HOW TO AVOID THE 10 WORST HOME BUYER MISTAKES

A special report from Real Estate Expert Bob Bruss

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One of the many "fringe benefits" of having written the "Real Estate Mailbag" syndicated newspaper column for over 30 years is reading the approximately 500 reader questions each week which I receive. Today, the majority of real estate questions arrive at www.bobbruss.com (just click on "Ask Bob a Real Estate Question" there), but a large number of questions still arrive by U.S. Mail.

I try to answer as many e-mail real estate questions as possible. But the long, complicated real estate questions usually have no simple answers! If a reader can't put their question into a paragraph or two, there is no way it's going to get into my newspaper column. After all, that's the purpose of inviting both snail mail and e-mail questions – I always need fresh material for the column!

The big benefit for me of reading the reader questions is I get a flavor of what is on the minds of real estate readers. Yes, I do read all the letters, although I can't always personally answer them, except in the newspaper column if the question is of wide general interest.

By far, the #1 general topic of my reader mail involves home purchases! Surprisingly, I discovered many of these questions can be grouped under the general topic of "home buyer mistakes to avoid."

Of course, many readers have home sales questions. But buying a home usually proves to be far more difficult than selling a home. This is confirmed by statistics from my friend Ray Brown, co-author of Home Buying for Dummies (which he reports has now sold over 500,000 copies!). Ray reports that book for home buyers far outsells his House Selling for Dummies by more than 2 to 1. I would be remiss if I didn't mention Eric Tyson, Ray's well-known co-author and syndicated newspaper financial columnist.

Years ago, way back in the last century, I wrote about mistakes to avoid when purchasing a home. But the home buying world has changed radically since then. Today, the Internet plays a major role in the home buyer's quest to find the perfect home. Many Internet websites are eager to help buyers find a local real estate buyer's agent and to put the buyer in touch with mortgage lenders, as well as other essential parties to a home purchase, such as professional home inspectors, title insurers, and others.

Every week, as I read through our local newspaper lists of recent home sale addresses and sales prices, I marvel that all these home buyers and sellers successfully completed their transactions despite the potential formidable obstacles along the way.

This report will show how to overcome the most frequently-encountered problems and avoid the biggest mistakes some (not YOU, of course!) home buyers and real estate investors make. Incidentally, the term "home" used in this report includes single-family detached houses, town homes, condominiums, and co-op apartments.

HOME BUYER'S MISTAKE #1 –
SHOP FOR A HOME BEFORE YOU SHOP FOR A MORTGAGE.

According to a recent survey by the National Association of Realtors, over 70% of today's home buyers start searching for homes on the Internet, usually at www.realtor.com. This website is a great resource for home "browsing." Although the many Internet websites for home buyers are improving, please be aware a major weakness is inaccurate information. The websites don't always show all home listings within a local area. Some agents and sellers don't want their listings posted on the Internet, or they want them only on some websites, but not others.

Listing agents often fail to promptly post "sold" and "pending" notices for their Internet listings. If you see the word "pending" next to an Internet listing, that means the seller has accepted a purchase offer, but the home sale has not yet closed. However, many home sellers and their listing agents want to continue to show a "pending" listing because they want a "back-up offer" in case the first buyer is unable to complete their purchase, such as due to inability to get a mortgage.

Unfortunately, many listing agents fail to post "pending" notices because they know that discourages potential back-up buyers (and their buyer's agents) from even looking at the house if the seller has already accepted a purchase offer.

While it's all right to "shop" for homes on the Internet to see what is available in the local community where you think you want to buy a home, before you start seriously inspecting homes and wasting both your valuable time and the time of the real estate agents, smart home buyers first get pre-approved in writing by an actual mortgage lender.

Only after you have a written pre-approval letter or certificate from the actual lender – NOT from a mortgage broker who is just a middleman between you and the lender but is not actually loaning his money – will you know the maximum mortgage amount a lender is willing to loan for your home purchase.

