

What to Expect in the Home Buying Process



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To: Prospective Home Buyer—You!

Buying a home is an exciting process. It is also one of the most rewarding things in life—not just financially but also emotionally. If you've bought a home before, you have probably already experienced this. If you haven't, you will soon discover it!

I wrote this guide to help educate you about buying a home in California. Some of this information might be obvious; you may already know it. Some of it will probably be new to you. I hope it will help you make better and more successful decisions when you buy your new home.

This information is factual and where possible I quote sources. I have also included some of my personal opinions based on my years of experience in the industry.

If you are a homeowner and would like information on selling your home, please contact me for my Seller's Guide. If you are thinking about investing in real estate in California, please contact me for my Investing Guide.

Please feel free to share this guide—just don't change anything: this is accurate information and we don't want any mistakes or inaccuracies to creep in.

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Index

1. The American Dream

- A. Some Rewards of Home Ownership
 - Appreciation and Leverage
 - Property Ladder
 - Make it Yours
- B. Some Responsibilities of Home Ownership
 - Repairs and Maintenance
 - Mortgage
 - Foreclosure

2. First Steps

- A. Know Your Goals
- B. Know the Market
- C. Decide Now is the Right Time to Buy
- D. Find a Real Estate Agent
 - What is a Realtor
 - Referrals
 - Designations – Which and Why
 - Open houses
- E. Prepare for a Loan
 - Know Your Credit
 - Pre-Approval vs. Pre-Qualification
 - What Documents are Required
 - Lending Programs

3. Taxes

4. Some Real Estate Rules

- Everything is Negotiable in Real Estate
- Seller Discloses, Buyer Investigates
- The Smoothest Transactions are When There's a Win-Win Between Buyer & Seller
- No Two Transactions are Ever Alike

5. New Homes vs. Older Homes

6. Making an Offer

- The Home Buying Process
- Price
- Terms
- Contingencies
- Acceptance, Rejection and Counteroffers
- Loan Sign-Off

7. A Buyer's Due Diligence

- Inspections
- Disclosures
- Repairs
- Neighborhood Research
- Schools
- Insurance

- 8.** Escrow
- 9.** Real Estate Agents/Brokers
 - Real Estate Agents vs. Loan Agents
 - Dual Agency
- 10.** Who I Am
 - My Designations
 - How I Get Paid
- 11.** What I Can Tell You and What I Can't
- 12.** Next Steps

References



1. The American Dream

Think for a minute about the home you grew up in. Were there a few homes, or many? If there were many, which home did you think of? What are your memories of the home? Did your family own the home?

For most of us, our memories guide us in our current life, often in ways we don't realize.

You've decided to look for a new home and those memories affect you today. Memories affect how you will look at homes during your home search. Of course, your current needs play a huge part in your home search. Price, schools, access to amenities, neighborhood, distance to work, family and friends, etc., all play a part.

One of the major reasons for becoming a homeowner is the investment. For most of us, our home is the largest financial investment we make in our lives. Being a landowner has always been the American Dream.

In 1803, President Thomas Jefferson pushed for and accomplished the Louisiana Purchase from France. The United States purchased approximately 530 million acres at a cost of about 4 cents per acre—\$15 million U.S. dollars. (It's worth a bit more today.)



Rewards of Home Ownership

Appreciation and Leverage

Why do I bring up the Louisiana Purchase? It's a very good example of how land has appreciated. In California, land value has risen significantly: our weather, location, quality of life, etc., all make living in California desirable. And as the saying goes, "Land, they aren't making any more of it."

OK, you aren't buying a \$15 million dollar "purchase," but your home will probably be your largest investment. The financial benefits of being a homeowner are clear, including appreciation, tax write-offs, and leverage. These are all topics we'll discuss, all with profound affects on you and your net worth. The U.S. Federal Reserve surveys the impact of being a homeowner verse being a renter:

The Impact of Real Estate Ownership on Net Worth				
	1995	1998	2001	2004
Median Net Worth: Homeowner	\$120200	\$143800	\$171700	\$184000
Median Net Worth: Renter	\$5500	\$4600	\$4800	\$4000
The Real Estate Difference	\$114600	\$139200	\$166900	\$180000

From the 1995, 1998, 2001, and 2004 Survey of Consumer Finances compiled by the Federal Reserve.

