Real Estate

YOUR HOME | YOUR LIFE

Homebuying Mistakes


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It's easy to become enthralled with an available property, in a real-estate version of love at first sight.

Maybe you've always dreamed of a colonial, or can't wait to spend afternoons at the nearby beach. But some very real issues can lurk just below the surface of your so-called dream home, turning that impulse purchase into a nightmare scenario. Here are a few home-buying mistakes to avoid.

PAY ATTENTION TO THE COMMUTE

The best bargains are typically far away from downtown, where home buyers get more bang for their buck. Don't let the allure of more land and square footage obscure a difficult every-day issue associated with suburban or exurban living: the long commute. Make sure you're not spending more time and money (in the form of increased fuel costs, or public transit fare) than you want trying to get back to work, leisure and retail options. Map out personal routes, or study train or bus schedules. Also be aware of area traffic patterns, since you're probably not the only one who decided to maximize their buying power by leaving the city center.

TAKE A LOOK AROUND

Your purchase option might be priced wrong due to the community that surrounds it.

Perhaps the property is too expensive, because you're looking at the nicest house on an otherwise middle-of-the-road neighborhood. There's also the danger of never getting the equity you'd otherwise earn through things like upgrades or remodeling simply because your home is the smallest among much bigger nearby options.

Maybe the house is only available because of out-migration to another, more preferable area for potential homebuyers. Even every-day decisions like dining, retail and entertainment can be more costly in particularly affluent areas. Take all of that into consideration before you buy.

CHOOSING A MORTGAGE

Different mortgages favor different buying options. Adjustable rate loans are geared for more transient buyers who know they'll be moving soon. They may be right for you if this is just a starter home, or if you are working on a shorter-term employment contract. Just be aware that these loans are market driven, so your payments will fluctuate as the interest rate changes. For those looking to settle into a home, fixed-rate mortgages offer both predictability and stability for the long haul. Your payment stays the same as you build a lifetime of memories.

Fixing Your Credit


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Your credit score plays a determining role in how much you'll pay for a home over the lifetime of your mortgage.

A better score means lower interest rates, and that saved income stays in your bank account. That's why it may be smart to fix your credit before beginning your new home search. Here's a step-by-step guide.

CHECK YOUR REPORT

Begin by finding out how you're doing through the three main reporting agencies, Equifax, Experian and TransUnion. Each of them will issue one free report per year, after a written request. Some banks and credit-card companies will also offer more regular access to your scores. Pay close attention to your number, since these are the same credit bureaus that lenders will be contacting. You'll earn more attractive loan options with better scores, including an opportunity to make a lower down payment. You'll potentially get a more favorable interest rate, too.

RAISE YOUR SCORE

If you find that you can't secure the best loan because of a lower score, don't worry: There are options to raise it before you purchase a property. Consider opening a low-interest credit card account, which you can use to charge select essentials. It's important, however, that you pay off the card on time, every month, for your score will improve. If you let a balance carry forward — or worse, miss a payment — your numbers could be negatively impacted. Disciplined charging and regular payments can lead directly to better mortgage options. Just make sure the card is reporting your activity to the three main credit agencies.

PRE-QUALIFICATION

If you're worried about living within your means, avoid creating a mountain of debt — or halting the sale process entirely — by pre-qualifying for a loan. You'll understand in advance which home fits your specific budget. This document from your loan officer actually does more than outline the limit of your loan; it also helps you buy with confidence because you have a better sense of what your payment structure and interest rate will be. A pre-qualification letter aids in negotiations with a seller too, since they know you're in a healthy position to buy.

Buying a Foreclosure

From the outside looking in, a foreclosure sale might seem like the easiest route to take.

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After all, banks looking to get rid of a bad debt are more apt to make a deal, and the property is already empty so setting a move-in date should be no problem. But these purchases can be far more complicated, in particular for those who are unfamiliar with their unique challenges. Here's a look at how you can best take advantage of this tricky real-estate opportunity.

