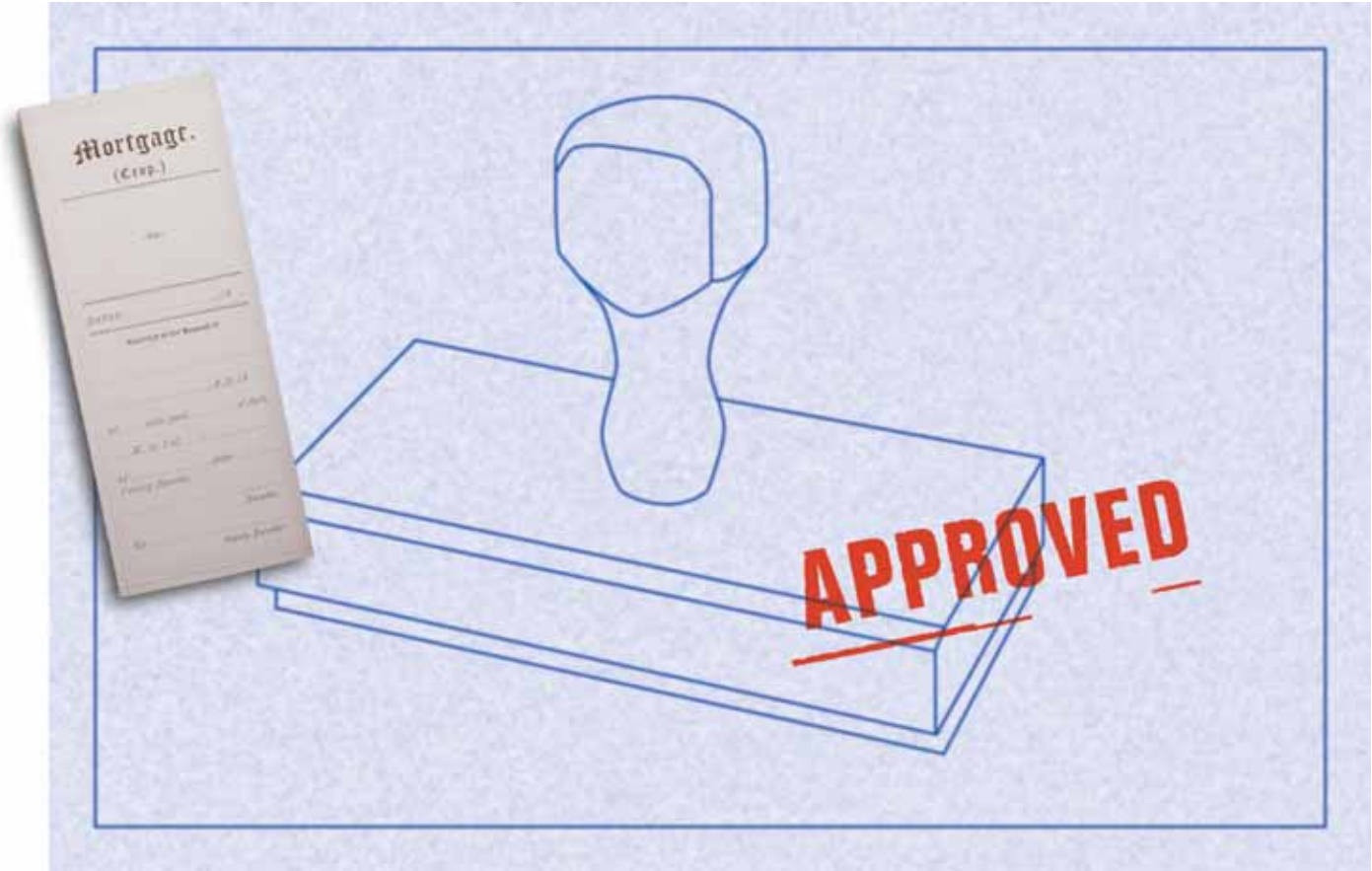

10 Mistakes You Can't Afford to Make

Avoid these common—but costly—home-financing errors

by Lew Sichelman

Most advice columns tell you how you should do things. But there are all kinds of things you *shouldn't* do, also. Here are ten frequent financial mistakes that consumers routinely make—and that you should avoid.