However, a mortgage broker can arrange your pre-approval letter or certificate from the actual lender. Incidentally, a mortgage pre-approval usually includes reasonable contingencies such as (1) satisfactory lender appraisal of the home you buy and (2) re-verification of your loan application (just to be sure you still have your job and you didn't foolishly go out and buy a new car to mess up your credit report).

Watch out for some misleading mortgage lenders (especially mortgage brokers), and even real estate agents, who will take your loan application and then say you are "pre-qualified" for a mortgage! Mortgage pre-qualification means absolutely nothing! The reason is an actual lender hasn't yet checked your credit and FICO (Fair, Isaac and Co.) score, verified income, and checked employment or income source, as would an actual lender who issues a binding pre-approval.

If you have trouble verifying income and/or employment, perhaps because you are an independent contractor, commissioned salesperson, or your income fluctuates wildly from year to year, ask your mortgage lender about a stated income "no doc" or "low doc" (that means no documentation or low documentation) mortgage pre-approval.

Some lenders will issue this type of mortgage pre-approval based on your statement of annual income if you have good credit with a FICO score over 700 and adequate liquid reserves. But the mortgage interest rate for a stated income mortgage is often slightly higher than for a fully documented mortgage.

After you have your lender's pre-approval letter or certificate in your hand, it's best not to tell home sellers and realty agents you meet the exact maximum mortgage amount for which you are pre-approved. The reason is if the realty agent or home seller knows you can get a bigger mortgage than you need to buy a specific home, the agent or seller might be tempted to get you to offer more for that residence, or make a counteroffer, knowing you can obtain a larger mortgage. However, a big problem occurs if the seller does get you to offer a high price for the home because the lender's appraisal might not confirm that valuation.

Lastly, just because you are pre-approved in writing by an actual lender, you don't have to get your mortgage from that lender. But mortgage lenders know that after a written pre-approval is issued, subject to reasonable contingencies, most home buyers will stop shopping for better mortgage terms elsewhere. In other words, a mortgage pre-approval obligates the actual lender, but not the borrower

**HOME BUYER'S MISTAKE #2 –
HURRY TO BUY A HOME WITHOUT CAREFULLY RESEARCHING THE LOCAL HOME SALES MARKET.**

Real estate agents especially love working with home buyers from out-of-town who are relocating for employment reasons. These are usually highly-motivated buyers who are in a hurry to buy a house or condo so they can quickly get to work at their new location. The unhappy result often is these buyers who rush to buy a home don't carefully investigate the local home sales market conditions, especially if it is a rising or falling market. They often make home purchase mistakes they later regret because they rushed to buy their home.

If you are not familiar with the area to which you are relocating, rather than rushing to buy a home, a far better alternative is to rent a house or apartment for six months or longer until you can check out the local home purchase choices and research the situation. Better yet, if you can lease a house or condo with an option to buy, then if you made the right choice you won't have to move again. For a review of the lease-option pros and cons, and how to structure one to your advantage, please read my special report "How to Profitably Use a Lease-Option to Buy or Sell Your Home or Investment Property."

**HOME BUYER'S MISTAKE #3 –
FAIL TO CHECK THE CRIME RATE AND SCHOOL DISTRICT RATINGS TO HELP DECIDE ON THE BEST LOCATION.**

Even if you don't have school-age children, the importance of buying a home in a well-rated school district cannot be over-stated. Unless you have decided to move to a city with notoriously bad public schools, such as New York City (where over one-third of the public school teachers send their own children to private schools!), it pays to compare ratings of the school district locations you are considering. Smart home buyers realize that top quality public schools can pull home values up, but poor quality school districts hold home values down (by diminishing the number of prospective home buyers willing to purchase in the community).

Buyers of brand new homes are often dazzled and forget to inquire about school district quality. A quick way to check public school quality is to find out the local percentage of high school graduates who go on to college. If this percent is below 80%, that is probably not a top quality school district.

Most real estate agents have charts of school district quality, and even test score rating results of specific schools. If an agent doesn't have this information readily available, that is the sign of either (1) an inexperienced real estate agent or (2) an agent who might be hiding the fact the local schools are of poor quality.