START SMALLER

It's tempting, of course, to purchase more expensive foreclosures, in particular if you're considering a remodel and quick resale. But these high-risk deals can leave buyers stranded with unwanted property if the resale market is sluggish for larger homes. Instead, considering opting for a smaller, cheaper home — and plan to stay put for a couple of years. That gives you time to spruce up the place, then get a safer return on your investment. In time, you can work up to larger properties in more desirable neighborhoods, and there's a lot less risk along the way.

BE REALISTIC

Whatever size foreclosure you make an offer on, be realistic about the process. The price is often much more affordable, but you may not find your dream home right away since the market is limited to those who have defaulted on their mortgage. At the same time, investors should know that quick-turnaround sales aren't a sure thing, in particular when the economy is in flux. Be prepared to pay costs to renovate the home, but also property taxes if you're there longer than expected — and perhaps continuing real-estate service charges, as well.

ASK THE EXPERTS

The safest foreclosure investment is using the home as your primary residence, which allows you to more deliberately build equity through remodeling and debt servicing. The properties can then be sold when the time is right, without the pressure associated with flipping a house. But even these more straight-forward deals require the expertise of a professional who's familiar with funding and processing a so-called REO (or real-estate owned) property for banks. Foreclosure sites are increasingly popular, but can be confusing and lack any personal attention to detail. Find a local agent who specializes in foreclosures to help you.

Dealing with HOAs

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Homeowners associations can provide important protections for residents, ensuring that the neighborhood retains an agreed-upon look and feel.

HOA dues help with general maintenance, provide certain amenities that otherwise might not be available, and shelter everyone from undue risk through the purchase of common insurance. It's important to evaluate these association rules before purchasing, however, because you want to make sure that they meet your own personal needs regarding rules and cost. Here's how to evaluate an HOA.

HOW MUCH DOES IT COST?

Being part of a homeowners association means following certain terms, rules and conditions. It also means paying monthly dues. The amount varies depending on a range of factors. Fees can be higher depending on the number of amenities, and their required upkeep. A tennis court, for instance, can be relatively easy to maintain. Pools, on the other hand, are labor intensive — and that costs money. Your dues are also determined by the size of the community. These costs go down per home when they're distributed among more residents. There are also bills associated with maintenance in common areas, including repairs and landscaping.

WHO DECIDES?

Pre-purchase questions about HOA business should be directed to members of the association's board of directors. These boards may be run by outside management companies for some neighborhoods, in particular new builds, but more often consist of a group of interested volunteer neighbors. They're responsible for distributing paid dues toward services provided for in the HOA charter, and adjusting the fee depending on cost-of-living increases or another unforeseen cost issue. Be sure to ask about any special assessments — one-time or non-annual fees — that may have been levied before you buy.

CHECK THE RESTRICTIONS

The HOA's terms and conditions will outline what is, and is not, allowed in your prospective neighborhood. In some cases, unfortunately, these rules may disqualify certain purchases: Some HOAs place restrictions on pets; others regulate ownership based on the age of residents. As a new buyer, you're bound by these rules so make sure they fit your particular lifestyle. Gated communities provide an extra layer of welcome security, but may also limit when and who may visit. Handy types should pay close attention, too: Many HOAs limit the style and scope of remodeling projects. Some don't allow any modifications at all.

Don't Skip the Inspection

So, you've finally found your forever home. Don't be afraid to have someone take a closer look at it before you buy, just to make sure there aren't huge unseen issues.

If you unwittingly buy a lemon of a house, forever might end sooner than you think. Here's how to get the peace of mind that comes with a thorough pre-purchase inspection.

WHAT TO ASK

Begin by asking your potential home inspector if he or she is certified and licensed. Some states don't require that, but this documentation works as an important safeguard for you. You'll know they've been professionally trained to do the work. Ask if they're bonded and insured; this protects both of you if there is a mistake or something missed in the inspection. More generally, you might also ask how long the inspection will take. If the answer is less than two hours, you can be assured that they aren't doing a thorough enough job. Finally, make sure they provide a full report — with pictures — after the inspection. You'll need it before pursuing any remedy.

WHAT THEY DO

A licensed home inspector will look at the home without benefit of your rose-colored glasses, searching for maintenance problems, unscrupulous contractor behavior, or other issues that can have huge financial implications for you as a new owner. They'll be aware of local codes, and provide up-to-date information on the condition of everything from the foundation to roof — including electrical, appliances and plumbing. They occasionally find issues that are so serious that they scuttle buyers contracts, though more often these reports are used to strike deals for repairs.

