HOMEWISE Real Estate Tips and Advice

Read the Fine Print

By ANNA CHANG-YEN | Green Shoot Media

It's no secret that the pile of papers you must sign when you buy a home can be snore-inducing, but each document is important. Ignoring one document in particular can have disastrous — and potentially expensive — consequences.

The seller's disclosures help give the buyer a clearer picture of the condition of the home he is purchasing. Just as you would not ignore the sticker on the window of a new car that details the features and gas mileage, the disclosure statements in a real estate transaction deserve your attention.

WHAT'S IN A DISCLOSURE?

Disclosure requirements vary from state to state, but in general, a seller must tell a buyer about any problems with the home of which he is aware. This means that sellers don't have to hire an inspector to turn up problems they didn't already know about. It does mean, however, that if a seller knows the roof is leaky or the foundation is cracked, he must share that information with a potential buyer. Owners of homes built before 1978 also must disclose the presence of lead paint.

Some states require sellers to disclose more specific conditions, such as known neighborhood nuisances or recent deaths that occurred in the home.

WHAT'S AT STAKE?

Sellers typically disclose issues such as major home repairs or improvements made, whether they got a permit for the work or not. If work was done without a permit, buyers should check to make sure the home is up to code before closing the deal. Sub-standard construction could cause serious issues, such as fire or flooding, leading to major headaches and expense for the buyer down the road.

If you're concerned about anything you read in the disclosures, you might want to negotiate with the seller to either fix the issues or accept a lower purchase price. While you may choose to ignore smaller issues, larger defects could require expensive repairs in the future. It's important to make an unemotional decision about whether or not to buy a problem home as-is, no matter how much you have your heart set on closing the deal.

FAILURE TO DISCLOSE

If you buy a home and soon find that the previous owner failed to disclose conditions that cause damages or other loss, you may be able to take the case to court. Since sellers are required by law to disclose some issues, they can be held financially liable for not doing so.

It's also important to pass on the disclosures when you sell the home, especially when you choose not to address any problem the seller disclosed. A future owner could hold you responsible for failing to pass on important information about a home's condition that becomes problematic.

Ignore the seller's disclosures about a home at your own peril. These important notices from the sellers could help prevent expensive surprise repairs after you seal the deal.

REAL ESTATE 101

Stacks and Stacks of Papers

Freddie Mac provides the following definitions of important documents related to home purchases.

Uniform residential loan application: includes important sections that capture information about you, your finances and details of your potential mortgage. In combination with your credit report, helps the lender assess your ability to pay your mortgage.

Pre-approval letter: Once you have completed and signed the application, your loan officer will provide you with a pre-approval letter stating the potential amount of your loan. The letter is the lender's conditional commitment to lend you a specific amount of money for the purchase of your home.

Good faith estimate: provides you with an outline of the costs associated with your loan. Outlines how much you are required to have in reserve at closing, including your down payment and closing costs.

Truth-in-Lending disclosure statement: The Truth-in-Lending form will explain the total cost of your mortgage. This disclosure is required by law to provide information on the amount being financed, the finance charge, the payment schedule and your annual percentage rate.

HUD-1 Settlement Statement: Discloses the fees and services associated with closing your loan. Lists the time and date of the closing as well as the final costs of the mortgage transaction.

The note: a document that promises you will repay the loan according to the agreed-upon terms. Explains what can happen if you fail to pay on time.

Mortgage or deed of trust: a legal document in which the borrower transfers the title to a third party (trustee) to hold as security for the lender. When the loan is paid in full the trustee transfers the title back to the borrower. Since the lender is providing you with money to purchase the house, they will use the house as security to ensure repayment of the loan. By signing this document, you are giving the lender the right to take back the property should you fail to repay your loan as agreed.

Affidavits and declarations statements declaring all the information you provide is true, including that the property will be your primary residence and all repairs needed were made prior to closing.

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