

Home Inspections For Dummies

March 3, 2013

It was embarrassing to take home my school report when I was in year 8. It wasn't the grades, it was the comment made by my teacher – "David asks too many questions!" As an adult, I have learned that asking questions is not foolish, but wise, and so it is with homebuyers. You might feel silly asking basic questions, but ask away. In my view, it is the folks who do not ask questions that should be written up on their school report. Here are some basic Home Inspection questions (paraphrased) which I have received over the years:-

Dear Dave: Do I need a Home Inspection?

Answer: Do you need gasoline in the tank of your car? Do you need the air that you breathe? Of course you do – find \$400 for this protection when buying any home, even new construction.

Dear Dave: Shouldn't the seller do all the repairs in the H.I. (Home Inspection) report?

Answer: No – If the house is not new, it will have defects due to wear and tear. When your grandma gets sick, can the doctor turn her into a woman equivalent to 25 years old? Of course not. A doctor can treat illness, but not reverse the passage of time and entropy. Defects are not the same as wear and tear, on a house or on a body.

Dear Dave: How many of the repairs listed are a reasonable expectation for the seller to perform?

Answer: At a minimum, all defects described as "Health and Safety". The H.I. report will classify repairs in categories – Health and Safety, Significant Deficiencies, Maintenance Items and Recommended Upgrades. Health and Safety plus Significant Deficiencies are, by nature, in the red zone. Once you start looking at Maintenance Items you are in the gray area. Upgrades are nebulous.

Dear Dave: How, then, should I negotiate repairs?

Answer: The same as you negotiate the price of vegetables in the street stalls of Tunis, or the price of a car at Alaska Sales & Service. Be bold without being ridiculous. It is certainly to your favor to have the seller do as much as possible, but insulting the seller with unrealistic demands will backfire.

Dear Dave: Are all Home Inspectors created equal?

Answer: They might be created equal, but they certainly diverge after creation. Ask your Realtor, ask your friends, ask the home inspector himself questions about experience and approach to the job. Be certain that the Home Inspector is, at minimum, a member of "ASHI".

Dear Dave: Should I give the H.I. report to my lender?

Answer: No, not unless they ask for it, or unless it is a mandatory feature of the loan program (e.g. Alaska Housing's IRRLIB program). All lenders know that the confidential report purchased by a homebuyer belongs to the homebuyer, just like any medical report.

Except for reasons mentioned in the next question, it is not helpful to pass on an H.I. report to the lender if you have already agreed to a happy resolution of repairs with the homeseller. Lenders are instructed internally that homebuyers are not obligated to turn over an H.I. report. They may have you sign a "Hold Harmless" document to that effect.

Dear Dave: When does a lender become involved with an H.I. report?

Answer: (1) If the program requires a report (IRRLIB and Neighborworks). FHA, VA and Conventional financing do NOT require a formal home inspection. (2) If the contract, or any contract addendums, refer to an H.I. report. (3) If you, the homebuyer, injudiciously put it on their desk, or if you give it to the Appraiser. (4) If the Appraiser requires an inspection of any kind. (5) If the underwriter, in their private review of the loan application, deems it necessary.

Dear Dave: Who protects the Lender if they don't have the H.I. report?

Answer: The Lender's line of defense against loaning money on a property is the Appraiser. The Appraiser's responsibility is to assure the Lender that their risk is not excessive. The Appraiser is required to, first, value the property and, second, inspect the property. Appraisers vary in their degree of inspection. Some will call for engineering or contractor review of items that appear worrisome – e.g. a tired or sagging roof, loose or non-code handrails. Other Appraisers are less observant (or less qualified) and don't pay too much attention to such things.

Dear Dave: What is the bottom line with Home Inspectors?

Answer: Have one! Even if you have to sell your big screen TV to get the money!

Second, remember that the inspection is for you, and belongs to you. The H.I. report will enable you to negotiate repairs with the seller. Once you and the seller are happy about that, your goal is to complete the finance application successfully. The lender demands enough information already without you volunteering curve balls that might jeopardize the outcome.