Another important advantage to being a homeowner is leverage. Leverage is the relationship between an owner's equity and the total debt on the property.

Most buyers buy their home by getting a loan. They are leveraging their home purchase. It allows the homeowner to buy more home than they can pay for with cash. A home is such a great investment because of the relationship between appreciation

and leverage. The home appreciates on the full value of the home, not just on the homeowner's equity.

Let's look at an example:

Home Purchase Price	\$500,000	
Home Loan	\$400,000	
Home Owner's Equity	\$100,000	What's left after paying off the loan

Let's say the home appreciates 5% in the first year:

Home Value after Year 1	\$525,000	
Home Loan	\$400,000	
Home Owner's Equity	\$125,000	What's left after paying off the loan

We see in this example that the homeowner made \$25,000 in equity in the first year, without it costing anything. They've made a 25% return on their \$100,000 investment the first year alone. Put less money down and your return would be even higher. A 5% appreciation in year two results in more than a \$26,000 increase, giving the home owner more than \$51,000 in equity, in just two years.



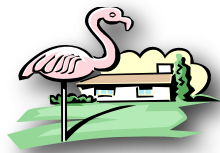
The Property Ladder

Perhaps you don't yet qualify for a \$500,000 home. Maybe you don't have \$100,000 to put down which is a 20% deposit in our example or as a lender would call an 80% loan-to-value (LTV). Property ownership should be taken in stages, or what I like to call the property ladder. What I mean by the property ladder is: don't think about buying the 5 million dollar home on the hill over looking the ocean as your first step.

Take home ownership in steps. Be realistic about what you can safely afford, making a plan to move up the property ladder until you ultimately own your dream home. Perhaps you start out with a condominium or town home, sell in a few years to buy an entry-level single family home and move again in time to a larger home in a better neighborhood. Each step is made easier by the equity from your current home. The way to start climbing the property ladder is to find a solution you can live with that is a good investment, meets your current goals, and is in a safe area.

Make it Yours

Once you have that home, make it yours! You no longer have to worry about the landlord approving your paint choices. Like pink flamingos in the yard? Go ahead, it's your home.



Keep in mind some homes (condominiums, town homes, planned unit communities, etc.) may have rules regarding what you can and can't do. You should make sure you fully understand those rules before buying. Another way to add to your homeowner's equity is by remodeling. Take into account your style and interest and balance that with the tastes of a potential buyer if your goal is to sell soon.

Responsibilities of Home Ownership

Repairs and Maintenance

Owning a home is not just about rewards. It comes with responsibilities as well. Every home requires repairs and maintenance. When you buy the home you should have

a full set of inspections done on the property to get a good idea of the condition of the home.

If you've never owned a home before, ask the inspector(s) about what they've found. A good inspector can advise you on what should be done and when and may have suggestions on ways of keeping costs down. You will also want to perform maintenance on your home (think of it like your car's oil change) to prevent future problems. Some things cost very little, such as cleaning out the gutters. Other things may cost more.

Mortgage

Of course, you have the responsibility to pay your mortgage on time. Unlike rents, mortgages are paid for the previous month. Mortgages are due on the 1st of each month and cover the previous month's use of the bank's money. Paying your mortgage on time has a very good affect on your credit. Paying your mortgage late incurs penalties, drastically negatively affects your credit (even one late month), and may lead to foreclosure, risking your ownership of the home.



Foreclosure

Recently we've seen more foreclosures than in the past. Much of these come from homeowners who have not purchased smartly. Either they could not afford the home and were unrealistic about their purchase power, or they were investor buyers who bought with the expectations of continued appreciation (what we call speculators). The vast majority of homeowners never risk foreclosure.

In a few cases homeowners have experienced real life crises such as loss of job, health issues, and divorce that lead to financial problems. The best thing to do in these

cases is to work with the lender and a real estate agent as early as you can. Many of these foreclosures can be avoided.

While life happens, you can and should plan to be a homeowner. Know your budget before you buy, buy with your head—being honest about what you can afford and really need—save for unforeseen events, and know the terms of your home loan.

2. First Steps

So, how do you go about becoming a homeowner? Like any good investment, plan, do your research, and set clear goals.