EXAMPLE: Not far from where I live, the Palo Alto School District is one of the best in the nation. However, on the other side of the U.S. 101 freeway is East Palo Alto which is enjoying a tremendous residential and commercial building boom (due to cheap land). A few years ago, East Palo Alto had the highest per capita murder rate of any city in California. Although there are lots of new homes, mostly townhouses, the very poor quality East Palo Alto public schools and lack of a local high school discourages families from moving in, thus holding home values down compared to adjacent Palo Alto. A few children are able to transfer into the adjoining top quality Palo Alto School District, but those who can't are stuck with very bad public schools and a long bus ride to a high school.

Similar to the school district issue are crime statistics for the specific home location and vicinity you are considering. When you narrow your home search down to a few specific locations, it is best to personally visit the local police station to ask for recent neighborhood crime statistics and information.

EXAMPLE: A few years ago, I rented a house to a United Airlines flight attendant. A question she asked me, to which I didn't have the answer, was "What are the crime statistics for this neighborhood?" Thinking fast, rather than give a wrong answer, I suggested she visit the local police department. She did. A few hours later, she phoned me back and rented the house. She told me the crime statistics for my rental house area show very few crimes in the vicinity. Then she added that about eight blocks away, there is a much higher incidence of home burglaries and car thefts in a different neighborhood. Without a personal visit to the police station, she might not have discovered that important location distinction gained by talking with a police officer who was familiar with the neighborhood. Incidentally, a few years later, that tenant married a Realtor and bought the house she rented from me.

HOME BUYER'S MISTAKE #4 –
FAIL TO CONSIDER YOUR HOME PURCHASE AS BOTH YOUR PERSONAL RESIDENCE AND A MAJOR LONG-TERM REAL ESTATE INVESTMENT.

With the median price of U.S. new and resale homes around $200,000 today, but much higher in many areas, homes are no longer just places to live – they have become long-term major investments.

Sound, well-located homes, especially single-family detached houses, have proven to be far more profitable investments than most stocks, bonds, and alternative investments. That's why so many home owners purchase second or vacation homes, as well as rental houses.

Thanks to Internal Revenue Code 121, principal residences offer up to $250,000 tax-free sales profits (up to $500,000 for a qualified married couple filing jointly). However, the $250,000 or $500,000 sales exemptions are not available if the property is not your principal residence.

To qualify for the principal residence sale tax-free exemption, you must have owned and occupied your primary home at least two of the five years before its sale. It's that simple! For details on investing in rental houses, please read my special reports such as "Pros and Cons of Buying a Fixer-Upper House or Investment Property" and "How to Invest With Little or No Cash in Rental Houses for Fun and Fortune."

Homes which are most likely to appreciate in market value are well-located where people want to live in safe neighborhoods with good quality public schools. Although brand new houses on small lots in far-distant suburbs might have all the latest features, if they require long commute times to employment centers, appreciation in market value is likely to be very limited due to small demand from future buyers. A closely-related problem occurs when too many new homes are constructed at about the same time in a distant suburb, thus over-supplying the market.

Luxury homes priced at the upper-end of the price range for your community usually offer the least potential, percentage-wise, for maximum market value appreciation. However, no matter what price you pay for your next home, if you make as small a down payment as possible, your resale profit per dollar invested is usually maximized. It's called "leverage" – controlling a property with a minimum amount of cash invested. More details are in my special report "How to Use Leverage to Buy Your Home or Investment Property for Nothing Down."

HOME BUYER'S MISTAKE #5 –
BUY A HOME WITH AN INCURABLE DEFECT.

No home is perfect – even a brand new house! The definition of an incurable defect is one which cannot be corrected at a reasonable cost.

To illustrate, a house painted bright red has an obvious defect. But that defect can be easily corrected by painting the house a more acceptable color. However, some homes have defects which will always discourage buyers from purchasing, except at a major discount from recent sales prices of similar nearby homes without such drawbacks.

