# Top Ten Mistakes

Buying your home | Refinancing your home | Getting a home equity credit line

If you're like most people, buying a home is the biggest investment you'll ever make. Annual mortgage, taxes and insurance costs can range from 25% to 40% of your gross annual income.

Read, talk to family, friends and real estate professionals. You'll be glad you took the time to understand the process.

## Buying a home

1. **Looking for a home without being pre-approved.**
   Pre-approval and pre-qualification are two different things. During the pre-qualification process, a loan officer asks you a few questions, then hands you a "pre-qual" letter. The pre-approval process is much more thorough.
   During the pre-approval process, the mortgage company does virtually all the work associated with obtaining full-approval. Since there is no property yet identified to purchase, however, an appraisal and title search aren't conducted.
   Most good Realtors® will not show you homes until you are pre-qualified. They don't want to waste your, their, or the seller's time.

2. **Making verbal (oral) agreements!**
   If an agent tries to make you sign a written document that is contrary to their verbal commitments, don't do it! For example, if the agent says the washer will come with the home, but the contract says it will not--the written contract will override the verbal contract. In fact, written contracts almost always override verbal contracts. When buying or selling real estate, abide by this maxim: Get it in writing!

3. **Choosing a lender because they have the lowest rate. Not getting a written good-faith estimate.**
   While rate is important, you have to consider the overall cost of your loan. Pay close attention to the APR, loan fees, discount and origination points. Some lenders include discount and origination points in their quoted points. Other lenders may only quote discount points, when in fact there is an additional origination point (or fraction of a point).
   This difference in the way points are sometime quoted is important to you. One lender will quote all points, while another lender may disclose an extra point, or fraction thereof, at a later time--an unwelcome surprise.
   Within 3 working days after receipt of your completed loan application, your mortgage company is required to provide you with a written good-faith estimate (GFE) of closing costs. You may want to consider requesting a GFE from a few lenders before submitting your application. With a few GFEs to compare, you can get a feel for which lenders are more thorough, and you can educate yourself regarding the costs associated with your transaction. The GFE with the highest costs may not indicate that a particular lender is more expensive than another--in fact, they may be more diligent in itemizing all fees.
   You must also feel comfortable that the loan officer you are dealing with is committed to your best interests and will deliver what they promise.

4. **Choosing a lender because they are recommended by your Realtor®.**
   Your Realtor is not a financial expert. He or she may not know which loan is best for you. Your Realtor® gets a commission only when your transaction closes. As a result, the Realtor® may refer you to a lender who will close your loan, but who may not have the best rates or fees.

Also, many Realtors® refer you to one of their friends in the loan business--who also may not have the best rates or fees. Although most Realtors® are professional and concerned about your best interests, you should do your own homework.

We recommend shopping for a loan with at least three mortgage companies before you make a decision. There are countless stories of consumers who ended up paying higher rates, or got a loan that wasn't right for them, because they blindly followed their Realtor's® advice.

5. **Not getting a rate lock in writing.**

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

6. **Using a dual agent (an agent who represents the buyer and seller in the same transaction).**

   Buyers and sellers have opposing interests. Sellers want to receive the highest price, buyers want to pay the lowest price. In most situations, dual agents cannot be fair to both buyer and seller. Since the seller usually pays the commission, the dual agent may negotiate harder for the seller than for the buyer. If you are a buyer, it is usually better to have your own agent represent you.

   The only time you should consider using a dual agent, is when you can get a price break (usually resulting from the dual agent lowering their commission). In that case, proceed cautiously and do your homework!

7. **Buying a home without professional inspections. Taking the seller's word that repairs have been made.**

   Unless you're buying a new home with warranties on most equipment, it is highly recommended that you get property, roof and termite inspections. These reports will give you a better picture of what you're 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 made, the seller is more likely to agree to making them.

   If the seller agrees to make repairs, have your inspector verify the completed work prior to close of escrow. Do not assume that everything will be done as promised.

8. **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 and find they have no time left to shop around.

9. **Signing documents without reading them.**

   Do not sign documents in a hurry. As soon as possible, review the documents you'll be signing at close of escrow--including a copy of all loan documents. This way, you can review them and get your questions answered in a timely manner. Do not expect to read all the documents during the closing. There is rarely enough time to do that.

10. **Making moving plans that don't work.**

    You expect to move out of your current residence on Friday and into your new residence over the weekend. Also on Friday, your lease terminates and the movers are scheduled to appear.

    Friday morning arrives: bags packed, boxes stacked, children under arm and the dog on a leash; you're sitting on your front door stoop awaiting the arrival of the movers.

    Your phone rings. Your loan closing is delayed until the following Tuesday. The new tenants turn into your driveway with a weighted-down U-Haul and the movers pull up across the street.

    You ask yourself, "Where's the nearest Motel 6 and storage facility? How much will the movers charge for an extra trip? Can we afford it?"

    How can you avoid such a disaster? Cancel your lease and ask the movers to show up five to seven days after you anticipate closing your transaction. Consider the extra expense an insurance

policy. You're buying peace of mind--and protecting yourself from expensive delays.

## Refinancing your home

1. **Refinancing with your current lender without shopping around.**
   Your current lender may not have the best rates and programs.
   Believing it's easier to work with your current lender is a common misconception. In most cases, they'll require the same documentation as other lenders and mortgage brokers. This is because most loans are sold on the secondary market and have to be approved independently. Even if you've been good at making payments to your existing lender, they'll still have to process the verifications all over again.

