

TOP 10 MISTAKES TO AVOID MAKING

For most people, a home is the biggest investment they will ever make. However, few people do the research necessary to make a good buying decision. The home-purchase process is extremely confusing for most people. With a little bit of homework though, and some advice from family and friends who have been through the process before, you can make this a little easier on yourself. There is no substitute for taking the time to educate yourself before you buy a house, which typically costs you 25% to 40% of your gross income!

BUYING A HOUSE

Looking for a house without getting pre-approved

Do not confuse pre-approval with pre-qualification. During the pre-qualification process, a loan officer asks you a few questions and then hands you a pre-qualified letter. The pre-approval process is much more complete than this.

During pre-approval, the mortgage company does the same work as for full approval, except for the appraisal and title search. Once you are pre-approved, you become like a CASH BUYER and have more negotiating clout with the seller. In some cases (especially in multiple offer situations), being pre-approved can make the difference between buying a home and not buying a home. It is feasible for home buyers to save thousands of dollars as a result of being in a better negotiating situation due to being pre-approved.

Most good Realtors will not show you homes until you are pre-approved because they do not want to waste your time, their time, and the seller's time. Many mortgage companies will pre-approve you at little or no cost. They typically will need to check your credit and verify your income and assets. Refer to the Mortgage Checklist in the Library list of documents for assistance.

Making verbal agreements!

If an agent tries to make you sign a written document that is contrary to his/her verbal commitments, don't do it! For example: if the agent says that the washer will come with the house, but the contract says that it will not, the written contract will override the verbal contract. In fact, written contracts almost always override verbal contracts. Don't just say it. Put it on paper. Buying a house is a very complex process, but it's a lot easier when everything is in writing.

Choosing a lender just because she/he has the lowest rate

While rate is important, you have to look at the overall cost of your loan. This includes looking at the total cost of borrowing, the loan fees if applicable, as well as the appraisal cost, privileges, terms and conditions. Some lenders include appraisal fees in their commitments, while other lenders add them in addition to all of the other closing costs you will incur. So when one lender says plus appraisal be sure to find out who pays. If you are a qualified purchaser several institutional lenders may absorb the appraisal cost and/or assist you with your other closing costs via a cash back or similar incentive program. Other special conditions to watch for are your privileges. Obviously, if you intend on moving up or selling for some other reason in the short term you want to be sure that you can get out of your mortgage with little or no penalty.

Not getting a written total cost estimate

The cost of the mortgage, however, cannot be your only criteria. There is no substitute for searching our database to locate a professional mortgage broker or agent for interviewing. You must feel comfortable that the mortgage professional you are dealing with is committed to your best interests and will deliver what he/she promises. Often, the company that has the absolute lowest quoted rate may not be the best company for your mortgage business. Beware of low rate offer's which are available for an initial period and subsequently lock you into a longer term non-negotiable rate mortgage.

Realtor recommended lenders

Your Realtor is not a financial expert. He/she may not know what is the best loan for you. The Realtor only gets a commission when your house closes. As a result, the Realtor may refer you to a lender that is sure to close the loan, but not necessarily the lender that has favorable rates or fees. Also, many Realtors refer you to their friends in the loan business — who again may not be able to get the best loan for you. Even if the Realtor is very professional and looking out for your best interest, you should still do your own homework. We recommend using a

mortgage professional to shop for your loan. Ask your mortgage consultant how many companies he/she spoke with before you make a decision. There are countless stories of consumers who wind up paying higher rates or getting a loan program that was not right for them because they blindly followed their Realtor's advice.

Not getting a rate lock in writing

When a mortgage company tells you they have locked your rate, get a written statement which details the interest rate, the length of the rate lock, and details about the program.

Dual Agent (an agent who represents the buyer and the seller on the same transaction)

Buyers and sellers have opposing interests. In most normal situations, dual agents cannot be fair to both the buyer and seller, and they represent sellers more strongly than buyers. If you are a buyer, it is much better to have your own agent who will be on your side. The only time you might consider a dual agent is when you get a price break from using a dual agent. If that is the case, then tread carefully and do your homework!

Buying a house without a professional inspection

Don't just take the seller's word that they have or will make repairs. Unless you are buying a new house with warranties on most equipment, it is highly recommended that you get a property inspection, a roof inspection and a termite inspection. This way, you will know what you are buying. Inspection reports are great negotiating tools when it comes to asking the seller to make repairs. If a professional home inspector states that certain repairs need to be done, the seller is more likely to agree to do them.

If the seller agrees to do the repairs, have your inspector verify that they are done prior to closing and make the repairs a further condition of your transaction. Do not assume that everything has been done the way it was promised.

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, but then they have no time left to shop around. Ask your mortgage professional to provide you with some comparable quotes for your mortgage insurance plus a referral to a reputable general insurance agent for your home insurance.

Signing documents without reading them

Do not sign documents in a hurry. Whenever possible, try to get documents that you will be signing ahead of time so you can review them. It is advisable to ask for a copy of all loan papers you are signing a few days ahead of the closing and review them with your lawyer. This way you can review them and get your questions answered. Do not expect to read all the documents during the closing. There is rarely ever enough time to do that.

Making your moving plans too tight

You expect to move out of your prior residence on a Friday and into your new residence over the weekend. So you give notice to your landlord to end your lease on a Friday and arrange for movers to come to your house on Friday. Then, your loan closing gets delayed until the next Tuesday. **You now may be homeless!** New tenants could be moving into your apartment, and the movers are going to charge you for wasting their time. You could be forced to live in a motel for a couple of days!

