

ARE YOU READY?

Knowledge and experience are the keys to successful real estate transactions. Information and planning combined with the expertise and experience of your agent can be the essential keys to your success.

One of the keys to making the home buying process easier and more understandable is planning. In doing so, you'll be able to anticipate requests from lenders, lawyers and a host of other professionals. Furthermore, planning will help you discover valuable shortcuts in the home buying process.

DO YOU KNOW WHAT YOU WANT?

Whether you are a first-time homebuyer or entering the marketplace as a repeat buyer, you need to ask why you want to buy. Are you planning to move to a new community due to a lifestyle change or is buying an option and not a requirement? What would you like in terms of real estate that you do not now have? Do you have a purchasing timeframe?

DO YOU HAVE THE MONEY?

Homes and financing are closely intertwined. (Financing is the difference between the purchase price and the down payment, commonly referred to as debt or the mortgage.) The good news is that over the years new and innovative loan programs have evolved which require a 5 percent down payment or less. In fact, a number of programs now allow purchasers to buy real estate with nothing down.

In addition to a down payment, purchasers also need cash for closing costs (the final costs associated with closing the loan). Several newly emerging loan programs not only allow the purchase of a home with no money down, but also underwrite closing costs.

IS YOUR FINANCIAL HOUSE IN ORDER?

Those great loans with little or nothing down are not available to everyone: You need good credit. For at least one year prior to purchasing a home, you should assure that every credit card bill, rent check, car payment and other debt is paid in full and on time.

THE ROLE OF THE AGENT

WHY USE AN AGENT?

Buying and selling real estate is a complex matter. At first it might seem that by checking local picture books or online sites you could quickly find the right home at the right price.

But a basic rule in real estate is that all properties are unique. No two properties -- even two identical models on the same street -- are precisely and exactly alike. Homes differ and so do contract terms, financing options, inspection requirements and closing costs. No two transactions are alike. In this maze of forms, financing, inspections, marketing, pricing and negotiating, it makes sense to work with professionals who know the community and much more.

OTHER REASONS TO USE AN AGENT INCLUDE THE FOLLOWING:

- **Your agent has many resources to assist you in your home search.** Sometimes the property you are seeking is available but not actively advertised in the market, and it will take some investigation by your agent to find all available properties. Once your search has begun your agent will view all new properties on a weekly basis. Oakland agents view new listings on Mondays' and Thursday "tours" typically before the homes are held open to the public. If there is a property on tour that fits your needs your agent will then give you information on the listing and make an appointment to take you to the property or inform you of when the home will be held open. A good agent will save you time and energy in your search and ensure you see the houses that may be of interest to you.
- **Your agent can assist you in the selection process by providing objective information about each property.** Agents have access to a variety of informational resources. There are two things you'll want to know. First, will the property provide the environment I want for a home or investment? Second, will the property have resale value when I am ready to sell?
- **Your agent will help you negotiate.** There are myriad negotiating factors, including but not limited to price, financing, terms, date of possession and often the inclusion or exclusion of repairs and furnishings or equipment. The purchase agreement should provide a period of time for you to complete appropriate inspections and investigations of the property before you are bound to complete the purchase. Your agent can advise you as to which investigations and inspections are recommended or required.
- **Your agent provides due diligence during the evaluation of the property.** Depending on the area and property, this could include inspections for termites, dry rot, asbestos, faulty structure, and roof condition, just to name a few. Your agent can assist you in finding qualified responsible professionals to do most of these investigations who will then provide you with written reports. You will also

want to see a preliminary report on the title of the property. Title indicates ownership of property and can be mired in confusing status of past owners or rights of access. The title to most properties will have some limitations; for example, easements (access rights) for utilities. Your agent and the title company can help you resolve issues that might cause problems at a later date.

- **Your agent can guide you through the closing process and make sure everything flows together smoothly.** Between the initial sales agreement and closing (or settlement), questions may arise. For example, unexpected repairs are required to obtain financing or a cloud in the title is discovered. The required paperwork alone is overwhelming for most sellers. Your agent is the best person to objectively help you resolve these issues and move the transaction to closing (or settlement).

