or how much you make.

To do so is like playing poker with a mirror behind you such that others can clearly see your cards. Keep your cards close to your vest.

Mistake # 6.....

Not looking at or Considering "All" Homes Available That Meet Your Requirements

In most areas all agent listings are placed in an MLS, Multiple Listing System. These systems are usually operated by the local Realtor® association and all Realtor® members generally have access to all listings by computer.

Make sure that the agent you are working with shows you "everything" that is available within your specifications right from the very beginning including "for sale by owner" property and that they are willing to show you perhaps 10, 15, 20 or more homes that appear to best meet your needs.

A word of caution:

First, many traditional agents' primary objective is to "sell" their own or their company's listings.

Second, they may not want to show you more than 6 or 7 homes, at which time they expect you to buy one.

Third, they may steer you towards certain listings where they are offered a higher commission and away from those that may offer a lower than usual commission.

Fourth, they probably won't show you "for sale by owner" property. They probably are uncomfortable or aren't experienced working with for sale by owners when representing a buyer. In some areas for sale by owner properties aren't a high percentage of the market, yet you should be on the lookout for these as well. So, make sure that you consider enough homes and don't look just at 3 or 4 or so and pick one of these, unless of course you find the perfect home at the right price.

Mistake # 7.....

Not Working With the Right Agent

Home buyers can choose to work with agents who represent the seller, agents who represent the buyer, or agents who try to represent both the seller and the buyer (dual or designated agents) or agents who represent neither the seller or the buyer (transactional brokers or facilitators).

Agents who represent the seller, by law, must look out for the seller's best interest and work to get the **highest price and best terms for the seller**.

Agents who attempt to work for both (dual or designated agents) must remain neutral and **can't provide undivided loyalty or full disclosure to either party**.

Agents who represent neither the seller or the buyer (transactional brokers or facilitators) work for neither the buyer or the seller but merely work to bring the parties together and to facilitate the transaction. **They cannot offer advice to either party to help them get a better deal**.

<u>None of the above situations is in your best interest as a home buyer.</u>

Agents owe fiduciary duties, client level services to their clients. As a buyer you should seek out the services of an agent who will guarantee to give you these full duties no matter which property you are interested in.

These duties include: Confidentiality, Accountability, Reasonable Skill and Care, Undivided Loyalty, Obedience to Lawful Instruction, Advocacy and Disclosure of all known material facts pertaining to your purchase.

As noted above, an agent who represents the seller can not provide any of these duties to you, the buyer. An agent operating as a dual or designated agent can only provide limited fiduciary duties and can't provide you with undivided loyalty or full disclosure of all material facts.

A true buyer's agent, on the other hand, acts like a consultant and never tries to "sell" you a home. Who is the better advocate for your best deal? An agent who represents the seller? An agent who tries to represent both you and the seller? Or, an agent who will represent only you in a transaction?

Mistake # 7.....(Continued)

A word of caution: Nearly all traditional listing agents now call themselves buyer agents. In other words, you could work with a "so-called" buyer's agent who also takes listings, represents sellers, and is with a company that takes listings and represents sellers.

This isn't necessarily a problem unless you are interested in a so-called "in-house" listing. That is when the so-called buyer agent that you are working with, and to whom you have given confidential information, will want to switch to being a dual or designated agent and provide you with limited fiduciary duties.

As noted above, the agent should be indicating that they now will only be able to provide you with "limited" fiduciary duties and that they can't provide undivided loyalty, full disclosure or advocacy. They should be discussing the negative effect this will have on you. But, don't expect that to happen. It generally is business as usual as if the dual or designated agency doesn't exist.

Beware, Working with a seller's agent

or dual or designated agent

is not in your best interest.

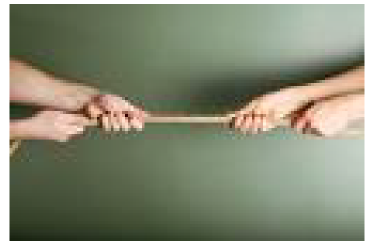
Working with an exclusive buyer's agent or a true single party agent is.

