

# HOUSE METHOD

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## **When a Home Purchase Goes Awry: The Home Buying Problems We Don't Talk About**

*The process of purchasing a home can be overwhelming, even when everything goes smoothly. But what about when things don't go according to plan? We explored the hidden traps that can thwart real estate transactions—and how to avoid them.*



*Photo by Tim Gouw*

Camellia Etherington and her husband, Scott, bought their first home in 2006. A three-bedroom house in Charleston, South Carolina, it seemed like the perfect starter home for their young family. But immediately after closing on the house, which they purchased directly from the sellers, they encountered an unexpected problem. “The previous owners never finished moving out, but they came to the closing and never said a word about it,” Camellia says. “We showed up at the house and it was a mess. We had to call and get a roll-off dumpster to empty it out before we could move in. It was for sale by owner. We learned our lesson.”

Meanwhile, in Garner, North Carolina, Tom Franklin and his wife, Bonnie, experienced their own home-buying nightmare years ago. It all started with paperwork. “The whole process was being handled in the same area, but it wasn’t until I asked one or two off-handed questions that I learned that none of the various parties—the credit union, lending Institution, and realtor,—had disclosed what documentation each required for the loan and sale to go through,” says Tom. “I thought I was being paranoid for asking those questions. As a result, I spent a frantic week barely working, running back and forth between offices to get the right papers.”

Unfortunately for the Franklins, the drama didn’t end there. “The previous owner had moved to Canada but was still selling the house—only he was no longer making mortgage payments,” Tom recalls. “We discovered this on the day we were closing when a guy from the previous owner’s loan company showed up. Our realtor had to ask what was going on. Turns out the house was actually entering into foreclosure, only no one bothered to tell anyone.” Thankfully, the initial lender was happy to see the house sold, and the sale ultimately went through without going into foreclosure. The couple moved in and have enjoyed living in the house for over 25 years.

Whether you’re buying your first or fourth home, the process of purchasing a house, condo, or apartment can be overwhelming—even when everything goes according to plan. Whether making an offer and getting inspections or securing a mortgage and moving in, there are many steps in the process that can, at times, seem spring-loaded with unforeseen issues that can derail a deal—or leave buyers feeling like they got the short end of the stick. For many buyers, like the Etheringtons and the Franklins, what should be a fairly smooth process can take an unexpected swerve that throws everything off course.

From difficulties finding a home in the first place to issues with the inspection or problems getting affordable insurance, here are some of the hidden traps that can thwart real estate transactions—and what you can do to make them less likely to happen to you.

### **Shopping in a seller’s market**

Bronwyn Merritt is a realtor at Dwell Real Estate in the rapidly growing Triangle area of North Carolina. The nation’s booming economy, as well as the area’s rapid expansion and perceived desirability, make for a strong seller’s market. (IBM, SAS, RTI International, Lenovo, Duke University, North Carolina State University, and the University of North Carolina Chapel Hill are just a few of the major employers based in or with offices in the Triangle.) This type of market can, of course, present challenges for buyers, making it more difficult to buy a home in the hoped-for price range or timeframe.

“It’s harder to find what you want,” Bronwyn says, and with lots of other buyers competing for the same housing stock, prospective buyers need to act fast in order to get a contract on a house. “People might have to try three or four times to actually get a house,” says Bronwyn.

Jyllian Freedman and her boyfriend, Conor Monahan, of Durham, North Carolina, can attest to the difficulties of buying in a seller's market. They started the house-hunting process in January of 2017—and put offers on five houses before finally sealing the deal in May, on the sixth property they liked enough to buy. “There was so much competition. It definitely got pretty depressing,” Jyllian says. “We weren't sure we would ever find a place.” Even more surprising, Jyllian says, “there was only one house where we competed with a North Carolina resident. Every other house, people were flocking here from out of state.”

As Bronwyn explains, shoppers in a seller's market often feel pressured to make a decision quickly—and they may also be more tempted to spend above their budget in order to get a house. If you find yourself in a bull housing market, “really think about what kind of property you want,” Bronwyn advises. “It's not a great browsing market, so be really clear about what you want before you start. Go get financial advice on what you can spend and really try hard to buy in your budget.”

While the issues are less obvious, sellers can encounter problems of their own in this kind of market. “It causes prices to do weird things,” Bronwyn explains, which sometimes makes it hard to know how to list a property. “At the beginning of the season, people who are determined to buy and have the means will pay any price. They artificially inflate the market, but then those people are gone. Meanwhile, sellers raise their prices and then houses sit on the market for a long time. You thought prices were up, but really the market is volatile.”

Another potential pitfall for sellers? Anxious buyers who put down simultaneous offers on more than one property when they only intend to buy one. “A buyer with cash to burn and a limited ability to shop—for example, someone who is relocating and has a short window to find a home—will put offers on every house they like and then sort it out later. Of course, the sellers don't know this,” Bronwyn says. “In their mind, the house has sold, and they might not find out until the inspection period is almost over. For some people, that can be devastating.”