GET LOAN PREAPPROVAL

Few people can buy a home for cash. According to the National Association of REALTORS® (NAR), nearly nine out of 10 buyers in 1999 financed their purchase, which means that virtually all buyers -- especially first-time purchasers -- required a loan.

The real issue with real estate financing is not getting a loan (virtually anyone willing to pay lofty interest rates can find a mortgage). Instead, the idea is to get the loan that's right for you -- the mortgage with the lowest cost and best terms.

In a competitive market, there is an advantage to start the mortgage process well before bidding on a home. By meeting with lenders and looking at loan options, you will find which programs best meet your needs and determine how much you can afford. This will focus your search as well as make you a more attractive buyer.

WHAT IS IT?

"Preapproval" means you have met with a loan officer, your credit files have been reviewed and the loan officer believes you can readily qualify for a given loan amount with one or more specific mortgage programs. Based on this information, the lender will provide a preapproval letter, which shows your borrowing power. You can visit as many lenders as you like and get several preapprovals, but keep in mind that each one carries with it a new credit check, which will show up on future credit reports. Working with one lender also gives you someone who is familiar with your situation and will work hard to make sure your loan gets processed in a timely and efficient manner.

Although not a final loan commitment, the preapproval letter will be an important part of your offer when bidding on a home. It demonstrates your financial strength and shows that you have the ability to go through with a purchase. This information is important to owners since they do not want to accept an offer that is likely to fail because financing cannot be obtained.

LOOK AT HOMES

Some 6 million new and existing homes are sold each year. There's no shortage of housing options, but with so many choices the challenge becomes finding the property which best meets your needs.

The housing market is complicated because the stock of homes for sale is always in flux. If it were possible to have a complete list of every home for sale at this very moment in a given community, such a list would become obsolete within seconds as new homes become available and properties now for sale are put under contract.

In effect, buyers are looking at a moving target in a marketplace that is never static. Because of this, it is important to know as much as possible about the choices in preferred markets, and the way to do that is by working closely with a local agent who has a good "lay of the land."

WHAT ARE YOU LOOKING FOR?

A home is more than just a collection of bedrooms and bathrooms. Several properties -- each with four bedrooms, three baths, and the same price -- may well represent radically different designs, commuting distances, lot sizes, tax costs, interior dimensions, and exterior finishes.

Each of us is different and so it's important to list the features and benefits you want in a home. Consider such things as pricing, location, size, amenities (extras such as an extra-large kitchen) and design (one floor or two, colonial or modern, etc.).

Next, it's important to consider your priorities. If you can't get a home at your price with all the features you want, then what features are most important? For instance, would you trade fewer bedrooms for a larger kitchen? A longer commute for a bigger lot and lower cost?

Lastly, consider your needs in several years. If you'll need a larger home, maybe now is the time to buy a bigger house rather than moving or expanding in the future. If you expect your income to increase, perhaps you should consider a more expensive home financed with a loan program where monthly payments increase in the future.

MAKE AN OFFER

HOW MUCH?

You sometimes hear that the amount of your offer should be x percent below the seller's asking price or y percent less than you're really willing to pay. In practice, the offer depends on the basic laws of supply and demand: If many buyers are competing for homes, then sellers will likely get full-price offers and sometimes even more.

HOW DO YOU MAKE AN OFFER?

You will work with your agent to write an offer on a chosen property. Come to this meeting prepared to spend a couple of hours going through the detail of your offer. Don't forget the checkbook as you will need to leave a deposit which is typically 3% of the sales price. Your agent will provide you counsel on what to include in the offer but ultimately you must decide the key points of your offer. An offer consists of several different forms. Some of the information is provided on standard forms and others are supplemental pieces of information which may strengthen your offer.

