

# The Top 10 Traps to Avoid When Buying a Home!

If you're like most people, purchasing a home is the biggest investment you'll ever make. If you're considering buying a home, you're likely aware of the complexity of the endeavor. Some common home-buying principles and caveats are presented here for your consideration. By keeping them in mind, you'll help create a successful and more enjoyable experience. But this list is by no means exhaustive. Since your home could cost you 25 to 40 percent of your gross income, it's important to conduct research, ask questions and study the process carefully.

## THE TOP 10 TRAPS

1. Looking for a home *without* being pre-approved. As a potential buyer competing for a property, you'll have a better chance of getting your offer accepted by being as prepared as possible. As a potential buyer, being *pre-approved* will give you the best chance of getting your offer accepted. If you are serious about buying a home, get pre-approved before you start looking. This is critical in a competitive situation.

2. Making verbal agreements. If you're asked to sign a document containing instructions contrary to your verbal agreements—DON'T! For example, the seller verbally agrees to include the washing machine in the sale, but the written purchase contract excludes it. Remember, the written contract will almost always override the verbal contract. More importantly, your particular state may require that contracts for the sale of real property be in writing. Do not expect oral agreements to be enforceable.

3. Choosing a lender just because they have the lowest rate. While the rate is important, consider the total cost of your loan including the APR, loan fees, discount and origination points. When receiving a quote from a lender or broker, insist that the discount points (charged by the lender to reduce the interest rate) be distinguished from origination points (charged for services rendered in originating the loan).

4. Not receiving a Good Faith Estimate (GFE). Within three business days after the broker or lender receives your loan application, you must receive a written statement of fees associated with the transaction. This is both the law and the best way to determine what you'll pay for your loan. Bring the Good Faith Estimate (GFE) with you when you sign the loan documents. You should not be expected to pay fees which are substantially different from those contained in your GFE.

5. Not getting a rate lock in writing. When a mortgage company tells you they have locked your rate, get a written statement detailing the interest rate, the length of the rate lock, and program details.

6. Using a dual agent—i.e., an agent who represents the buyer and the seller in the same transaction. Buyers and sellers have opposing interests. Sellers want to receive the highest price while buyers want to pay the lowest price. In the standard real estate transaction, the seller pays the real estate commission. When an agent represents both buyer

and seller, the agent can tend to negotiate more vigorously on behalf of the seller. As a buyer, you're better off having an agent representing you exclusively. The only time you should consider a dual agent is when you get a price break. In that case, proceed cautiously and do your homework! (*See your local agent or lender for more information on this subject.*)

7. Buying a home without professional inspections. Unless you're buying a new home with warranties on most equipment, it's highly recommended that you get property, roof and termite inspections.

This way you'll know what you are buying. Inspection reports are also great negotiating tools when asking the seller to make needed repairs. When a professional inspector recommends that certain repairs be done, the seller is more likely to agree to do them. If the seller agrees to make repairs, have your inspector verify that they are done prior to the close of escrow. Do not assume that everything was done as promised.

8. Not shopping for home insurance until you are ready to close. Start shopping for insurance as soon as you have an accepted offer. Many

buyers wait until the last minute to get insurance and do not have time to shop around.

9. Signing documents without reading them. Whenever possible, review in advance the documents you'll be signing. (Even though some specifics of your transaction may not be known early in the transaction, the documents you'll sign are standard forms and are available for review.) It's unlikely that you'll have sufficient time to read all the documents during the closing appointment.

10. Not allowing for delays in the transaction. In a perfect world, all real estate transactions close on time. In the world we live in, transactions are often delayed a week or more. Suppose you asked your landlord to terminate your lease the day your purchase transaction was scheduled to close? A day or two before your scheduled closing date, you discover your transaction is delayed a week. In a perfect world, no one is inconvenienced and your landlord is willing to work with you. More likely, however, your landlord is inconvenienced and angry. Will you be thrown out? Will you have to find interim housing for a week or more? The eviction process takes a little time, so the Sheriff won't immediately remove you, but this type of stress-producing episode can be avoided. How? Terminate your lease one week after your real estate transaction is scheduled to close. That way, if there is a delay in closing your transaction, you will have some leeway. This approach might cost a little more, but then again, it might not.

In conclusion, purchasing a home is probably the largest purchase you will ever make. And each time you do it, it does get easier. But, by at least considering the above 10 points, your purchase should be less stressful and hopefully smoother for all those involved.

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# Use Equity to Your Advantage!

Once you have purchased a home and are making monthly payments, you are in the process of building equity. The opportunity to use the equity you have built up in your home is one of the benefits of homeownership. A "cash-out refinancing" can be a good idea for homeowners who want to draw on the equity built up in their house to get cash for a major purchase or perhaps for their children's education. However cash-out refinancing is more advantageous when the item that was purchased has a similar expected life as the loan. Making improvements to your property or purchasing a second home are examples. Since the interest on a mortgage is low, borrowing money against your home proves to be very sound. Besides the mortgage interest is usually tax deductible. *(Check with your local taxing authority!)*



Typically you are allowed to refinance up to 75%, (sometimes 80%), of the value of the property on conforming loans whereas on jumbo loans you are limited to 70% of the property's value. For example, if your home is now valued at \$120,000 and your loan balance is \$70,000, you might be able to get a new  $\$120,000 \times 75\% = 90,000$

mortgage. That would allow you to repay the existing \$70,000 balance and use the \$20,000 for your financial needs.

Another possibility to use the equity to your advantage is with Home Equity Loans (also known as "second mortgage" loans), which are usually available up to 85% of the appraised value of your home. Home Equity Loans often carry a higher interest rate determined by your creditworthiness and loan to value ratios on the property. Draw periods can range from 5 to 25 years (typically 5, 10, or 15 years). The qualifying process for a Home Equity Loan is very similar to that of a first mortgage.

Some lenders now offer Home Equity Lines of credit that allow you to obtain cash advances with a credit card or to write checks up to a certain credit limit. Home Equity Lines also use the equity in your home as collateral for the amount of credit you request.

*Check with your local lender today for more details about cash-out/equity programs.*

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