

**SPECIAL REPORT**

# ***15 Mistakes Home Buyers Make And How To Avoid Them***

***By Four Star Mortgage***

## Buying a home? Avoid These Common Buyer Mistakes!

For most of us, buying a home is the single biggest financial transaction we will make. It's exciting and fulfilling, but it can also be overwhelming, even downright frightening. The pitfalls are many but fortunately most are commonplace and we can tell you how to avoid them. Real estate agents, bankers, lawyers, accountants and other experts in the real-estate game each have their own lists of the worst mistakes a buyer can make. Here's a look at some of the common mistakes made by home buyers (especially first time buyers).

### Mistake #1: Confused Buyers - Don't start looking before you figure out what you are looking for!

There may be a big difference between the kind of home you *want* and the kind of home you *need*. To avoid wasting time, causing yourself and your real-estate agent frustration, and running the risk of regretting your choice later, realize that it's important to satisfy the needs first and the wants last. In the long run, the greatest view in the world is not likely to make up for not having enough bedrooms.

Here's an example of a checklist you could use to help clarify and identify your ideal home...

|                               | Property #1: Alma | Property #2: Buick | Property #3: Broadway |
|-------------------------------|-------------------|--------------------|-----------------------|
| #1 Address: 102 Alma St.      |                   |                    |                       |
| #2 Address: 2345 Buick Ave.   |                   |                    |                       |
| #3 Address: 1746 Broadway St. |                   |                    |                       |
|                               |                   |                    |                       |
| <b>Non-Negotiables</b>        |                   |                    |                       |
| Master Bedroom- 10.5x11 plus  | X                 | √                  | √                     |
| Outside open balcony or patio | X                 | √                  | √                     |
| Close to transit              | √                 | √                  | √                     |
| Big windows                   | √                 | √                  | √                     |
| 1 bed plus den                | √                 | √                  | √                     |
| Allows rentals                | √                 | X                  | √                     |
| ensuite laundry               | X                 | X                  | √                     |
| dishwasher                    | X                 | √                  | √                     |
| underground parking           | √                 | √                  | √                     |
| close to walking area         | √                 | √                  | √                     |
|                               |                   |                    |                       |
| <b>Negotiable Ideals</b>      |                   |                    |                       |
| High ceilings*                | √                 | √                  | √                     |
| fire place*                   | X                 | X                  | √                     |
| Radiant heated floors         | X                 | X                  | √                     |
| exercise room                 | X                 | √                  | √                     |
| new appliances*               | X                 | √                  | √                     |
| hardwood floors               | X                 | √                  | X                     |
| Ensuite Bathroom              | X                 | √                  | X                     |
| soaker tub*                   | √                 | √                  | √                     |
|                               |                   |                    |                       |
| Listing Price:                | \$269             | \$289              | \$295                 |
| Offering Price:               | \$247             | \$257              | \$279                 |



## **Mistake #2: Shortsighted Buyers - Don't forget to factor in your FUTURE NEEDS!**

What will you need in 5 years, or 10? Try to estimate your future needs as well as your immediate needs. Buying a home now that's big enough to accommodate a larger family, a home-based business or in-laws joining the family may be a better financial move than having to find a larger place in just a few years.

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## **Mistake #3: Unrealistic Buyers - Figure out how much you can afford to pay BEFORE you start looking.**

Determine what you can realistically afford to pay for a home, remembering that there is a myriad of costs that you probably haven't even considered. (See our Special Report on Closing Costs). Factor in mortgage insurance, appraisal fees, inspection fees, transfer taxes, lawyer fees, provincial and federal taxes. Get financial advice from as many sources as possible.

## **Mistake #4: Unapproved Buyers - Get pre-approved for a mortgage. Show me the money!**

Many sellers want to know that you can really afford the home before they will take your offer seriously. You can go through the application process for a mortgage and have financing in place before you even start looking.

