

Top 10 Critical Mistakes Homebuyers Make and How to Avoid Them (Part One)

Real Estate article written by Don Glasgow on Aug 23, 2006 - 01:01 PM

This article describes the Top 10 critical mistakes that homebuyers make when buying a home. Violate any of these 10 mistakes and you can lose sleep, lose money, lose your home and even lose your freedom. Ignore this information at your own risk!

1. Using an out-of-town lender. Getting a mortgage in a timely and hassle-free manner is the "key that opens the door" to your new home. Lenders who don't live in the area you are buying in will not have the contacts needed to process your loan in an efficient and timely manner. Are you aware that if your lender fails to get you your loan on time, that your earnest money deposit may be at risk of being forfeited? Your best bet is to ask your real estate agent whom they have used before and who they trust. If it is important to you to use a lender from out-of-state (family member, friend etc.), your best bet is to have your lender refer your business to a local lender. This will help insure that your out-of-state lender receives a referral fee, they don't violate state mortgage laws, and most importantly you are able to close on the home you want to buy.

Mortgage story: The very first transaction I was involved in after I got my real estate license was a nightmare due to a negligent lender. I was representing a buyer from Las Vegas (I live in St. George, Utah) that insisted on using a Las Vegas lender. Unfortunately the lender would rarely return calls or answer his phone. He failed to close on time. We extended the closing date time and again, and time and again the out-of-state lender failed to have the loan ready. The buyers were frantic and the sellers were angry. Finally eight weeks after we were supposed to close my buyers finally dropped the lousy lender and went with a local lender that I recommended. To my buyer's amazement, by using the local lender, we closed the transaction 10 days later.

2. Not using a loan approval letter when making an offer on a property. You've found "The Home" and want to make an offer to buy it. Now anybody can make a full price offer and get it accepted. What if "The Home" is priced at \$275,000 but you offer \$250,000 and say that you will pay for the home by getting a new loan? The sellers, when presented with your \$250,000 offer, know nothing about you except that you seem to think their home is worth less than they feel its worth. At that point they will probably do one of two things. They might reject your offer outright. Or they might counter your offer at close to their asking price. As far as they're concerned they never considered your original offer to be a "real" offer. Do you think that they would have taken your \$250,000 offer more seriously if you had said you could pay cash? Of course they would have, after all money talks. What if you had already received full loan approval from a lender. Not just pre-qualified, or pre-approved (Being pre-approved is kinda like being pre-pregnant), but fully approved for a home loan with a letter from the underwriter to prove it. A letter that is as good as "cash in the bank". You've become a "Power Buyer"! You never know, maybe the seller would accept your offer, rather than letting a good buyer get away. Wow, if your offer was accepted, you just saved \$25,000 on the purchase of your home! And all you had to do was meet with the lender before you went house hunting.

3. Buying too much house for your income. I used to do "Broker Price Opinions, or BPO" for banks. This is where a bank would contact me to find out the value of a home that they had given a loan on. Often times this "BPO" was because the homeowner was losing or had lost their home because they could no longer afford the home. What a terribly sad event for that family. Things happen in life that you might never expect. Don't unknowingly "open the door" to future foreclosure and bankruptcy by getting a mortgage that you can "grow into". Life rarely works out the way you expect. One of the best moves I've ever made was purchasing my current home. When I bought this home I qualified for a home twice as expensive as the one I bought. Payments on my home rarely cause me stress or concern.

4. Thinking "short-term". Want to really scare me? Tell me you want to buy a home today and that you will want sell it in two, three or four years. Yikes! Talk about wanting to lose money. Real Estate home values generally rise very slowly in a slow or soft real estate market. In St. George, where I live, our average time between hot markets (when home values rise quickly, usually doubling) is ten years. If you bought \$250,000 home in a slow market, in three years it might be worth \$265,000. Your cost to sell with commission and other costs would be \$18,200. You would lose \$8,200 for your short term thinking. If you have to move within three years of buying a home, it would be better to use the home as a rental for a few years, and sell it when the market will allow you to make a profit. Better yet rent it out until the top of the next hot market, then sell it and potentially make \$250,000 profit.

5. Using 1031 exchange money to buy personal property. Do you really want to risk having the IRS charge you with fraud? Enough said.

This article is continued in Part 2...

About Me:

I have lived in beautiful St. George, Utah since 1998. I have been a real estate agent here (Washington County, Utah) since 1999. I have survived terrible housing markets and thrived in amazing markets (38% home appreciation in St. George in 2005). For more interesting articles, or to sign up for receiving my weekly St. George foreclosures email please visit my website: DonGlasgow.net . I also provide homebuyers with instant access to the Washington County MLS. I have gotten tons of compliments on my website, so make sure and check it out!

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