Photo by Boudewijn Huysmans

## Mortgage issues

Unless you have cash to buy a house outright, getting a mortgage is one of the biggest and often most stress-inducing elements of purchasing a home. There are, of course, the usual problems with interest rates, down payments, and credit scores, but those aren't the only issues that can arise.

Take Alex Kichak of Raleigh, North Carolina. She decided to buy her first home, a condo, in 2012. At the time, she really wasn't worried about getting a mortgage. After all, she was buying well within her budget and had the necessary down payment. But she soon stumbled on an unexpected roadblock. It turned out that the condo she was buying was in a neighborhood composed mostly of tenant-occupied rentals and the mortgage lender she'd chosen to work with was reticent to make a traditional, fixed, 30-year mortgage because of that.

"My dad was looking at the mortgage and saw that it was written as an ARM," Alex says. That is, an *adjustable rate mortgage*, or a mortgage with an introductory rate that is adjusted annually after a predetermined period of time. "I came to learn that they didn't want to do a traditional mortgage because they assumed I would become a landlord there, too." Eventually, she was able to find a mortgage broker who was willing to write a 30-year fixed mortgage. "Know what you qualify for, and know what it means," Alex advises. "Just because you can get money doesn't necessarily mean you should take it at those terms."

We asked CORE broker Ben Jacobs what types of questions a homebuyer should be asking about their mortgage during the home buying process.

According to Ben, the first question you should ask is, “Can we be non-contingent?” With such an offer, the buyer has more time to find the right mortgage. “Being non-contingent gives the buyer an edge over other purchasers who are financing. Essentially, it gives the buyer similar leverage of a cash offer but because of the risks involved, the buyer should consult with their mortgage banker, attorney, and real estate attorney.” A mortgage-contingent offer means that the buyer must obtain the proper financing within a specified period of time. With a non-contingent offer, the buyer has more time to find the right mortgage.

A first-time homebuyer should also be aware of trade lines, which is essentially a record of all activity across the life of your credit. “Certain banks will require a certain amount of trade lines to prove credit. If you are new to building credit, you may not have enough trade lines to secure a mortgage,” says Ben.

As both Alex and the Franklins learned, it’s crucial to ask questions of your potential mortgage lender until you are certain you understand their processes, expectations, and requirements. While it’s impossible to rule out every rare and unforeseen issue that might arise, good communication goes a long way toward preventing the more common problems associated with getting a mortgage.

Ben maintains that you should ask your potential mortgage lender the following questions so you completely understand their processes, expectations, and requirements when purchasing a home:

- What are the risks involved if I waive my financing contingency?
- For how long can I lock in my rate?
- What types of products do you offer?
- What types of mortgage-related costs are involved at closing?

## **Home inspection woes**

First things first: never skimp on home inspections. “Because inspections cost up front, people sometimes don’t want to get them,” Bronwyn says. “These are not expensive tests, but they are really important. Especially if there’s a septic system, it can be a fifty thousand dollar bill.”

Russ Grimmitt of Morganton, North Carolina, has another piece of advice about inspections—something he and his fiancé learned the hard way. “Always be present for inspections,” he says. “We ran into problems buying our house where things passed inspection but became issues within weeks of moving in. In particular, we think the septic inspector didn’t even look at or pump the system—and we had to replace the sewage lines and the septic lid at our own expense.”

But even the best inspection processes don’t always uncover everything a potential homeowner might need to know. Leslie Riley and Nick Adams had unexpected septic

problems of their own despite plenty of due diligence. When the Durham, North Carolina, couple found a house they liked, “everyone thought it was on sewer,” she says, including the past three rounds of buyers and sellers over the course of sixteen years.

During the purchase process, Leslie and Nick’s inspector let them know that a city sewer hookup seemed unlikely based on how the pipes were laid out in the crawl space. “They suggested we get a plumber to take a look,” Leslie explains. “The plumber came by, saw a clean-out and said, ‘sewer.’”

It was only after buying the house that they realized something was amiss. “We saw on our water bill that we weren’t being charged for sewer, so we went down into the crawl space and saw that the pipes were not leading to the clean-out.”

The couple called their realtor and she helped arrange for a plumber to return, who confirmed that they were actually on a septic tank—one that most likely hadn’t been cleaned out in at least 16 years. “Our realtor, the seller’s agent, and the previous seller’s agent helped pay for us to be put on sewer,” Leslie says. “We were thankful for a realtor who pushed to get a second opinion on the inspection even though that still led us in the wrong direction. She was also a great ally as we navigated this situation after buying the house.”

According to Gabriella Santoro, licensed real estate agent at Bond New York, “If there are issues that are not explained, areas overlooked, or a report that is only a couple pages,” it’s necessary to get a second opinion on a home inspection.