EXAMPLE: When I began investing in real estate, before I learned about incurable defects, I bought a San Francisco triplex on Third Avenue just down the hill from the famous UCSF Hospital (one of the nation's best). I always had lots of rental demand from nurses and resident doctors. But the first floor one-bedroom unit, as I soon learned, had an incurable defect. To get to the bathroom, you had to walk through the kitchen! Making matters even worse, that narrow bathroom had ugly blue tile and only a tiny window! However, that unit had a redeeming quality – a nice grassy back yard which the tenants enjoyed maintaining after I bought a $15 lawnmower for them! But that property still had another incurable defect – the back yard drained toward (rather than away) from the house and in a heavy rain there was a major backyard lake right next to the house! Although I thought this was an incurable defect (because installing a drain would be very expensive), one day a plumber was replacing the water heater. I asked for his expert opinion about my drainage problem. He said "For $50 I can fix your problem in about 20 minutes." I quickly accepted. He noticed a roof gutter draining toward the street which he used to install a new drain. My incurable defect was cured for $50!

Other examples of incurable defects to avoid include a bad location, such as near a noisy freeway or a busy railroad track, a smelly or noisy factory, heavy traffic, lack of street and off-street parking, adjacent to a noisy school (although parents sometimes want a home close to a school), and a house with a bad floor plan.

HOME BUYER'S MISTAKE #6 –
USE THE SELLER'S LISTING AGENT INSTEAD OF YOUR OWN BUYER'S REAL ESTATE AGENT.

Who represents whom in a typical home sale is often very confusing. About 20 years ago, the Federal Trade Commission (FTC) conducted a survey which determined that most home buyers thought the agent who showed them the home they purchased represented them. Wrong!

In those days, the listing agent clearly represented the home seller. If the buyer purchased the home through that agent, and there was no other agent involved, the listing agent represented the seller and nobody represented the home buyer! When the buyer was shown the property by another agent, that agent was legally known as a "sub-agent" of the seller's listing agent. Again, nobody legally represented the home buyer. There were also liability issues, such as when a sub-agent of the listing agent made a misrepresentation, then the listing agent might become liable for those false statements.

As a result of the FTC survey, and several famous court decisions known as the Edina Realty cases, most states have enacted real estate agency disclosure laws. Today, in most states, a real estate agent must provide a written agency disclosure notice to buyers and sellers as to which agent represents the buyer and which agent represents the seller. Just to confuse agency representation matters further, a few states have laws allowing transaction agents and facilitators.

When the listing agent also represents the home buyer, such as when the buyer meets the listing agent at a weekend open house, that is known as a "disclosed dual agency." It is perfectly legal when disclosed but, as a home buyer, how comfortable are you having the seller's listing agent also representing you as the buyer? It is an inherent conflict of interest for one agent to represent both the home seller and the buyer. But, thanks to state laws enacted at the request of Realtors, this conflicting agency arrangement is legal, if disclosed to both parties.

Should you sign an exclusive buyer's agency agreement? Any licensed real estate agent can be your exclusive buyer's agent. Some franchised real estate offices represent only home buyers! These exclusive buyer's agents do not accept listings of homes for sale. But most of these offices have not been very successful.

Some home buyer's agents, especially those working at exclusive buyer agency firms, ask their home buyers to sign exclusive buyer's agency contracts, similar to home listings signed by sellers. Although most buyer's agents only ask for 30 to 60 days exclusive buyer's agency contracts, I've heard about some buyer listings for six months! Unless that buyer's agent came highly recommended by a trusted friend who recently bought a home with that agent, I definitely would not sign such a six-month agreement unless it has an unconditional cancellation clause after 60 days.

Most buyer's agents do not ask their prospective home buyers to sign any exclusive buyer's agency contract obligating the buyer to purchase a home only through that agent. Personally, I've worked with many buyer's agents who represented my interests as a buyer and I have never been asked to sign a buyer's agency contract.