Know Your Goals

Probably the most important first step is to understand your goals:

- Where do you want to live?
- Why?
- Number of bedrooms and baths?

Do you have specific requirements such as:

- Schools
- Distance to work
- Ability to access freeways
- How much can you afford to spend monthly?
- How long do you want to own the home?
- Will you move up the property ladder after you sell?

The next step is to prioritize those goals. Understanding what's more important and why helps you decide on which home best fits your needs. It's also important to be able to tell the real estate agent your goals and priorities so that they can work towards them.

Know what you're willing to trade off to meet the most important goals. Your lender should also know and care about your goals in order to help you find the right loan for what you want to accomplish.

Know the Market

Understanding the market will really help during the process:

- Is it a buyer's market?
- A seller's market?
- Are there many homes that fit your goals or only a few?
- What is the current interest rate and types of loans available?
- Are there opportunities to buy a fixer-upper?
- Are there opportunities to buy a foreclosure property?
- Are there opportunities to buy a bank-owned property?

There are many resources to understand the market. Your best resource is a local real estate agent. The local real estate agent knows homes on the market, which neighborhoods are "hot" and which are not, where and if you are most likely to find a home that fits your goals.

Real estate agents also have relationships with lenders, inspectors, Certified Public Accountants (CPAs) and insurance agents. Other resources are the Internet and the media. Keep in mind the goals of these resources. For example, the newspaper's goal is to sell papers and sensationalism does that best.



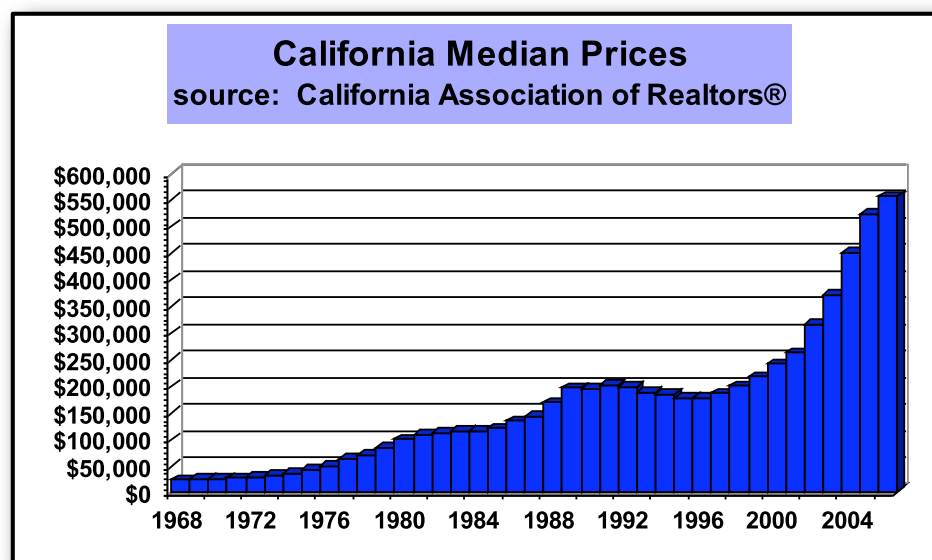
Decide Now is the Right Time to Buy

Only you will know when the right time to buy is. Many things go into exploring if now is the right time:

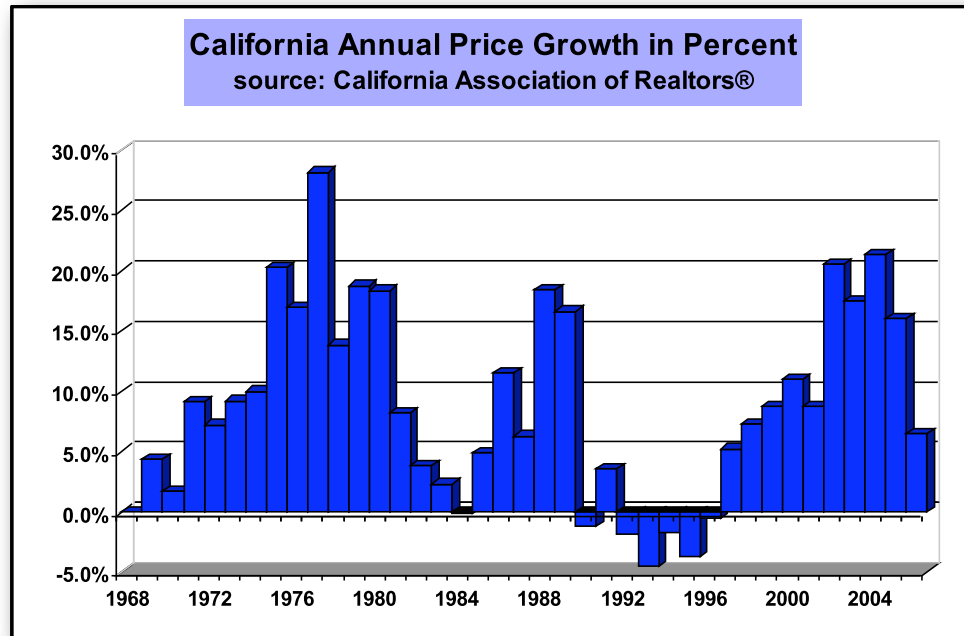
- What is the reason you think now is the right time?
- Is it a financial issue, such as taxes?
- Are you tired of renting?
- Planning on staying in the area for a while?
- Don't think your 401K will be enough to retire on (most are not)?
- Are you moving up the property ladder?

It's important to consider the state of the economy when buying, but the ultimate decision has to come from you and your goals. 2006 and 2007 saw home values decline in the U.S. and in some areas in California. The media constantly reported the rising foreclosures rate.

However, the ultimate value of a home comes down to what the seller is ready, willing, and able to sell at and what the buyer is ready, willing, and able to pay. Basic supply and demand plays a large part in this. Median home values in California have risen on a fairly consistent basis, as you can see in the following graph:



While there are no guarantees, annual average home prices almost always increase in California:



There will always be those who say the “the bubble will burst” and/or you should wait to buy at the bottom of the market. When it comes to buying in California, history shows it’s better to decide when the right time to buy is based on personal goals rather than trying to time the market.

Find a Real Estate Agent

There is no right or wrong way to find the right agent for you. In the last few years we have seen many new agents get into the business. There are however some basic guidelines that can help you make the best possible choice.

What is a Realtor?



Agents and brokers usually belong to a local association of Realtors. They also join the state association of Realtors (for California it's the California Association of Realtors or CAR for short; their website is www.car.org). In California, if you join a local association of Realtors then you must also join CAR as well as the National Association of Realtors (NAR for short; their website is www.realtor.com and is the widest home search site used today).

Joining NAR entitles the agent/broker to use the title Realtor®. It's also required for the agent/broker attend an ethics class and to swear to, and abide by, a code of ethics (requirements can change; these are the requirements I had to meet).

Most agents/brokers are Realtors and subscribe to a higher level of ethics and education. It makes sense as a buyer to work with someone who is a Realtor. You can find Realtors on any of the various Realtor sites, local, state, or national.



See [section 9](#) for more explanation of real estate agents and brokers.

Referrals

As with any business (agents operate as a small business), referrals from past clients are a very good indicator of the qualities of the agent. Ask your family, friends, coworkers which agents they have used in the past and would they use them again? If so, contact those agents and ask for reference letters from their past clients!

Designations—Which and Why

As with many industries real estate has its professional designations. Designations are gained through a combination of performance and education as well as ongoing membership in the organization. The performance and educational requirements are usually fairly significant, in order to give weight to the designation. There are quite a few designations, each recognizing different areas in the real estate industry. There are the important ones you should look out for:



For residential real estate the most important designation is the Certified Residential Specialist® or CRS (website: www.crs.com). You can review the requirements for this designation on the website; they are a combination of extensive closed real estate transactions (buyers and sellers) and education. In addition to the closed deals, there is a time and financial investment to complete the education requirements, and then a financial investment to apply for and maintain the designation.



A very important designation to a homebuyer is the Accredited Buyer's Representative® or ABR (website: www.rebac.com). You can review the requirements for this designation on this website; they combine buyer's representation and education. The ABR designation also requires a time and financial commitment to gain and maintain.