Bronwyn also cautions buyers to make sure they understand their home inspection reports. “If you don’t understand your home inspection, hire a contractor to explain it to you,” she says. “I’ve had problems where people get an inspection and read it themselves and don’t think something is a big deal that turns out to be costly.” Inspectors themselves aren’t always the best people to help determine which repairs are really needed. “Either they can have a laissez-faire attitude, or every crack is a disaster,” Bronwyn says.

If you have a question about an item on your home inspection and don’t know who to contact, Gabriella says, “It depends on the question. Government records can tell you a lot about past repairs and violations. Your agent or lawyer can help you investigate these. If your issue is more mechanical, like the roof might have a leak that hasn’t been repaired, a consultation from a roofer or perhaps another inspector [is] recommended.”





*Photo by Boudewijn Huysmans*

### **When homeowners insurance is hard to come by**

Some buyers, especially those in coastal regions or areas that are more susceptible to natural disasters, have trouble when it comes to getting affordable home insurance.

The Etheringtons ran into just this sort of trouble on a subsequent home purchase, also in Charleston, in 2011. The house was less than ten miles from the ocean as the crow flies and was also in a flood zone. The couple called multiple insurance companies. “I would tell them my zip code and they would say, ‘no, we don’t insure that area,’” Camellia recalls. For a while, it seemed likely that they may not be able to secure a policy, which would have made the purchase of the home impossible.

“We finally had to settle for an extremely high policy that just happened to be recommended by our lender on the day of closing,” she says. “We’ve been here seven years and have since been able to reduce it,” Camellia adds. However, the cost of home insurance remains an ongoing issue, she says, as insurance deductibles in her area often spike (and tend not to fall back down) following tropical storms and hurricanes.

Julia Thompson, real estate agent at Brassfield in Franklinton, North Carolina, says the best thing you can do when purchasing a home is to try and work out insurance during the due diligence or inspection period. “That way, you can still opt out of purchasing the home if you are having too much trouble,” she says.

If the premiums for homeowners insurance are high in the area you’re looking to buy, “The first person I would talk to would be a local insurance agent, someone either from the area or who has been working in it long term. Especially if it is a locally owned firm they can

provide creative solutions to your problem,” Julia says. Another option is to contact your state’s department of insurance. “Many have regulated insurance plans for hard-to-insure properties.”

Other factors that can impact home insurance rates include everything from local crime rates and a property’s proximity to a fire station or hydrant to the prevalence of sinkholes in a given area.

### **When a newly constructed home isn’t all that it seems**

At first glance, newly constructed homes may seem like the safest bet when it comes to attaining a low-maintenance living situation.

That’s what Addie Derr, of Durham, North Carolina, and her husband thought when they bought their first home in a new neighborhood that was still being built. While the purchase process went smoothly, the Derrs soon discovered not only that the builders had used cheap materials. “Parts were literally falling off,” Addie says, and the home had structural issues, too, including cracks in the foundation, joists in the attic that weren’t properly affixed, and an awning above the garage that simply fell off one day.

“We were under the illusion that because it was new construction we would be set because everything was under warranty,” Addie recalls. “As first-time buyers, we were focused on things that were shiny and new and less on lasting issues like the kinds of materials used to build our home or what the HOA is responsible for and what it’s like to work with them.”

The fact that many houses in the neighborhood were still under construction also turned out to be an issue. The Derrs’ house and lawn were often covered in dust and debris from nearby construction, necessitating regular pressure-washing of the exterior and trash pickup in the yard. Not only that, but “at one point, we had a porta potty placed in our front yard, in the flower bed, for days before we were able to have it removed.”

Working with the homeowners association (HOA) to address these issues has proved equally frustrating. As Addie explains, when neighborhoods are in the process of being built, the HOA is often managed by a separate managing partner that typically takes on multiple properties—and may be less responsive as a result. “In our case, they won’t turn the HOA over to the residents until everything in the neighborhood is complete,” she says. Addie, who still lives in the same home but hopes to move soon, cautions buyers to find out who manages the HOA in a new neighborhood that’s still under construction. “If it’s managed by a separate partner, and you look around and see troubling signs, then I wouldn’t purchase a home,” she says.

According to Anne Flanagan, licensed real estate salesperson at Berkshire Hathaway HomeServices, “Your buyers need to be aware that new construction can mean additional fees at the Closing table compared to a resale. Examples of these costs include a contribution to the new building’s working capital and paying for the sponsor’s own attorney’s fees (approximately \$2,000).”



The lesson? Whether a home was built one year or fifty years ago, do your best to look beneath the shiny exterior and really assess the quality of construction—and the HOA—if applicable. Never skimp on inspections, even for newly built properties.

In addition, Bronwyn cautions buyers to “know your risks. If you start getting hives thinking about a lot of repairs, don’t even look at the red-shingled house from 1910. Think about how much time you want to spend mowing or weeding. If you don’t want maintenance, get a condo.” And when all else fails, she says, remember: “there’s always another house to buy.”