Would I agree to sign? Probably not, unless the buyer's agent came very highly recommended by someone I trust. But I would be certain the exclusive buyer's agency agreement is for not longer than 30 days. My attitude is if the real estate agent has so little confidence in their ability to find me the property I want to buy without a contract, I don't want to be tied down with a buyer's agency contract.

HOME BUYER'S MISTAKE #7 –
SIGNAL TO YOUR BUYER'S AGENT OR THE SELLER'S AGENT YOU HAVE FALLEN IN LOVE WITH THE HOME AND ABSOLUTELY MUST BUY IT.

It may take six months, or even a year, but eventually you will find "THE HOME" which is ideal for you. Please remember no home is perfect. Sometimes, you will know the home you want immediately when you see it. Or, you might find a home you like and your buyer's agent encourages you to make a purchase offer. However, if you or your "significant other" raves and exclaims about how wonderful the home is, that will probably be your downfall and you will overpay for that residence. Hold back your emotions as to how much you really want to own a particular home – remember the old negotiation motto "He who cares least wins!"

EXAMPLE: Before I bought my current home, my buyer's agent showed me about a dozen homes. Some were fixer-upper "el dumpos." Others were very nice, but over my budget. I liked two houses especially well, although I was very careful to remain unenthusiastic. The house I liked best was very secluded with lots of trees, on a modest hill with a nice curving driveway. I made a purchase offer. The seller counteroffered at a higher price. My buyer's agent tactfully said "I don't think you should counter-offer. I think you really liked that other house better and it is in a much quieter location with the only drawback being the yard which can be fixed up when you are ready to do some landscaping." As a result, after several weeks of counter-offers back and forth, I eventually bought my current home with a lease-option. Thankfully, although I really liked that first house better, I didn't "telegraph" how much I liked it to my buyer's agent. Looking back, now I realize all of that first house's drawbacks, especially being within a block of a then-new freeway which has become very busy and extremely noisy.

HOME BUYER'S MISTAKE #8 –
DON'T BOTHER ASKING YOUR BUYER'S AGENT TO PREPARE A WRITTEN COMPARATIVE MARKET ANALYSIS (CMA) BEFORE MAKING YOUR WRITTEN PURCHASE OFFER.

Before making a home purchase offer, smart buyers insist their buyer's agent prepare a full, written CMA. This is the same form which was prepared for the home seller by the listing agent when the home was placed on the market for sale. When your purchase offer is presented to the home seller, your buyer's agent should show the new updated CMA to the seller to show why your purchase offer price is reasonable.

The CMA shows (1) recent sales (not asking) prices of comparable nearby homes, (2) current asking prices of similar neighborhood homes (the competition), and (3) asking prices of recently expired comparable homes which didn't sell (usually because they were overpriced).

Only after you have this important CMA detailed information are you ready to make a realistic purchase offer. Your buyer's agent can help you arrive at a fair price by considering the pros and cons of the recent comparable nearby home sales.

However, if you are in a local "seller's market" (more qualified buyers than homes listed for sale), you might face intense competition from other home buyers. At this point, your mortgage lender's pre-approval letter or certificate will be especially valuable when your buyer's agent tells the seller you are already pre-approved for the mortgage.

If your competitive buyers aren't pre-approved for their mortgages, even if your purchase offer is a bit lower than theirs, you offer will appear to the home seller of having the best chances of a successful closing.

Among the negotiation strategies explained in my special report "How to Become a Super-Successful Real Estate Negotiator," if you really want to buy the specific home in a very competitive "seller's market," just state in your purchase offer "In the event a higher, legitimate purchase offer is received from another qualified buyer within 24 hours, I offer $5,000 more." If you don't think that is enough to impress the seller, offer $10,000 more.

HOME BUYER'S MISTAKE #9 –
FORGET TO INCLUDE KEY CONTINGENCY CLAUSES: (1) APPROVAL OF A PROFESSIONAL HOME INSPECTION, (2) OTHER APPROPRIATE PROFESSIONAL HOME INSPECTIONS FOR YOUR VICINITY, AND (3) A LENDER'S SATISFACTORY APPRAISAL OF THE HOME.