A Better Plan:

if you are renting allow for a 5-7 day overlap between closing and moving. In the long run, it is not nearly as expensive and it will sure give you peace of mind.

REFINANCING YOUR HOUSE

Refinancing and shopping around

Your current lender may not have the best rates and programs. There is a general misconception that it is easier to work with your current mortgage company. In most cases, your current mortgage company will require the same documentation as other companies. So even if you have been very good at making payments to your existing lender, they will still have to do their verifications all over again.

Not doing a break-even analysis

Find out what the total cost of the refinance is then figure out how much you will save every month. Divide the total

cost by the monthly savings to get the number of months you will have to stay in the property to break-even on your refinancing costs.

Example: if your refinance costs \$2000 and you save \$50/month your break-even is $2000/50=40$ months. You should refinance if you plan to stay in the house for at least 40 months.

Note: the break-even analysis only works if you are refinancing to save money. If you are refinancing to switch from an adjustable to a fixed or from a 25year amortized loan to a 6 month convertible loan, it is much more difficult to perform a break-even analysis.

Not getting a written good-faith estimate of closing costs

Your mortgage company is required to provide you with a mortgage statement estimating the closing costs 3 working days prior to you signing the lenders commitment (Ontario – other provinces have similar policies).

Paying for an appraisal when you think appraise too low

Have the appraisal company do a desk-review appraisal (typically at no charge) to provide you with a range of possible values. Your mortgage professional's company can ask their appraiser to do this for you. Do not waste your money on a full appraisal if you are doubtful about the value of your house.

Tax assessment as an indicator of market value

Mortgage companies do not use the tax assessor's value to determine whether they will make the loan. Instead, they use a market-value appraisal which may be very different from the assessed value.

Signing your loan documents without reviewing them

Do not sign documents in a hurry. Whenever possible, try to get documents that you will be signing ahead of time so you can review them. It is advisable to ask for a copy of all loan papers you will be signing a few days ahead of the closing to review with your lawyer. This way, you can review them and get your questions answered. Do not expect to read all the documents during the closing. There is rarely ever enough time to do that.

Not providing documents to your mortgage company

When your mortgage company asks you for additional paperwork, jump on it! Do not complain. They are trying to get you approved, not trying to hassle you unnecessarily! Jump through the hoops as quickly as possible. Borrowers who do not respond to requests for documentation quickly enough can end up paying higher rates if their rate lock or commitment expires .

Not getting a rate lock in writing

When a mortgage company tells you they have locked your rate, get a written statement which details the interest rate, the length of the rate lock and details about the program.

Pulling cash out before you refinance your first mortgage

Many lenders have "cash-out" seasoning requirements. This means that if you pull cash out of your credit line for anything other than home improvements, they will consider the refinance to be a cash-out refinance. This leads to much stricter requirements and can, in some cases, break the deal!

Getting a second mortgage before your first mortgage

Many mortgage companies look at the combined loan amounts (i.e. the first loan plus the second) even when they are refinancing the first mortgage. If you plan on refinancing your first, check with your mortgage company to see if having a second will cause your refinance to get turned down.

GETTING A HOME-EQUITY LOAN

Check to see if your loan has a pre-payment penalty clause

If you are getting a home-equity loan, chances are that it has a hefty pre-payment penalty clause. This can be very important if you are planning to sell your house or refinance in the next 3-5 years. It may pay to bonus the lender with a fee paid today for the privilege of getting a fully open loan.

Getting too large a credit line

When you get too large a credit line, you can get turned down for other loans, because some lenders calculate

your payments based on the available credit and not just the used credit. Having a large equity line indicates a large potential payment, which makes it difficult to qualify for loans. Note: this argument holds even if your equity line has a zero balance.

Understand the difference between an equity loan / line

An equity loan is closed — i.e. you get all your money up front and then make fixed payments on that loan, until you pay it off. An equity line is open — i.e. you can get an initial advance against the line and then reuse the line as often as you want during the period that the line is open. Most equity lines are accessed through a checkbook or a credit card. On equity lines, you only pay interest on the outstanding balance.

Use an equity loan when you need all the money up front

e.g. home improvement, debt consolidation.

Use an equity line if you have an ongoing need for money or need the money for a future event

e.g. you need to pay for your child's college tuition in three years.

Not considering the cost of higher rates on your equity line

Be prepared to pay payments at higher interest levels if rates move upwards.

Not getting a written disclosure of closing costs.

Your mortgage professional is required to provide you with a mortgage statement estimating the closing costs 3 working days prior to you signing the lenders commitment (Ontario – other provinces have similar policies).

Home equity loan is always cheaper than a car or credit loan

A credit card at 6.9% is cheaper than a credit line at 12% plus closing costs. There are a lot of credit card companies with tremendous low rate promotional deals. If you need money short term then this may be an inexpensive alternative to a home equity loan. Besides the interest rate, you may also want to compare monthly payments and other terms of the loan.

Getting a home-equity line of credit

Many mortgage companies look at the combined loan amounts (i.e. the first loan plus the second) even when they are refinancing the first mortgage. If you plan on refinancing your first mortgage, check with your mortgage company if getting a second will cause your refinance to get turned down.

Getting a home equity line to pay off your credit cards

When you pay off your credit cards with your equity line, don't put your house on the line by going out and charging up those credit cards again! If you can't manage the plastic, tear it up!