A true exclusive buyer's agent: *Never takes listings, Never represents sellers, Doesn't work for a company that does. Never operates as a dual or designated agent.*

A true single party agent: *Works for buyers and sellers, but never both in the same transaction. Never operates as a dual or designated agent.*

Always interview a true exclusive buyer's agent or a single party agent before deciding to start working with an agent. It costs you nothing extra to hear about what these agents do. MABA members are all exclusive buyer agents or single party agents.

Mistake # 8.....



Not Having a Negotiating Strategy in Mind Before Making an Offer

Price isn't everything. Buyers need to look at the larger picture and also prepare for writing an offer.

What price should you offer?

What other terms should you consider?

What closing date?

What contingencies?

Should you ask the seller to make certain repairs, ask for a repair credit, or offer a lower price and handle repairs yourself?

What did the seller pay for the property?

What improvements has the seller done since they have owned the property and what is the value of these?

What are other homes similar to this one selling for in the area?

What is this home really worth?

What defects or potential defects are there in the home?

What deferred maintenance is there?

How is the neighborhood? Crime? Noise? Smells? Ease of access?

Mistake # 8.....(Continued)

What about low-balling?

If the seller senses that you are in fact low-balling, they won't take your offer serious and in fact may not counter it at all. They also may be so put off by your actions that they won't even consider a reasonable offer from you later.

So how does one arrive at a starting point?

Rules of thumb such as starting at 10% off list price don't work really. Some homes are overpriced by 15 to 20%, while others are priced on the money or maybe below market value.

TIP: Set the maximum price that you would consider paying for the property. Than start at a price below that maximum price that is still supported by facts, such as property condition and selling prices of other homes, but that still allows for some negotiation room with the seller. However, be aware that sometimes when a home is priced right and there are other competing buyers, a full price or over full price offer may be necessary.

Also take into consideration the strength of yourself and your offer.

For example, being pre-approved for a mortgage, able to close quickly or able to delay closing and allow the seller to rent-back for a period of time.

Consider the seller's motivation to sell.

Is the home vacant or soon to be?

Have the sellers purchased another home or do they have another home under contract subject to selling the home you are interested in?

Has the property been on the market for an extended period of time including expired listings with the current agent or other previous agents?

Are the owners divorcing?

Has there been a death in the family that is forcing the sale?

Is the property in foreclosure?

Mistake # 8.....(Continued)

Other negotiating considerations include:

What is the likely counter offer from the seller?

What will your next counter offer be?

What can you give up in the negotiating
that isn't as important to you as it is to the seller?

Successful negotiating is a complex process.

You need to be very aware of the nuances of negotiating in order to get the best price and terms. That is one of the strengths of a true professional buyer agent. They negotiate on behalf of their buyer clients every day. They have developed the experience and special techniques to consistently help their buyer clients achieve success in the home buying process.

TIP: Before you sign a purchase and sale offer or contract, do your homework. Develop a strategy. Seek assistance. Don't be afraid to walk away if the seller refuses to meet your price and terms. A deal sometimes can still be consummated several months down the line at your price and terms, once the seller softens up a bit and no other offers come in. Be patient and you will be rewarded with a great deal on a home.

Mistake # 9.....

Failure to Include Contingencies for Property and Mechanical Systems Inspections and Skipping Your Home Inspection to Save Money

Before making an offer have someone who is knowledgeable with regard to building structural components and mechanical systems, go through the home with you prior to writing a purchase offer. Then you have additional information available to help in determining your negotiating strategy. Your Offer to Purchase should include a contingency for a professional inspection.

Such a person could be a relative, a contractor, or your real estate agent. The point is to get additional information in the form of personal opinions without it costing you money at that stage. Make sure that the person you are relying on is in fact knowledgeable with regard to property evaluation.

A word of caution: In regard to using the real estate agent's opinion, if the agent is a seller's agent or a dual or designated agent, then keep in mind that their job is to either look out for the seller (seller's agent) or remain neutral (dual or designated agent).

Only rely on the opinion of an agent if that agent is your true buyer's agent and only if that agent has the experience, knowledge, and background such that the agent's opinion will be of value to you.

Agents, by law, are only required to disclose "known" defects. Many listing agents don't investigate the condition of property they list because if they found problems they would have to tell prospective buyers.

Once your Offer to Purchase is signed, it is prudent to pay for a professional property inspection. Property inspectors are available in most areas. The best ones to use are those who issue reports, which meet or exceed the internationally accepted standards of the American Society of Home Inspectors (ASHI).