Here are four important advantages you gain by getting pre-approved:

**1. A pre-approval letter is more reliable than a pre-qualification letter.** Getting a pre-qualification letter is easy. You just call a mortgage broker or lender, provide some basic financial information, then wait a few minutes for the letter to come through your fax machine. Getting a "pre-qual" from a Web site is just as easy. Enter some information, click "submit" and voilà. A pre-approval letter, on the other hand, involves verification of the information. Rather than taking your word on faith, the lender will ask for documentation to confirm your employment, the source of your down payment and other aspects of your financial circumstances. Granted, a pre-approval is more time-consuming (and possibly more stressful) than a pre-qualification the additional due diligence is exactly why the pre-approval carries more weight.

**2. You'll know how much money you can qualify to borrow.** Most home buyers have a rough idea of how much they would feel comfortable paying every month on their mortgage. However, there's no quick-and-dirty way to translate that monthly payment into a specific maximum mortgage amount because other factors -- down payment percentage, mortgage insurance, property taxes, adjustable interest rates and so on -- are part of the calculation. And, you might not be qualified to borrow as much as you think you should be able to borrow, depending on your income, your debts and your credit history.

**3. You'll have more leverage in negotiations with the seller.** Sellers often prefer to negotiate with pre-approved buyers because the sellers know such buyers are financially qualified to obtain the financing they need to close the transaction. A pre-approval letter is an especially favorable point in a close multiple offer situation. And, you might feel more confident

about making an offer with a pre-approval letter in hand and the knowledge that you'll be able to obtain a mortgage.

**4. Your real estate agent will work harder on your behalf.** A pre-approval letter signals to your real estate agent that you're a well-qualified buyer who is serious about purchasing a home. The increased likelihood of a closed sale -- and a commission -- will naturally motivate your agent to devote more time and energy to you. In fact, some agents won't even show property to buyers who don't have a pre-approval letter.

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**A few caveats: Pre-approval letters aren't binding on the lender, are subject to an appraisal of the home you want to purchase and are time-sensitive.** If your financial situation changes (e.g., you lose your job, lease a car or run up credit-card bills), interest rates rise or a specified expiration date passes, the lender will review your situation and recalculate your maximum mortgage amount accordingly.

**Mistake #5: Cash Poor Buyers – You may not be as cash poor as you think you are!**

Consider every possible source of cash — do you have insurance policies or retirement saving plans that can be used for buying a home? Look into the rules thoroughly even if you think you aren't eligible; your banker or your real estate agent may not be aware of all the loopholes either. While many retirement plans limit dipping in to first-time homebuyers, the definition of a first-time buyer may simply be someone who hasn't owned a home in the past five years.

**Mistake #6: Bank Bound Buyers – Don't take “NO” from the bank as your final answer!**

Shop around for the best mortgage. Most of us think “bank” when we think mortgage, but there are many other lenders and they all have various terms and repayment options, such as bi-monthly, even weekly payments, rather than monthly, or a floating interest rate rather than locked-in. There are alternatives to the traditional 30-year mortgage, check around.

**Mistake #7: Uninformed buyers – Be familiar with the real estate market so you don't PAY TOO MUCH!**

There's lots of information available on the local & national housing situation; check the Internet, attend seminars offered by real estate professionals or check out books and magazines. Ask your Buyer's Agent for a market survey of homes in your price range, including the asking and selling prices of comparable homes that have recently sold. This is how you make sure you're paying a fair price for your home.

**Mistake #8: Do-It-Yourself Buyers - Get your own real estate agent!**

Most of us think of a real estate agent as representing the seller, which they usually do. But having your own agent to help you buy a home can save you time and money. A good buyer's agent can help you find the right home quickly because they know the area and have access to listings, agent open houses and other information. Your buyer's agent can advise you on market conditions and appropriate prices, pre-inspect homes for you so you don't waste time on something completely unsuitable and recommend the other professionals you need from home inspectors to lawyers. The seller's agent has a legal responsibility to act in their best interest, not yours. You need a trained professional in your corner, and that's a Buyer's Agent.