WHAT TO WATCH FOR

Pay special attention to notes from your inspector involving wiring or plumbing, as these jobs can have associated costs in the hundreds — or thousands — of dollars. New builds may also trigger questions about adherence to local codes, a red flag for any potential buyer. Often these issues can be avoided in advance by checking a contractor's references through feedback forums on sites such as Yelp, Google or Angie's List where discussions are held by former clients.

Secure a neutral inspector with no ties to the builder so you can be assured he evaluates everything impartially. Your real-estate agent can help, if you're moving to a new area and are unsure who to hire.

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Understanding PMI

First-time homebuyers might be surprised to learn that your monthly mortgage payment is more than the amount due on your home loan.

That's what's called the principal; the payment also includes interest, taxes and something else: private mortgage insurance, or PMI. Understanding how PMI works is an important part of any homebuying experience.

WHAT IS IT?

PMI is an additional fee that lenders attach to conventional loans as a safeguard. Established in 1998 by the Homeowner's Protect Act, private mortgage insurance is designed to encourage banks to lend to those with smaller down payments or fewer resources for mortgage payments, since it protects them from borrower default. Lenders have less risk, and buyers in turn have more choice in buying a new home.

DO YOU NEED PMI?

PMI is provided by individual outside companies, and arranged for by your chosen lender. It's typically required when you make a down payment of less than 20 percent of the total home purchase price. PMI is also usually needed if you refinance with a conventional loan, but have less than 20 percent of the value of your home in equity.

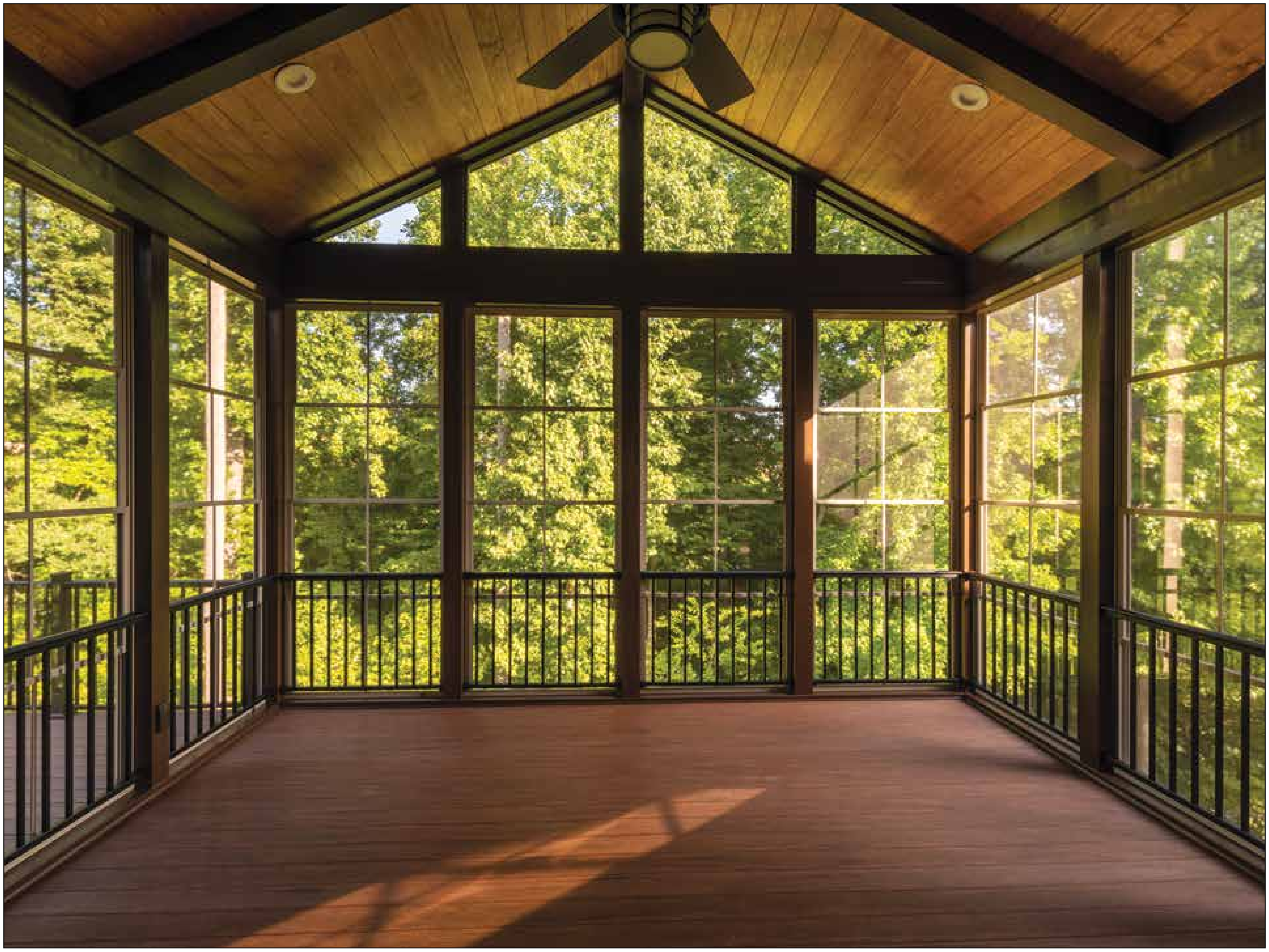
HOW DO I PAY?