STANDARD FORMS ARE KEPT UP TO DATE WITH THE CHANGING LAWS AND INCLUDE THE FOLLOWING:

- **California Residential Purchase Agreement-** This is the contract for the deal and is legally binding. It includes the details of the deal many of which are discussed below.
- **Purchase Agreement Addendum-** This may or may not be part of your offer. It is used to spell out additional details of the offer that may not be included in the Purchase Agreement.
- **Buyers Inspection Advisory-** Outlines all of the inspections available to buyers and advice on obtaining such inspections. Your agent may have supplemental forms regarding inspections as well.
- **Agency Disclosure-** There are several forms that address agency disclosure. These forms are used to ensure that all parties understand which agent represents the buyer and which agent represents the seller. These may also be used to disclose dual agency where one brokerage is representing both the buyer and the seller.
- **Receipts for C.A.R Publications-** There are several publications that are produced by the California Association of Realtors. This form provides evidence that you have received these publications.
- **Property Transaction Booklet-** This booklet provides a high level overview of the process and includes a sign-off form.
- **Miscellaneous-** Your agent's broker may provide additional forms to be included in your file and/or offer. These forms typically highlight, and better detail some of the key conditions of the contract.

SUPPLEMENTAL INFORMATION IS CUSTOMIZED TO YOU AND SHOULD HELP STRENGTHEN YOUR OFFER. IT MAY INCLUDE THE FOLLOWING-

- **A pre-approval letter from your lender.** This is a must in a competitive market. The seller wants to know you have the means with which to purchase the house.
- **A letter from you to the seller telling them about you and why you want to purchase their house.** This letter can be very important in multiple offer situations. Many sellers really care about to whom they sell their home and this letter could provide them information that may help them decide if you are the right buyer for their home.
- A statement that you have received and read the sellers' disclosure package.

After the offer is drawn up and signed, it will usually be presented to the seller by your agent, by the seller's agent if that's a different agent, or often by the two together.

WHAT THE OFFER CONTAINS

The purchase offer you submit, if accepted as it stands, will become a binding sales contract. It's important, therefore, that it contains all the items that will serve as a "blueprint for the final sale." These purchase offer items include such things as:

- Address and sometimes a legal description of the property
- Sale price
- Terms -- for example, all cash or subject to your obtaining a mortgage for a given amount
- Seller's promise to provide clear title (ownership)
- Target date for closing (the actual sale)
- Amount of earnest money deposit accompanying the offer, and whether it's a check, cash or promissory note, and how it's to be returned to you if the offer is rejected -- or kept as damages if you later back out for no good reason
- Method by which real estate taxes, rents, fuel, water bills and utilities are to be adjusted (prorated) between buyer and seller
- Provisions about who will pay for title insurance, survey, termite inspections and the like
- Type of deed to be given
- Other requirements specific to your state, which might include a chance for attorney review of the contract, disclosure of specific environmental hazards or other state-specific clauses
- A provision that the buyer may make a last-minute walk-through inspection of the property just before the closing
- A time limit (preferably short) after which the offer will expire
- Contingencies, which are an extremely important matter and discussed in detail below

CONTINGENCIES

If your offer says "this offer is contingent upon (or subject to) a certain event," you're saying that you will only go through with the purchase if that event occurs. The following are common contingencies contained in a purchase order:

- **Loan Contingency-** Provides time for the buyer to obtain specific financing from a lending institution. If the loan can't be found, the buyer won't be bound by the contract. Your lender should be consulted regarding the timeframe and necessity of this contingency.
- **Appraisal Contingency-** Provides time for the lender to complete an appraisal on the property to ensure that the property value will support the amount of the loan. Your lender should be consulted regarding the timeframe and necessity of this contingency.
- **Inspection Contingency-** A number of inspections are common in residential realty transactions. A typical contract provides an opportunity for the buyer to hire all manner of experts to check out the condition of the home. They include but are not limited to checks for termites, structural inspections, permit history and sewer inspections. Structural inspections are particularly important. During these examinations, an inspector comes to the property to determine if there are material physical defects and whether expensive repairs and replacements are likely to be required in the next few years. Such inspections for a single-family home often require two or three hours, and buyers should attend. This is an opportunity to examine the property's mechanics and structure, ask questions and learn far more about the property than is possible with an informal walk-through. From the buyer's perspective, the more time that's allowed for these once-overs, the better. Sellers, on the other hand, usually want the inspections to be completed and signed off as soon as possible.