It is essential to communicate exactly what your needs are to your Buyer's Agent, so you are both looking for the same home. Choose your agent with as much care as if you were selling a home and if he wants you to enter into a formal agreement, make sure it includes a cancellation clause in case you aren't satisfied with the service.

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### **Mistake # 9: Un-represented Buyers - Have your own lawyer!**

Your agent's job is to find you a home, not give you legal advice. Keep in mind that your agent is usually paid only **after** you purchase a home and their fee often comes out of the proceeds; think about it. Your lawyer's only job is to look out for your best interests. A written agreement to purchase a home binds you legally to its provisions. Before you sign anything, your lawyer can review the agreement and advise you of changes, clauses or contingencies that they feel are necessary. You are not obliged to use a lawyer recommended by either your agent or your lender.

### **Mistake # 10: Sloppy Buyers - Have the house professionally inspected.**

In your agreement with the sellers, one of the conditions should be a favorable report from a house inspector. To find a good inspector, ask for recommendations, then make sure the inspector is certified (the home-inspection industry is not licensed or regulated). Ask how many inspections they have performed and what kind of report is provided to you (you might confirm how long it will take to get the report). Also ask if you can be present during the inspection. If they say no, find someone else.

The inspector's job is to check the property and tell you what defects need to be repaired or replaced. Based on his report, you might want to walk away from the property or negotiate with the seller for repairs or an allowance for repairs. In most jurisdictions, sellers are required to make complete disclosure of defects in writing. Make sure you have this disclosure and so does your inspector.

### **Mistake # 11: Buyers Who Don't Do Their Homework - Check the zoning**

It's important that you check the surrounding area and find out about restrictions, conditions and covenants governing the subdivision. The best surprise is no surprise when it means a shopping mall or an airport planned for just behind the home you are considering. Similarly, you want to know if the subdivision has covenants barring you from making changes such as additions to your home or determining the color you can paint it.

If you are looking at condominiums or a strata-titled development, ask to see the bylaws put in place by the board of directors. You may find rules with which you will be uncomfortable living with, such as restrictions on visits by the grandchildren in some adult-oriented complexes. A Buyer's Agent would be a big help here!

### **Mistake # 12: The Emotional Buyer - Keep your emotions under control.**

Here are five emotional mistakes first-time home buyers often make:

1. **Love Hurts** - Falling in love with a home. As discussed at the top of this article, the buyer has to reconcile dreams with realities. It's often difficult to look at the pros and cons of a home

rationally if you let yourself become too emotional about a particular property. Beware of real estate agents trying to play on your emotions to encourage you to say yes. Never buy the first home you see without looking at some others.

**2. Keep Control** - Losing control of the situation is frustrating and can lead to imprudent decisions. Don't let yourself be swayed or sidetracked by an assertive agent or by undue advice from family or friends (they don't have to live there, you do!). Personality clashes with agents, mortgage broker or others with whom you are trying to work can also be upsetting.

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**3. Decisions, Decisions** - Not being able to make a decision. If you can't decide about anything from budgets to what kind of house you want then maybe you aren't ready to commit to home ownership. If you're simply worried that something better will come along after you've made your offer, remember that there's more than one home out there with your name on it. Take the time you need to make a sound decision, but don't be afraid to commit to a new home purchase.

**4. What are you getting into?** - Not realizing the responsibilities of home ownership. It's great to own your own home, but it takes time and commitment to maintain this large investment. Make sure you are prepared.

**5. Is it the right time?** - Buying before you are ready. If you are suffering cold feet over becoming a homeowner, sit down and take stock of the situation. Examine your motives for thinking you should take this giant step, looking at what it will mean to your lifestyle and budget. Talk it over with your financial counselor, your real estate agent and your mortgage professional. Remember that there are two million first-time buyers a year and most of them felt the same trepidation as you. Most of them are happily taking on their exciting new challenge.