These two designations show a commitment on the part of the agent to providing the best representation for you, the buyer. The agent has already represented other clients and is most likely a full time, experienced agent. You can feel comfortable that this agent has the experience and education to best help you with your purchase.

Open Houses



Open houses are a fun way to see what is on the market. Many buyers start their search by looking at what's available. While this is not a bad thing, there are some things to keep in mind and it's best to have an agent before looking at open houses. Here's why.

It's safe to assume you will, in your lifetime, buy more than one home. When you find a good agent, you'll want to work with them for future purchases and sales. That relationship becomes very strong over the years through trust and joint experiences. The sooner you can start to develop that relationship, the better.

Initially you'll see how the agent works: if she or he listens carefully to your wants and needs, and if you simply like the agent (among many other things). A good agent will listen to you and take note of your feedback on properties, what you like and don't like, how you prioritize things, and what makes you tick. That's the start of a strong relationship.

Give yourself and your agent the opportunity to see if you can work together. Your agent will also have access to properties on the market that may not be holding an open house.

Generally speaking, open houses don't sell houses (it's a very low probability), so most agents holding the open houses are there to meet new clients. If the agent is also the listing agent, his or her goals are first to sell the home and second to pick up new clients.

A listing agent is under contract with the seller to get the most for the seller's home. If you decide you like the home and you don't have an agent, the listing agent may offer to represent you. There are websites, books, and friends that may encourage

you to look for this opportunity and to look to get a commission rebate or price discount by working with the listing agent. This is called dual agency.

If you choose to do this, make sure you fully understand what you are doing. The listing agent is under contract to get the most for the home—but you want to get the home for the least amount possible. In a dual agent situation in California, the agent may not help either party to negotiate any aspect of the transaction.

That means that, in exchange for a relatively small amount of commission rebate or price concession, you are losing the expertise of an agent of your own to help you negotiate all aspects of the purchase (price, terms, repairs, etc.). You could end up making a mistake without ever realizing it. If you are a very experienced buyer, then this may be a strategy that you feel is worthwhile.

Another small word of warning on visiting open houses as a learning process: there's always the risk you may fall in love with a home only to find out you cannot afford it. Now that would be a disappointing thing!

Prepare for Your Loan

There are steps you should take to get prepared for your home loan. By investing time up front, you increase the likelihood of having a smooth process when you are getting your loan.

A word of warning: once you begin the process of looking for a home and getting your loan, don't go out and incur new debt. As much as possible, keep your financial situation the same and work with the loan agent on how to improve it. You don't want to get a house in contract, go out and buy all new furniture on credit before you close, and then find out your credit score has dived before the lender reran your credit. You'll have a lot of new furniture and no home to put it in.

Know Your Credit



Knowing your credit is critical. Your credit scores are one of the biggest factors influencing whether you can get a loan, your interest rate and the types of loan programs available to you. These factors will significantly affect what your monthly payments will be and thus how much home you can qualify for.

Your credit score is kept by three agencies:

- Equifax, online at <http://equifaxproducts.com>
- Experian, online at <http://www.experian.com>
- Transunion, online at <http://www.transunion.com>

Each agency gives you a score, called FICO score. Your lender is going to run your credit report with all three agencies, and look at the three FICO scores (each agency grades credit differently so these scores will vary).

All three of these FICO scores are very important, as are the details of your credit. A FICO score is made up of five factors: Payment History, Amounts Owed, Types of Credit Used, Length of Credit History, and New Credit.

There are quite a few online services that will allow you to check your credit, often for free, to see where you stand. Once you have a copy of your three credit reports, review them. Understand what your score is and look at the section telling you what the negative factors were in your credit. They will list four or more negative factors that are contributing to your score, even if your score is very good. Look at the codes and explanations and make a plan for positive changes.

Another major reason to know your credit score is identity theft. You're better off learning sooner than later if you've been a victim of this crime. If you have, it's your top priority to do what you can to stop and correct it.

A very important factor in knowing your credit early is to correct inaccuracies. However, correcting inaccuracies can take time, even months, and it's better to not find out about issues like inaccuracies or identity theft after you've already fallen in love with a home, made an accepted offer, and then tried to get your financing. Save some heartache by fixing those problems (if you can) before looking for a home.

Pre-Approval vs. Pre-Qualification

It's important to know the difference between a loan pre-approval and a loan pre-qualification.