Most well-written printed home purchase forms now include "check boxes" for various contingencies used in the local vicinity. Whether you use a printed form, or one prepared by a local real estate attorney, be sure it includes ultra-critical contingency clauses for (1) your approval of a professional inspection report from an inspector hired by you (not hired by the real estate agent or, worse yet, by the home seller), (2) the lender's appraisal of the home you are buying confirming your offer purchase price, and (3) appropriate professional inspections for your area, such as termite (pest control), building code compliance, energy efficiency, and radon.

Even when the home seller has already hired a professional home inspector, and shows you a copy of that report, it is very important for the home buyer to make their purchase offer contingent on the buyer's approval report of their own professional inspector. Be sure to accompany your inspector for the two or three hour inspection of the home to discuss any defects discovered.

Here's why: Smart home sellers today are told by their listing agents to have their homes professionally inspected before the home is listed for sale. Any problems discovered by the seller's inspector can then be repaired before the home is put on the market for sale and the listing agent can show prospective buyers a copy of the seller's professional inspection report. I've considered purchasing houses where copies of the seller's professional inspection report are available on the dining room table. The seller's hope is the buyer will accept that report and not hire their own inspector.

Incidentally, I recommend not hiring a professional inspector recommended by either the listing agent or your buyer's agent. The reason is many inspectors recommended by realty agents are known as "easy inspectors" or "non-deal killers." Even tough, honest home inspectors know they probably won't get called by a real estate agent if they discover too many defects and realty agents are usually a major business source for home inspectors.

That's why I recommend hiring a professional home inspector who is a member of the American Society of Home Inspectors (ASHI). These tough inspectors must complete at least 200 inspections and pass a tough exam before becoming an ASHI member. To find a local ASHI member, go to www.ashi.com or phone 1-800-743-2744. The cost of a professional home inspection is about $350 and very much worth it.

Just as home buyers should hire their own termite (pest control) and other appropriate inspectors for the region, home buyers need to hire their own inspectors to double-check the seller's inspector. Even the best inspectors make mistakes or overlook serious problems.

EXAMPLE: Several years ago, I listed a rental house for sale (my tenants elected not to buy it) with one of the best realty agents I ever encountered (Larry Emerson, now with RE/MAX Properties in Colorado Springs). He suggested a new professional home inspection firm which offered a reduced price (that got my attention!) and a computerized check list system. I recall accompanying the two inspectors. They didn't discover any defects and I was very pleased with their written report. However, after Larry found a buyer for the house, the buyer hired his own professional inspector, a retired contractor. I didn't know about the inspection so I wasn't present as I recommend home sellers (and buyers) should be. The buyer's inspector discovered (1) the chimney needed a spark arrestor cap at the chimney top (an obvious defect in our area), and (2) an electrical junction above the kitchen which was not in an enclosed metal box (another obvious defect my inspectors should have discovered because it could cause a fire). However, the buyer's inspector went too far! He said the furnace "fire box" was cracked so the entire furnace needed replacement. Because my inspector's report said the furnace was in good condition, I resisted providing a new furnace. So I arranged to have (1) a representative of the local gas company and (2) my furnace repairman inspect the furnace together. The buyer was invited to attend. Both the utility representative and my furnace repairman agreed the furnace was in excellent condition and didn't need replacement. Looking back, I think the buyer's inspector was told to find something wrong with the furnace so the buyer could get a new $3,000 furnace paid for by me, the seller.

HOME BUYER'S MISTAKE #10 –
BUY THE BEST HOME IN THE NEIGHBORHOOD.

There are two houses in my neighborhood which are vastly over-improved for the area. They are far above the quality and features of the surrounding homes (like mine) which are much more modest. Those homeowners probably think we "ordinary people" drag down the neighborhood home values.