### **Mistake #13: Location –Location – Location!**

Did we mention location? Location is the key. The value of your home is affected by those around you. The home may be perfect, but look carefully at the neighborhood too. No home is an island (usually) and the value is affected by the homes that surround it.

Factors determining the best location include:

- **Surrounding homes** - the condition of other homes, including buildings and grounds
- **Size Matters** - the relative size of your potential home compared to the others. A small home surrounded by large ones may have taxes disproportionately high because of the neighborhood.
- **Placement** - the outer edge of an area is less desirable than being in the middle, surrounded by similar homes, except if the property borders woods, a park or other open space such as a golf course.

- **Best Buy** - the least expensive home in the best area or in an area in transition is a best buy. You can buy low now to sell high later.

#### **Mistake #14: Screwing Up The Offer**

It's not over once you've found the house you want. Now you have to make an offer. Some common mistakes at this stage include:

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- **Low-balling** - New buyers often offer too little or want too many concessions from the seller. That can alienate the seller, with the result that he simply rejects the offer without even a counter.
- **Paying too much** - Avoid bidding wars at all costs. Sometimes the threat of another buyer is simply a ploy to scare you into upping your offer. Even if there is another buyer, don't play the game. Whoever eventually "wins" will be the loser because the price will be too high. In case there isn't another buyer, let the seller know you'll be interested if the "deal falls through."
- **Being afraid to negotiate** - Most of us hate to haggle, but negotiation is the key to the best deal. Know your bottom line and be prepared to walk away if you can't meet it. Knowing as much as possible about the seller's situation, including his time frame, is an enormous help (a Buyer's Agent can be very helpful here). Likewise, try to keep information about your own financial situation to yourself; the seller will be looking for information about you that they can use to their advantage during negotiations.
- **Being pressured into a quick deal** - Don't let the seller's side pressure you to a quick close. It could be a sign that something's not right. If the property has been on the market for a long time, there's probably no rush. Remember, there's always another place that's right for you.
- **Not asking the seller to pay for extras** – Don't be afraid to ask the seller to pay for the home inspection and a survey of the property (you need to know where the boundaries are and exactly what you are purchasing). Your agent can advise you on this.

#### **Mistake #15: Not Following through to THE END**

The deal has gone through and you are about to take possession. You must still be vigilant, for there are mistakes to be made even now:

- **Possession Date** - Make sure you and the seller both know when you are to have vacant possession - that is, when they and their stuff is to be gone. If you think it's 12:01 a.m. and the seller thinks it's noon, there can be big problems.
- **Insurance** - Make sure you have arranged for adequate home insurance and that it's timed to come into effect so there is no gap between the seller's insurance and yours.
- **Final Check** - Do a thorough walk-through before you close and before you take possession to ensure that all conditions are met. Are the light fixtures all in place? Are all the appliances you agreed to buy still there?

- **Boot Them Out** - Don't let the seller stay in the property after the time of possession (close of escrow). If they decide not to leave or something is damaged you could have little recourse except costly lawsuits.

**In Conclusion:**

Make sure buying a home is the right step for you at this time. If owning (i.e.: mortgage or loan payments) is cheaper than renting then that's a good indication it might be time to buy a home. Make sure a home purchase fits in with your lifestyle and financial needs, goals and obligations. Writing a rent cheque once a month and having someone else take care of the upkeep is easy. Are you ready to assume the added responsibilities of home ownership?

Consider buying a home in a more holistic context that includes your whole financial picture, instead of making the home-buying decision based on income alone. Buying a home is a BIG DEAL! You'll spend more on a home than on any other purchase you make (usually). You do your homework before you buy a major appliance or vehicle, don't you? For instance, I'll bet you carry a tattered copy of the "Lemonade Car Buyers Guide" when you go looking for a used car. And you dig out the Consumers Guide for some research before you bring home a new microwave oven or wide screen TV. Take that same determination to get the features you want at the best possible price and apply it to buying a home. Once you've done your homework make sure you surround yourself with professionals and then start looking for that dream home, at the dream price.

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