Mistake # 9.....(Continued)

Such an inspection is general in nature and depending on the home you are buying, **you also may want to consider additional inspections and tests such as: (click on the links for more information)**

Radon Testing   Lead Paint Testing   Mold Testing

Furnace Cleaning and Inspection   Chimney Cleaning and Inspection

Wood-Damaging Pests   Swimming Pool Inspection

Well Testing   Septic Inspection

TIP: It is important that any offer to purchase contract contain a contingency clause that states that the offer is subject to whatever testing you desire to do and that the results of said testing and inspections must be satisfactory to you or you may cancel the contract and receive your deposit back.

Know the property you are purchasing. Have the appropriate inspections and testing done as part of the deal. Further negotiating may be in order in the event that such testing and inspections indicate the need for a repair or replacement.

Making the offer contingent upon testing and inspections gives you the leverage to be able to re-negotiate with the seller, as you would then have the option to cancel the contract and receive your deposit back if they won't make a repair or give you a repair credit for legitimate problems. After this negotiation is completed, the Purchase and Sales Agreement can begin.

Many states have a **property disclosure** law that requires a seller to complete and sign a property condition disclosure that asks pertinent questions pertaining to the condition of the property. A copy of this form generally needs to be given to buyers "before" they write an offer. Massachusetts has no such law, but some sellers will provide this document.

Caution: This is not a substitute for property inspections. There may be problems with the home that the seller doesn't know about and doesn't put on the disclosure.

Play it safe, do home inspections.

Mistake # 10.....

Failure to Include Other Contingencies in the Offer to Purchase or Purchase and Sales Contract

An Offer to Purchase contract written from the buyer's perspective should have numerous contingencies in it to protect the buyer. The Purchase and Sales Agreement will have some contingencies carried over, as well as additional legal conditions. Depending on the buyer's circumstances **-**

The Offer to Purchase should be subject to:

Engineer/property inspection

Other structural and mechanical system inspections

The Purchase and Sales Contract should be subject to:

Obtaining financing and mortgage commitment

Bank appraisal equal to or greater than purchase price

Receipt and approval of a property condition disclosure completed and signed by seller, if applicable

Sale of a property owned by the buyer or pre-closing possession by the buyer, if applicable

Part of the negotiating process should include the buyer asking for certain contingencies and changes or additions to the so-called standard language. Contracts are between buyers and sellers. Each has the right to add or change language, as they deem appropriate. Many buyers (and agents as well) don't know what language to change or add or what contingencies to ask for. And relying on attorneys to include proper contingencies may not result in the best solution either. Attorneys know legal matters; they generally aren't real estate experts. They may not know what a property is worth, what the condition of the property is, or what contingencies are appropriate in a particular situation.

In my opinion, having a professional, knowledgeable true buyer's agent helping you may be the only way to make sure you are protected.

Mistake # 11.....

Failure to Continue to Monitor and Follow-up

The closing date indicated in a purchase and sale contract is a target date. Too many buyers, and sellers for that matter, assume that the closing will in fact take place on that date.

However, very rarely does that happen, unless someone continues to monitor and follow-up with the transaction.

This means that someone needs to make sure:

That the appraisal gets done on time. That the home appraises for at least the purchase price. That the appraiser and lender are requiring no repairs.

If there are repairs required to be made before closing, that an agreement is made between yourself and the seller as to who will do the repairs and who will pay for the repairs.

That the repairs actually get done and are re-inspected in a timely manner.

That a written mortgage commitment gets issued on time. Also, that any contingencies of the mortgage commitment are taken care of. A "clean" commitment has no contingencies that are not 100% sure can be cleared before or at closing.

That the seller's attorney has located the abstract of title, sent it out for re-dating, if that is applicable for your area, and ordered the survey, if that is applicable for your area. Check this with your buyer agent or your attorney.

That calls are made to setup the closing time and date.

That the closing attorney has checked with the lender to make sure the closing documents are expected on time.

Mistake # 11.....(Continued)

Your attorney then reviews the title documents and sends a letter to the seller's attorney with regard to any title defects they have found, so that title defects can be corrected.

Your attorney then orders title insurance and delivers the title package to your lender's attorney.