EXAMPLE: Although I live in a nice upscale neighborhood, the surrounding homes are not nearly as nice as these two over-improved houses. When either home is listed for sale, I'm sure their sellers will expect to sell for at least the total of their purchase price plus the cost of the major (over) improvements. More important, if a buyer overpays for either of those homes, that buyer will have made a very costly mistake. Fortunately (unless a buyer pays all-cash), the buyer's mortgage appraiser probably won't be able to justify an appraisal of what the home would be worth in a better neighborhood and the sale will fall apart if the buyer included a mortgage finance contingency clause (as the buyer should do, of course).

Instead, if you want to make a profitable home purchase, buy the worst residence in the best neighborhood you can afford. Even if it is a fixer-upper home, that is usually the most profitable home to purchase, presuming it is basically sound and well-located.

The reason is the higher market values of the surrounding homes will pull up the worst house's market value. But the opposite is also true; the market value of surrounding lower value homes will pull down the market value of an over-improved house.

BONUS HOME BUYER'S MISTAKE #11 –
DON'T MAKE A BIG CASH DOWN PAYMENT OR, WORSE YET, BUY YOUR HOME FOR ALL-CASH.

If you regularly read my newspaper "Real Estate Mailbag" columns, you know I have a "running battle" with some readers, especially retirees who have lots of cash from their last home sale, about whether or not to pay all cash for a house or condo.

My best advice is, even if you can afford to pay all-cash for your home, PLEASE don't pay more than a 25% cash down payment. Even if you are as rich as Bill Gates, I would hate to see you tie up or lose your home investment in a bad house or bad condo.

Over the years, I've had many letters in the column, especially from condo buyers, who paid all-cash but then discovered major drawbacks and they can't sell for cash to get out of a bad situation. Worse, without selling, those all-cash buyers often can't afford to buy another home until they sell their "bad house" or "bad condo."

Another reason for not paying more than 25% cash down payment for your home is the leverage profit advantages. To illustrate, if you buy a $100,000 house or condo for all-cash, and it appreciates at the customary 5% per year in market value, that $5,000 increased value is a 5% return on your $100,000 cash investment. However, suppose you instead made a $10,000 cash down payment and obtained a $90,000 mortgage. If the home appreciates the same 5% or $5,000 in market value in the next 12 months, now you have a 50% return on your $10,000 leveraged cash investment.

Being a savvy home buyer, this leverage benefit should convince you not to buy your home for all-cash. However, if all goes well and there are no serious drawbacks, after a few years please feel free to pay off your mortgage and enjoy your home ownership with no mortgage payments.

BONUS HOME BUYER'S MISTAKE #12 –
UNDERSTAND WHAT IT MEANS TO BUY A HOME "AS IS."

Many homes are sold "as is." That means the seller won't pay for any repairs. But it also means the seller must disclose to the buyer in writing any known defects. However, there are some statutory exceptions, such as sellers of probate properties and lenders selling foreclosed properties.

If the home seller fails to disclose defects of which the seller was aware, when the buyer discovers the defect and the fact the seller knew but failed to disclose it, the seller can be held liable for misrepresentation damages. The exact details vary slightly state by state, but this is the general rule. I understand one or two states, especially Alabama, still follow the old "caveat emptor" rule (let the buyer beware), but I have been unable to confirm this by statute or case citation.

Whether or not it is an "as is" home sale, if the seller failed to disclose a defect, the buyer's legal difficulty is proving (1) the seller knew about the defect and (2) that undisclosed defect has a material effect on the market value or desirability of the property. For that reason, home buyers should, as suggested earlier, always include home inspection contingency clauses in their purchase offers and then thoroughly inspect the property before purchase to be sure there won't be any after-purchase surprises for the home buyer.

However, the general rule for commercial properties is the seller has no legal duty to disclose known defects unless the buyer asks the seller about defects and the seller misrepresents the property. For this reason, buyers of apartment buildings and commercial buildings usually include in their purchase offers a time period for the buyer to perform "due diligence." That means it's up to the buyer to investigate the commercial property to learn if it has any significant undisclosed defects.

SUMMARY. By anticipating and avoiding the key costly mistakes explained above, home buyers can enjoy a stress-free home purchase. However, making just one of these serious errors could prove financially very expensive for the home buyer.