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What Home Sellers Don't Tell Buyers

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As buyers ease back into the battered real-estate market, they're often hitting a stumbling block: fibbing by home sellers.

Eager to unload their abodes, some sellers exaggerate the size of their lots or their houses. Others minimize their property-tax or utility bills, conveniently forget about pests, or downplay flooding problems or noise.

Real-estate experts say that while such misrepresentations aren't new, the tough market of the past few years has made buyers more wary, partly because they can't expect rising home prices to bail them out of costly mistakes. As a result, deals are taking longer, and more of them are falling apart as buyers find properties sometimes aren't all they're supposed to be.

More than 30 states have disclosure laws requiring sellers to tell prospective buyers and agents about leaky roofs and other problems, according to the National Association of Realtors. But there's often a gray area involving the disclosure of problems the seller may not know about, such as a long-ago flood or hidden mold.

States are also increasingly passing laws requiring homeowners to disclose environmental issues, such as the presence of radon gas, a contaminant linked to lung cancer, and underground fuel tanks. In California, the checklist of required disclosures is so long that a cottage industry has sprung up of firms that help sellers prepare the forms.

Given the complexity of disclosure laws, it's not surprising that potential buyers don't hear about every problem in a house. Besides the issue of fibbing, sellers may genuinely not know about problems. And even if they do, the laws generally don't apply to bank-owned homes transferred in foreclosures, which now constitute a larger share of sales.

Buyers need to do their own due diligence and not rely exclusively on what sellers and agents say. They should hire an independent home inspector or home-inspection engineer, one not referred by the seller—and be aware that real-estate agents typically represent the seller.

How to Learn More About a Home

If you want to know more about a home's history of property damage, you can ask the seller to provide you with a copy of his or her C.L.U.E., or Comprehensive Loss Underwriting Exchange report from LexisNexis at www.choicetrust.com. A Home Seller's Disclosure report lists claims for property losses, such as fire damage, from the last 5 years as reported by insurance companies at the stated address, but doesn't disclose personal information such as the homeowner's social security number or date of birth. The seller's disclosure report can tell you about problems that might affect the availability or price of homeowners insurance, including claims for fire or hail damage. It costs \$19.50, but homeowners also can obtain a free annual personal property report, which lists a 7-year history of losses associated with both the property and the individual, under the federal fair credit act. No claims in the last 7 years will produce a clean report.

A similar loss report, called A-PLUS, is available from the Insurance Services Office, Inc. or 800-627-3487.

Here are some of the common misrepresentations and white lies that buyers may hear as they shop for a house, according to real-estate experts and state regulators:

This House is on Two Acres

Disputes about property dimensions; how many square feet in a house or condo, or its exact boundaries; are common. Sometimes buyers don't learn the exact dimensions until the lender's appraisal.

Listing agents usually accept a seller's word on property dimensions, says Diane Saatchi, a senior vice president at Saunders & Associates, a real-estate firm in Bridgehampton, N.Y. "We tell everyone to verify," she says. Smaller dimensions also can cause an appraisal to come in lower than the agreed-upon purchase price. Low appraisals are a leading cause of ruined deals in today's market. A properly worded appraisal contingency in the purchase contract would allow you to scuttle the deal or find other financing if the appraisal comes in low, says New York real-estate attorney Michael Xylas.

"We Don't Have Pests"

A basic home inspection generally doesn't include a peek inside walls or underground for termites and mold, which are among the top complaints. Inspections for mold and radon gas also generally aren't included; usually buyers must order these inspections separately. Other inside-the-wall problems include faulty wiring and old plumbing, which also may require specialists.

James Holtzman, a financial adviser at Legend Financial Advisors Inc. in Pittsburgh, says sellers of the 1901 house he bought in August 2006 said its electrical wiring was completely upgraded, yet an electrical inspection revealed only one of three floors had been totally upgraded. The seller then knocked \$6,000 off the sales price before they went to contract so Mr. Holtzman, 35 years old, could pay for the necessary work.

"This Place Never Floods"

Even arid states such as Arizona and New Mexico have occasional flash floods, and water and drainage problems aren't always obvious. June Walbert, 52, a certified financial planner at USAA, a financial-services company, says her San Antonio house received a clean bill of health from a home inspector before she bought it six years ago. But 10 days after she moved in, the sewer backed up, flooding the house, and she had to fork over \$2,800 for repairs. "It was a rude surprise," says Ms. Walbert, who adds she asked her home inspector and the seller for compensation, but didn't get it.

Bill Richardson, outgoing president of the American Society of Home Inspectors, says a general home inspection wouldn't catch that unless the sewer line was visible from the basement or water backed up into sinks and tubs or toilets.

"Taxes and Maintenance Costs are Low."

Home buyers often gripe about tax and utilities bills that are higher than sellers said they were. Homeowner association and condo dues and assessments are also common complaints. Sometimes sellers simply underestimate the bills, or forget to include recent or expected increases, agents and brokers say. Taxes can also be deceptively low because of unrecorded improvements like decks and finished basements. Ask to see recent bills, and check with the tax assessor's office for up-to-date information.

"This is a Quiet Neighborhood."

Sellers may play down distractions that could drive you crazy, such as barking dogs or idling buses. A charming park by day could be a teen hangout at night. Your best bet is to view a property at different times of the day. "I can't tell you how many times in my career buyers didn't go there in the night time, even though I told them to. You spend more time in the house at night than during the day," says Ms. Saatchi, the New York real-estate agent. Talk to neighbors and peruse the local newspapers and blogs to get a feel for a place, and check with police for crime.

"There's Going to be a Golf Course, a Pool and a Party Room."

Builders of many developments that broke ground during the housing boom ran out of money before the project was completed. Many homeowner and condo associations also are strapped because of delinquencies and defaults. Some states require upfront disclosures about this, but you should also ask neighbors, not just sellers, about any promised facilities. Also, check titles to be sure that specific parking spaces, storage units or other facilities are included in a property sale.