Your PMI premium is most commonly paid as part of your regular monthly mortgage obligation. Details about it can be found under the closing disclosure heading in the projected payments section of your loan documents. Loan estimates distributed before you sign the mortgage will detail the amount. Some lenders offer different payment options, however, so ask if there are other choices available. For example, PMI can sometimes be paid as an up-front one-time premium at your closing. Just be aware that you may not receive a refund on this premium in certain instances if you refinance or move.

CAN I AVOID PMI?

Anyone who applies a down payment of more than 20 percent and agrees to carry a loan balance for the rest can choose to waive PMI coverage. Those with PMI can sometimes set a date of termination with their lender, after which the policy will be canceled — as long as mortgage payments have been consistently made. Recently, it's become more difficult to receive a PMI termination without some sort of refinancing, so review your agreement before signing. You may also no longer need PMI coverage if the value of your home has significantly increased.

Home Projects to Avoid



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Believe it or not, sometimes home improvement projects don't really add value.

Even if everything goes according to plan — a big "if," depending on your own remodeling skills, or that of your chosen contractor — some work is simply too expensive to ever pay for itself. Here's a look at which home-improvement projects you should probably avoid.

SWIMMING POOLS

Smaller, more targeted upgrades make the most sense of those who want to add value before selling. There's a particular focus on efficiency, as people look to save on monthly costs such as utility bills. Swimming pools don't work on any of those levels. Costs can begin in the tens of thousands of dollars, and even homeowners in warmer climates should only expect up to 50 percent return on your investment, according to equity experts. If you live where it's colder, buyers will go in knowing they'll get less use of an in-ground pool — and they might actually become more reluctant to buy because of associated maintenance and operating costs.

GARAGE ADDITIONS

Remodeling projects often have more to do with personal wants and needs rather than resale value. Garage additions are among of the best examples of how that can go wrong. Having more space for another car, lawn tools or exercise equipment can make this expansion seem attractive. As with pools, however, the cost is sometimes such that you'll never earn that money back through a future sale. Some estimates place returns on investment for these type of projects at around 60 percent. In the long run, sellers won't recoup enough of the construction costs for a garage addition to make equity-building sense.

SUNROOMS

Sun rooms are a great idea in terms of quality of life while you're in the home, and a potential buyer may love the idea of drinking their morning coffee or taking an afternoon snooze in this cozy, welcoming space. But that doesn't mean there a good financial argument for adding one. In fact, one expert estimated that remodelers recoup less than half of the money spent on constructing sunrooms. There's also the risk of sending your energy costs higher, since glass doesn't provide the same level of insulation on those days when it's very warm or quite cool. Prospective buyers may not want to have to foot those higher bills.