

From Florida Housing:

The following article ran in the Wall Street Journal on August 3, 2009.

While the following story did not take place in Florida, it serves an important reminder of how serious the home buying process is. It also provides good tips on how to avoid some of the pitfalls that Mr. Montgomery encountered as a first time buyer.

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Rookie Home Buyer Mistakes

Rushing to grab the tax credit and caught up in a bidding war over a distressed property, a first-time home buyer omits the basics.

By [**JUNE FLETCHER**](#)

Like many first-time buyers who want to take advantage of the \$8,000 tax credit before it expires on November 30, Brendt Montgomery was in a rush to buy a home. And what better than a seemingly bargain-priced distressed property?

Mr. Montgomery, a 25-year-old manufacturing engineer, recently moved to Atlanta from Pittsburgh. After looking around for a day, he quickly found a condo that had been repossessed by the bank. He gave it a quick tour, made an offer and then embarked on a short vacation. While he was gone, a bidding war erupted, and spurred by the competition, he upped his bid to \$143,100. His offer was accepted, and as soon as he returned, he signed a 33-page contract without really reading it. He was thrilled.

But the high didn't last more than a week or two. After paying \$2,000 for an earnest money deposit, plus \$250 for an inspection and \$85 to the condo association—but before the deal closed—he again toured the condo.

There were problems: dirty carpets, mold in the air conditioning system, holes in the wall. He had second thoughts about how secure the first-floor location might be, and realized that the north-facing windows would never let in much light. "It was a little depressing," he says. "I realized I'd acted hastily."

Mr. Montgomery called his agent and asked how he could unwind his deal. He quickly learned that backing out wouldn't be easy or cheap. He agreed to talk about his mistakes so that other first-time buyers wouldn't duplicate them.

His first mistake was to sign a contract after looking at listings for only one day, even though he'd spent considerable time beforehand doing online research. But one day, he now realizes, really

isn't enough time to get to know a neighborhood or to explore all of the potential deals, and he's sorry now that he rushed. Just to get a tax credit, "it's not worth buying a property you're not satisfied with," he says.

His second mistake was to decide on a condo based just on the purchase price, without taking into consideration taxes, homeowners' association fees, and the cost to fix up and maintain a distressed property. He admits in the excitement of a bidding war, he didn't calculate these costs; he was focused only on winning the deal. He started doing the math only after he'd signed the papers, and soon regretted not adding up these expenses before he'd committed himself. "There were little issues I hadn't anticipated that would add up in the long run," he says.



Associated Press

His third—and probably most important—mistake was not to read the contract carefully before he signed it. The contract stipulated that if he backed out of the deal, he'd lose his \$2,000 earnest money deposit, plus other out-of-pocket expenses, and also made him responsible for paying the entire 6% brokers' commission. He wishes now that he'd negotiated those provisions.

Luckily, there was a contractual loophole: His parents rescinded the down payment money that they were gifting him, so he no longer qualified for a mortgage. The agents involved didn't press for the commission, but he lost his deposit.

Mr. Montgomery was much more cautious in his next round of house-hunting. Eventually, he found a new condo that has more space and better views than his original choice, and made an offer. But this time, before he signed any papers, he had his agent run comparable sales prices, figured out his total monthly expenses, and had an attorney read over the fine print. The offer was accepted, and Mr. Montgomery is looking forward to closing the deal. "I've learned some valuable lessons," he says.

Before You Buy Your First Home...

- Research properties online, but don't make a decision until you've toured a number of places, talked to neighbors, and developed a feel for the community.
- Prepare a monthly budget, and factor in costs for taxes, association fees, insurance, maintenance and repairs, as well as the mortgage.
- Make sure that any contract that you sign, even for a foreclosed property being sold "as is," has a clause that allows you to have an inspector examine the property, and to cancel the deal without penalty if you don't like the findings. That will give you an out should the cost of repairs be too high.
- Understand that any contract that's prepared by the seller will protect the seller's interests, not yours. Read it carefully and question any provisions that you disagree with or don't understand. And have your own attorney review it.

- Realize that if you back out of a contract, you may lose your deposit and be liable for brokers' fees. If you don't have a valid reason to cancel, legally you may be obligated to go through with the sale.