1. Choosing the Wrong Mortgage. With the advent of instant refinancing, home loans are no longer the lifetime obligations they used to be. Still, you don't want to be saddled for even a short period of time with the wrong one. Investigate all your options, then lay your choices side by side and do the math, making sure to compare worst-case scenarios. Be sure to look at initial interest rates, future interest rates and payments (if different), and the possibility of prepayment penalties.

2. Confusing "Pre-Approved" and "Pre-Qualified" with a Loan Commitment. "Pre-approved" and "pre-qualified" are debatable terms in real estate because not all lenders apply the same definition to each expression. In fact, one leading real estate dictionary contains neither expression because their definitions are uncertain. According to one school of thought, however, when you are "pre-qualified," the lender is making an educated guess about how much you can borrow based on information you've provided. When you are "pre-approved," the lender has verified everything you have told him or her and is offering to lend you up to a given amount at current interest rates—under certain conditions. Whether pre-qualified or pre-approved, final clearance and a check at closing—a loan commitment—are subject to an appraisal satisfactory to the lender, good title, a last-minute credit check, and other verifications. When meeting with lenders, always ask how they define each term and what additional steps will be required to obtain a loan.

3. Having Too Much Credit. Excessive credit is almost as bad as no credit or even bad credit. Even if you pay your bills on time, lenders tend to focus just as much on how much credit you have available to you as they do on

timeliness. So being up to your ears in car loans and credit cards is a sure way to be turned down for a mortgage. Postpone any big-ticket purchases until after you buy your house.

4. Lying on Your Loan Application. Exaggerating your income on a mortgage application or putting down other untruths can be a federal offense. Lenders rarely prosecute liars. But if they find out later, they can call your loan due and payable. Don't ever sign your name to a loan application that is not completely filled out, either. Loan officers have been known to stretch the truth to get a client approved, but it's the borrower who ends up paying the price, often in the form of monthly loan payments he or she can't afford.

5. Hiding If You Can't Make Your Payments. The worst thing you can do is ignore phone calls and letters from your lender when you are behind on your payments. Lenders have many options at their disposal to help keep borrowers from losing their homes to foreclosure. But they can't do anything for you unless they can talk to you about your difficulties. Lenders are the enemy only if you give them no other choice.

6. Skipping a Home Inspection. Failing to make your purchase contingent on a satisfactory home inspection could be a costly mistake. Independent home inspectors examine houses from stem to stern. They'll be able to tell you whether the roof or basement leaks, whether the mechanical systems are in good shape, and how long the appliances should last. They can't report on things they can't see, but at least their trained eyes are better than yours. So don't pass just to save $300–$400; that's money well spent.

7. Hiring Just Any Agent to Sell Your House. Real estate agents are not all the same. You want to look for those who specialize in your neighborhood and are top producers. Ask your candidates how they plan to market your house, what you can do to make the place more attractive to prospects, and how much you should ask. If you don't like any of the answers, look elsewhere. And above all, stay away from relatives. Unless Aunt Bessie or Nephew Nick fits the description above, keep looking.

8. Failing to Check Out a Contractor. Check out a potential general contractor thoroughly by calling several of his or her past clients, your local Better Business Bureau, his or her bankers and suppliers, and your local consumer affairs agency.

9. Paying Too Much Up Front. If a contractor asks for more than a third of the contract price as a down payment, chances are something's wrong. At worst, he's a scam artist who has no intention of returning after he cashes your check. At best, he's undercapitalized and can't afford to purchase materials on his own. Or, in between, he could be using your money to pay workers on another job. Never give a contractor cash, either.

10. Burning Your Mortgage. It's a wonderful feeling when you make your last house payment. After all, the place is now yours, all yours. Many people celebrate by holding a mortgage-burning party. But they torch the original document. Don't. Make a copy and burn that instead. Keep all your loan documents in a safe place.