

What Was I Thinking???

In the UFCU Real Estate Department, we spend a great deal of time talking with our members about their homes or potential homes and the money to buy, fix and use equity from them. When we are talking with folks who choose to begin their home ownership and mortgage journey with us, we are pleased and, more important, relieved. We are pleased because we really love giving good counsel and seeing good results at the end of the process. We are relieved because there is no bad history to try to fix.

The Real Estate Team has compiled several true life stories (one belongs to one of us who should have known better but did it anyway) that ended with the comment “What was I thinking?”. We hope that, in the telling and the reading, you will recognize a home horror story if one is told to you. We also hope that you will put your fingers in your ears, sing “lalalala” at the top of your lungs, and run at top speed away from the story teller.

Home Improvement Horror Stories:

The “Pay Me In Advance” Story:

A member called for help. She had paid \$14,000 in advance to a contractor who:

1. Installed a new toilet, but removed the bathroom floor and failed to replace it.
2. Removed the roof and repaired it, or actually removed all of the roof and repaired half of it.
3. Removed the kitchen cabinets and hauled them away. New kitchen cabinets somehow failed to arrive. Ditto for the contractor.

Moral: Never, ever give anyone all the money before the work is completed to your satisfaction. If a reputable, well-established contractor with solid references requires a one third to one half deposit, go forward. If someone whose office is their truck asks for an advance, refuse to pay until the work is complete.

The “I Need An Advance To Buy Materials” Story:

After receiving several bids, a member contracted with a tile layer to redo their master bathroom. Do I need to mention that the chosen contractor was the lowest bid by far? The tile guy explained that, since his profit margin was so tight, he would need an advance for the materials. Sounds reasonable, right? Money changed hands, and materials and contractor disappeared from the face of the earth. The business telephone number was a cell, now disconnected.

Moral: If someone wants money for materials in advance, it may be legitimate for solo contractors often are cash-tight. Get a list of the materials they will need for the job, then purchase them yourself and take them home. If the contractor says

they can buy cheaper, fire them. If they can get a contractors discount, they have a line of established credit and don't need your money in advance.

A footnote: Materials do not, should not include the tools of the contractor's trade. If a carpenter asks for a hammer and power drill in the materials list, fire 'em.

Texas Home Equity Horror Stories

The "Let's Refinance Your First Lien and Pay Some Bills" Story

Texas Home Equity Rules are weird. After all, we were the last state in the union to approve borrowing equity on your own home and it took a constitutional amendment to accomplish it.

Once you refinance your first lien on your home and take "cash out", that loan will be forever considered a home equity loan. Why should you care? In a few years, you may want to take out another Home Equity Loan. The value of your home has increased, and you want to consolidate bills, make home improvements, or have a child who is college bound. Instead of taking out, say \$50,000 as a home equity second lien, you must refinance the entire balance of your first lien, incurring all of the closing costs, and placing yourself at the mercy of current interest rates. The Texas laws state clearly that you can have only one home equity loan at a time, and your first lien is one.

Moral: Don't refinance your first or primary lien as a home equity. Leave it in place, and take out a separate home equity loan. The closing costs are significantly lower, and you will be able to repay one home equity with another and take additional cash out in the future. If your first lien has a higher rate, you may want to refinance it at the same time you take out a home equity, but keep each loan separate.

Purchase Horror Stories

The "Do It Yourself" Real Estate and Mortgage Story

In the world of real estate, there are no miracles, no sellers willing to sell 40% below the market value, no mortgage investors willing to finance for a wildly below market rate. If any player in the home purchasing process offers anything resembling too good to be true, run. Fast.

The rules in the world of real estate contracts and mortgage lending change daily. Find, interview and hire professionals to protect your interests. It's a complicated world, and the worst horror stories sound like this: "I gave them a deposit of \$(insert large sum) to hold the house and never heard from them again." "The rate they quoted was fantastic, and when I arrived at closing it was

2% higher. But my moving van was on the way..." "The seller didn't want to pay a real estate commission, and I didn't know about having the house inspected. Now I have (choose one or more): a bad roof, black mold, a cracked slab, a new highway in my back yard".

Moral: Use professionals who know real estate laws and can protect you.