The fact that the buyer orders one of more inspections of the home for informational purposes doesn't obligate the seller to make repairs or modifications as a result of those inspections. In practice, however, inspection reports often are used to negotiate repairs of major problems or safety or environmental hazards that may be noted. The purchase contract should provide some guidance for these negotiations.

EARNEST MONEY

This is a deposit that you give when making an offer on a house. A seller is understandably suspicious of a written offer that is not accompanied by a cash deposit to show "good faith." This will become part of your down payment.

BUYERS: THE SELLER'S RESPONSE TO YOUR OFFER

You will have a binding contract if the seller, upon receiving your written offer, signs an acceptance just as it stands, unconditionally. The offer becomes a firm contract as soon as you are notified of acceptance. If the offer is rejected, that's that, and the sellers could not later change their minds and hold you to it.

If the seller likes everything except the sale price, or the proposed closing date, or the basement pool table you want left with the property, you may receive a written counteroffer, with the changes the seller prefers. You are then free to accept or reject it or to even make your own counteroffer. For example, "We accept the counteroffer with the higher price, except that we still insist on having the pool table."

Each time either party makes any change in the terms, the other side is free to accept or reject it, or counter again. The document becomes a binding contract only when one party finally signs an unconditional acceptance of the other side's proposal.

WITHDRAWING AN OFFER

Can you take back an offer? In most cases the answer is yes, right up until the moment it is accepted, or even in some cases, if you haven't yet been notified of acceptance. If you do want to revoke your offer, be sure to do so only after consulting a lawyer who is experienced in real estate matters. You don't want to lose your earnest money deposit, or find yourself being sued for damages the seller may have suffered by relying on your actions.

Because counter-offers are common (any change in an offer can be considered a "counter-offer"), it's important for buyers to remain in close contact with their agent during the negotiation process so that any proposed changes can be quickly reviewed.

Unless an unmet contingency triggers the abandonment of the contract, it's a binding legal document. Buyers who fail to perform can lose their deposit money. Sellers who try to back out can be sued for "specific performance," which forces the sale of the home to the buyer. Many contracts also specify that disputes must be brought in small-claims court or presented for arbitration or mediation.

HOW TO WIN THE BIDDING WARS

In many of today's strong real estate markets, home buyers can expect to face multiple offer situations. Multiple offers are a classic example of economic realities because they appear when the supply of homes for sale is limited and the demand for good-condition homes is strong. Buyers hate multiple offers because they push up home prices and create an extremely stressful home-buying experience. Knowing a few tricks of the trade can make the difference between walking away disappointed and purchasing the home of your dreams at a fair price.

HERE ARE SIX TIPS AND SUGGESTIONS TO TURN NEGOTIATION INTO AGREEMENT:

- 1. Start with a fair price and a fair offer.** There's no question that significantly overpricing your home will turn off potential buyers. Likewise, making an offer that's far lower than the asking price is practically guaranteed to alienate the sellers. Asking and offering prices should be based on recent sales prices of comparable homes.
- 2. Respect the other side's priorities.** Knowing what's most important to the person on the other side of the negotiating table can help you avoid pushing too hard on hot or sensitive issues. For example, a seller who won't budge on the sales price, might be willing to pay more of the transaction costs or make more repairs to the home, while a buyer with an urgent move-in date might be willing to pay a higher portion of the transaction costs or forgo some major repairs.
- 3. Be prepared to compromise.** "Win-win" doesn't mean both the buyer and the seller will get everything they want. It means both sides will win some and give some. Rather than approaching negotiations from an adversarial winner-take-all perspective, focus on your top priorities and don't let your emotions overrule your better judgment.
- 4. Meet in the middle.** Can't decide who will pay the recording fee? Can't agree on a close-of-escrow date? Arguing over cosmetic repairs? Splitting the difference is a time-honored and often successful negotiation strategy. Pay half the fee. Count off half the days. Fix half the blemishes.
- 5. Leave it aside.** Politicians and corporate executives are famous for their "for future discussion" agreements. If you have a major sticking point that's not material to the overall contract (e.g., the purchase of furniture or fixtures), finish the main agreement, and then resolve the other difficulties in a side agreement or amendment. This technique allows both sides to recognize and solidify basic areas of agreement, then move ahead toward a fair compromise on other terms and conditions. Summarizing the points of agreement in writing is another helpful strategy.
- 6. Ask for advice.** Successful agents tend to be experienced negotiators. They've seen what works and what doesn't in countless real estate transactions, and they've established a track-record of bringing buyers and sellers together. Consult your agent about negotiating strategies, win-win compromises and creative alternatives.