2. **Not doing a break-even analysis.**
   Determine the total transaction costs and how much you'll save each month by lowering your monthly mortgage payment. Divide the transaction costs by the monthly savings to determine the number of months you'll have to stay in the property to recoup your refinancing costs.
   For example, if the costs of refinancing total $2000, and you save $50 per month, you break-even in 2000/50 = 40 months. In this case, you should only refinance if you plan to stay in the home for at least 40 months.

   **Note:** The above example is suited to comparing two similar loans when the intent is to lower your monthly payment and recoup transaction costs relatively quickly. Other refinancing transactions require different kinds of analyses which are beyond the scope of this document. Other types of refinancing transactions include exchanging a fixed rate for an ARM, or a 30 year mortgage for a 15 year mortgage.

3. **Not getting a written good-faith estimate of closing costs.**
   Within 3 working days after receipt of your completed loan application, your mortgage company is required to provide you with a written good-faith estimate of closing costs.

4. **Paying for a home appraisal when you think the appraised value may be too low.**
   Have the appraisal company conduct a Desktop/drive-by appraisal and provide you with a range of possible values. Your mortgage company can ask an appraiser to do this for you.
   Do not waste your money on a complete appraisal if you believe the home is unreasonably priced.

5. **Using the county tax assessor's value as the market value of your home.**
   Mortgage companies do not use the county tax assessor's value to help determine if they'll originate your loan. They, like real estate agents, usually use the sales comparison approach (formerly known as the market data comparison approach).

6. **Signing documents without reading them.**
   Do not sign documents in a hurry. As soon as possible, review the documents you'll be signing at close of escrow--including a copy of all loan documents. This way, you can review them and get your questions answered in a timely manner. Do not expect to read all the documents during the closing. There is rarely enough time to do that.

7. **Not providing your mortgage company with documents in a timely manner.**
   When your mortgage company asks you for additional paperwork--get cracking! They're trying to get you approved! If you don't quickly respond to your broker's requests, you could end up paying higher rates should your rate lock expire.

8. **Not getting a rate lock in writing.**
   When a mortgage company tells you they've locked your rate, get a written statement detailing the interest rate, the length of the rate lock, and other particulars about the program.

9. **Drawing against your home equity credit line before you refinance your first mortgage.**
   Many lenders have "cash-out" seasoning requirements. If you draw against your credit line for anything other than home improvements, they'll consider your first mortgage refinance transaction a "cash-out" refinance. This creates stricter lending requirements and can, in some cases, break your deal!

10. **Getting a second mortgage before you refinance your first mortgage.**
    Many mortgage companies look at the combined loan amounts (i.e., the sum of the first and second loans) when you are refinancing only your first loan. If you plan on refinancing your first loan, check with your mortgage company to see if having a second loan will cause your refinance to be turned down.

## Getting a home equity credit line.

1. **Not checking to see if your credit line has a pre-payment penalty clause.**
   If you are getting a "NO FEE" credit line, chances are it has a pre-payment penalty clause. This can be very important (and expensive) if you are planning to sell or refinance your home in the next three to five years.

2. **Getting too large a credit line.**
   When you get too large a credit line, you can be turned down for other loans. Some lenders calculate your credit line payments based upon the available credit, even when your credit line has a zero balance. Having a large credit line indicates a large potential payment, which makes it difficult to qualify for loans.

3. **Not understanding the difference between an equity loan and a credit line.**
   An equity loan is closed--i.e., you get all your money up front, then make payments on that fixed loan amount until the loan is paid. An equity credit line is open--i.e., you can get an initial advance against the line, then reuse the line as often as you want during the period the line is open. Most credit lines are accessed through a checkbook or a credit card. Credit line payments are based upon the outstanding balance.
   Use an equity loan when you need all the money up front--e.g. home improvements or debt consolidation.
   Use a credit 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.

4. **Not checking the lifecap on your equity line.**
   Many credit lines have lifecaps of 18%. Be prepared to make high interest payments if rates move upwards.

5. **Getting a credit line from your local bank without shopping around.**
   Many consumers get their credit line from the bank with which they have their checking account. Shop around before deciding to use your bank.

6. **Not getting a good-faith estimate of closing costs.**
   Within three working days after receipt of your completed loan application, your mortgage company is required to provide you with a written good-faith estimate of closing costs.

7. **Assuming that the interest on your home credit line/loan is tax deductible.**
   In some instances, the interest on your home credit line is NOT tax deductible.
   It is beyond the scope of this document to provide tax advice or quote from the IRS code.
   Contact an accountant or CPA to determine your particular situation.

8. **Assuming a home equity line is always cheaper than a car loan or a credit card.**
   A credit card at 6.9% can be cheaper than a credit line at 12%, even after the tax deduction. To compare rates, compare the effective rate of your credit line with the rate on a credit card or auto loan.
   Effective rate = rate * (1 - tax bracket)
   Example: If the rate of the home equity credit line is 12% and your tax bracket is 30%, your effective rate is12% * (1 - 0.3) = 12% * 0.7 = 8.4%
   If your credit card is higher than 8.4%, the credit line is cheaper.
   Besides the interest rate, you may also want to compare monthly payments and other terms of the loan.

9. **Getting a home equity credit line if you plan to refinance your first mortgage in the near future.**
   Many mortgage companies look at the combined loan amounts (i.e., the first loan plus the equity line/loan) even though they are refinancing only the first mortgage. If you plan on refinancing your first loan, check with your mortgage company to determine if getting a second line/loan will cause your refinance to be turned down.

10. **Getting a home equity credit line to pay off your credit cards if your spending is out of control!**
    When you pay off your credit cards with your credit line, don't put your home on the line by charging large amounts on your credit cards again! If you can't manage the plastic, get rid of it!