Then the attorneys determine an actual closing time.

Sound confusing and time consuming?

You bet. And nearly every step of the way has to be monitored in order to have a closing on or near the anticipated closing date in the contract. Lots of disappointments result because no one was monitoring the entire process.

Most buyers don't have a clue as to what is involved and therefore buyers should not be expected to bug everyone. Of course if no one else is, the buyer may have to or face not closing on time.

It isn't good enough to call an attorney or the lender and have them say it is under control and don't worry. Be sure you have one professional who is keeping track of the process. Your real estate agent should do this. Ask him or her what services are provided after your Purchase and Sales Agreement is signed.

The better real estate agents understand the process and monitor it closely. Make sure that your agent agrees to do this in advance. Otherwise you could be greatly disappointed.

Mistake # 12.....

Failure to Prepare For and Foresee Problems at Closing Time

There is much yet to be done once the closing date is actually set.

Usually the buyer needs to get their insurance binder, pay one full year's premium in advance, get a receipt for the payment, and have copies faxed to their attorney before a closing can be set.

The buyer needs to call the utility companies to transfer service into their name. This includes phone and cable, as well as gas, electric, refuse collection, water, propane or fuel oil deliveries.

Next comes the final walk-through inspection. This takes place shortly before closing and is a final opportunity for the buyer to see the home that they are buying.

The Purpose of the Final Walk-Through Inspection:

to make sure that the home is still in the condition that it was when you entered into the contract to buy it;

to check for water leaks; damage from movers; yard damage from storms; or other adverse changes;

to make sure any personal property such as appliances or window treatments, that are included in the sale, are in fact still there;

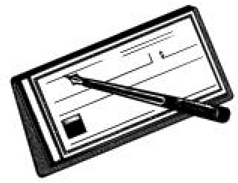
to check that any available instruction booklets for appliances and mechanical systems are there;

to make sure that remote garage door openers are there;

to check that a set of keys will be at closing for you; and

to make sure the utility meters get read and the meter reads called in.

Mistake # 12.....(Continued)



Review of the preliminary closing statement.

The buyer's attorney compares closing costs and adjustments with the seller's and lender's attorneys. Your attorney will then prepare a preliminary closing statement.

The amount should be close to the preliminary closing estimate (GFE-Good Faith Estimate) that the lender gave you. Someone needs to review the preliminary closing statement and compare it to the lender's estimate to determine the accuracy of the numbers. Provide your attorney with a copy of your GFE and have him or her compare the numbers. If there are major discrepancies, call your lender.

Preparation for the closing.

Know what items need to be brought to closing. You will need to bring: a cashier's check payable as per your attorney's instructions for the total amount you are told to bring; your driver's licenses so the lender can verify that you are you; the original insurance binder and paid receipt may or may not be needed, but bring it anyway; and perhaps your mortgage commitment and lender good faith estimate in case you need to refer to them.

The closing attorney has the final packet from the lender. The seller or his/her agent or attorney brings the new deed, proof of CO/Smoke detectors from the fire department, proof of paid taxes and water bill (if municipal water), proof of paid condo fee (if a condo), and keys to the home.

Finally along comes the actual closing.

If someone has diligently been monitoring the process, has you prepared for the closing, and has reviewed the preliminary closing statement, the actual closing should be a breeze.

However, that is a big if. Many times the above preparation isn't done in advance of closing. Things often get left to be settled at closing. And closings often times become battle grounds and take two hours.

Mistake # 12.....(Continued)

It really does help to have a professional, knowledgeable agent working only for you at the closing to make sure that all goes well. With preparation, the right agent, and right attorney, closings truly are enjoyable and can take less than an hour.

Real estate closings in many areas take place at the lender's attorney's offices. Sellers can sign papers in advance, some do. Others come to the closing. The buyer has to come in order to sign the mortgage documents. They typically will be accompanied by their attorney and their real estate agent.

Professional buyer's agents do attend closings, monitor the process leading up to the closing, and in general do what has to be done to ensure a smooth transaction. Seek out such agents and your home buying adventure will be an enjoyable one.

MABA, the Massachusetts Association of Buyer Agents, and its professional "conflict-free" members are here to help you (www.massbuyeragents.org). Thank you for your interest and the opportunity to be of service.