FREQUENTLY ASKED QUESTIONS ABOUT BIDDING IN A COMPETITIVE MARKET:

HOW CAN I MAKE MY OFFER MORE ATTRACTIVE TO THE SELLERS?

Offer the highest price you can. Get preapproved, not just prequalified, for your mortgage and attach a copy of the preapproval letter to your offer. Make as large a down payment as you can and provide documentation showing the source of your down payment (e.g., a bank statement). If your current home is in escrow, provide information about that

transaction. Avoid unnecessary contingencies. (Waiving your inspection or financing contingency can make your offer attractive, but it's foolish.)

MY OFFER DIDN'T PREVAIL IN A MULTIPLE OFFER SITUATION. CAN I FIND OUT WHY?

Neither the sellers nor their agent is obligated to reveal any information about the decision. As a courtesy, agents frequently will point out shortcomings of a rejected offer, but without disclosing details of the accepted offer. Until a transaction is closed, it's crucial that everything remain unknown in case that property has to come back on the market.

CAN I SUBMIT AN OFFER ON A HOME IN ESCROW?

Yes, but agents say you would be wiser to move on to another home, particularly if there are formal back-up offers. Even if your offer tops the accepted agreement, the sellers would have great difficulty canceling the escrow.

CAN I KNOCK ON THE SELLERS' FRONT DOOR AND TELL THEM PERSONALLY WHY THEY SHOULD ACCEPT MY OFFER INSTEAD OF THE OTHER OFFERS THEY RECEIVED?

If you happen to meet the sellers during a scheduled showing, go ahead and compliment whatever you like about their home. Resist that urge to pound on the front door, however. This tactic rarely works and most sellers strongly dislike having their privacy invaded. The agents won't be too thrilled with your behavior either.

I HAVE LOST SEVEN HOMES IN MULTIPLE OFFER SITUATIONS. SHOULD I BLAME MY AGENT?

The answer depends on why your offers weren't accepted. Buyers always jump to the conclusion that it's the agent's fault. If you're writing offers on houses in the \$350,000 range, and all your offers are for \$300,000, you're not likely to get those houses. You need to be realistic. On the other hand, your agent needs to know how to operate in this market. A savvy and aggressive agent assesses the situation and ensures the offer is as strong as it needs to be. In multiple offer situations your agent should inquire how many offers are confirmed and what is important to the sellers.

GET INSURANCE

No one would drive a car without insurance, so it figures that no homeowner should be without insurance.

The essential idea behind various forms of real estate insurance is to protect owners in the event of catastrophe. If something goes wrong, insurance can be the bargain of a lifetime.

WHAT KIND AND HOW MUCH?

There are various forms of insurance associated with home ownership, including these major types:

Title insurance: Purchased with a one-time fee at closing, title insurance protects owners in the event that title to the property is found to be invalid. Coverage includes "lenders" policies, which protect buyers up to the mortgage value of the property, and "owners" coverage, which protects owners up to the purchase price. In other words, "owners" coverage protects both the mortgage amount and the value of the down payment.

Homeowners' insurance: Provides fire, theft and liability coverage. Homeowners' policies are required by lenders and often cover a surprising number of items, including in some cases such property as wedding rings, furniture and home office equipment.

Flood insurance: Generally required in high-risk flood-prone areas, this insurance is issued by the federal government and provides as much as \$250,000 in coverage for a single-family home plus \$100,000 for contents.

Home warranties: Home warranties for existing homes are typically one-year service agreements. In the event of a covered defect or breakdown, the warranty firm will step in and make the repair or cover its cost.

Insurance policies and warranties have limitations and individual programs have different levels of coverage, deductibles and costs.

HOW DO YOU GET INSURANCE?

The time to obtain insurance and warranty coverage is before closing, so speak with an insurance broker prior to closing. Be sure to ask about limitations, costs, deductibles and "endorsements" (additional forms of coverage that may be available).

CLOSING

Go to any local courthouse and you can find property records detailing real estate ownership in your community -- sometimes records that date back hundreds of years.

These records are important because they provide today's owners with proof that they have good, marketable and insurable title to the property they are selling. Equally important, such records enable buyers to provide proof of ownership when they sell.

The closing process, which in different parts of the country is also known as "settlement" or "escrow," is increasingly computerized and automated. In many cases, buyers and sellers don't need to attend a specific event; signed paperwork can be sent to the closing agent via overnight delivery.

In practice, closings bring together a variety of parties who are part of the "transaction" process. For example, while the history of property ownership has been checked, it's possible that the records contain errors, unrecorded claims or flaws in the review itself, thus title insurance is necessary. At closing, transfer taxes must be paid and other claims must also be settled (including closing costs, legal fees and adjustments). In most transactions, the closing agent also completes the paperwork needed to record the loan.

WHAT TO EXPECT

Closing date is very important. If you're selling your home, you'll be expected to move out completely before the property changes hands. You'll want to make sure the closing date doesn't fall before you're able to move into your next residence. If you're buying a home, you'll be able to pick up the keys on the day escrow closes. You'll want to make sure you don't give up your prior residence too soon. Don't cut the dates too close. Many escrows end up closing a day or two later than the contract states--but that can happen only with the mutual agreement of the buyer and seller

Closing is a brief process where all of the necessary paperwork needed to complete the transaction is signed. Closing is held in an office setting typically at the escrow office. Buyers and sellers sign their papers separately. You can expect to spend 1-2 hours signing your closing. From the amount credited to the seller, the closing agent subtracts money to pay off the existing mortgage and other transaction costs. Deeds, loan papers, and other documents are prepared, signed and filed with local property record offices.

WHAT YOU NEED TO DO

One of the best parts of settlement is that buyers and sellers need to do very little.

Before closing, buyers typically have a final opportunity to walk through the property to assure that its condition has not materially changed since the sale agreement was signed. At closing itself, all papers have been prepared by closing agents, title companies, lenders and lawyers. This paperwork reflects the sale agreement and allows all parties to the transaction to verify their interests. For instance, buyers get the title to the property, lenders have their loans recorded in the public records and state governments collect their transfer taxes.

WHAT'S NEXT?

You've done it. You've looked at properties, made an offer, obtained financing and gone to closing. The home is yours. Is there any more to the home buying process?

Whether you're a first-time buyer or a repeat buyer, there are several more steps you'll want to take.

Those papers you received at settlement are extremely valuable, so hold on to them! In the short-term they can help establish tax deductions for the year in which the property was purchased. In the future, such papers will be important for tax purposes when the property is sold, and in some cases, for calculating estate taxes.

Also at closing, determine the status of the utilities required by the home, items such as water, sewage, gas, electric and oil service. You want utility bills to be paid in full by owners as of closing and you also want services transferred to your name for billing. Usually such transfers can be done without turning off utilities.

About two weeks after closing, contact your local property records office and confirm that your deed has been officially recorded. Such records are public notices that show your interest in the property.

MOVING IN

It is generally understood that sellers will leave homes "broom clean" when moving out. This expression does not mean "vacuumed" or "spotless." Broom clean makes sense because it means the house is ready to be painted and cleaned.

YOUR HOME, YOUR MONEY

For most owners a home is the largest single asset they hold, so it makes sense to protect that asset.

Many owners make a photo or video record of the home and their possessions for insurance purposes and then keep the records in a safety deposit box. Your insurance provider can recommend what to photograph and how to secure it.

You want to maintain fire, theft and liability insurance. As the value of your property increases such coverage should also rise. Again, speak with your insurance professional for details.

Lastly, enjoy your home. Owning real estate involves contracts, loans, and taxes, but ultimately what's most important is that homeownership should be a wonderful experience. Enjoy!

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