A loan pre-approval is a commitment (non-binding) from a lender's underwriter (key decision maker) who has looked at all of your paperwork, including assets, debt and income, and has stated that the lender feels you will be able to buy a home for a certain amount given certain loan terms (percent down, interest rate, type of loan). A true pre-approval will be contingent on three items:

- An accepted purchase contract
- A preliminary title report
- An appraisal

A loan pre-qualification represents no commitment by a lender. Sometimes a real estate agent or a loan agent will give a pre-qualification to a buyer to get them committed to and excited about finding a home. The agent will ask about rough numbers and calculate how much the client can qualify for and then begin the home search. Often in these cases the client's credit has not been reviewed.

The easiest way to tell is ask for a letter from the lender or loan agent and review it. Based on the wording you will see if you have been pre-approved (it will

clearly state that it is subject to the three items above and those will be the only conditions). Or you can ask the agent directly.

You should get pre-approved for a number of reasons:

- First, it allows you to get some of the paper work out of the way before you are in contract and things are hectic.
- Second, you will know if there are any credit issues that need to be cleaned up.
- Third, you will know what you are qualified to purchase and the lender will give a Good Faith Estimate (GFE) that details all lender fees, the loan terms and your monthly payments.

Finally, presenting a pre-approval letter with your offer makes your offer much stronger as the seller has less concern regarding your financing. A pre-approval letter costs nothing and does not commit you to using that loan program or even that lender.

A word of warning: once in contract, you should quickly determine which lender you are using and which loan program. Shopping the loan during the escrow period is generally not a good thing to do. Your agent can explain.

What Documents are Required?

Generally, the lender is going to require the last two of everything. They will want copies of your last two month's pay stubs, last two years of taxes and the last two months of all your assets (bank accounts, 401Ks, Stock Broker monthly statements, etc.). If you have problems with your credit, the lender may ask you to pay off some debt and provide evidence of doing so.

Sometimes lenders will ask for letters of explanation regarding past credit issues. Speak with your loan agent and start gathering your records. If you are missing some documents, look for a previous months or a year's summary—and certainly save any new statements that come in.

Lending Programs

It's important to work with your loan agent to understand the various loan programs. You will hear the terms fixed rate, interest only, ARMs, points, etc. Your loan agent should educate you on your options after running your credit and discussing your goals and finances. In many counties and cities there are buyer programs focused on certain types of buyers such as first time buyers, low-income buyers, etc. In addition many organizations offer lending programs to their members such as unions, fire and police, teachers, etc.



3. Taxes

You should discuss homeownership advantages with your agent so you can understand the basics. When you are ready for a more in-depth discussion, you should speak with your tax preparer or Certified Public Accountant (CPA).

Generally speaking, the types of deductions allowed are for your mortgage interest (refinances differ so speak with a CPA), and "points" (pre-paid interest used to lower your mortgage interest rate—speak to your loan agent) paid to close the purchase and property taxes. One way of lessening the blow of the monthly housing cost (mortgage, insurance and taxes) is to increase the number of deductions you claim on your W-9 at work, which reduces the tax withholding in your paycheck.

Property taxes are typically due twice a year: November 1st (late if not paid by December 10th) and February 1st (late if not paid by April 10th). Notice that these are right before expensive times of the year, the holidays and income tax day.

Typically, in the state of California, property tax can be calculated easily: it's 1.25% of the purchase price per year. So if you buy a \$400,000 home, then your taxes will be \$5,000 per year or \$2,500 due on November 1st and \$2500 due on February 1st.

Every property is different, so speak with your agent regarding the taxes on the property. In addition, California implemented two propositions (Prop 60 and Prop 90) that allow older homeowners to take their lower tax rate with them when moving to a new home (subject to county).

As of the writing of this document (2008) the government allows a homeowner to take a \$250,000 (\$500,000 for married couples) tax-free gain on the sale of their home if it was the primary residence for two of the last five years. This is a huge benefit to those homeowners looking to save on taxes when selling their home. There are rules, so speak with your CPA.

If you are buying an investment property or plan to convert your primary residence to a rental home, you should be aware there are ways to defer the capital gains on investment properties by rolling the gain into another investment. This process is called a 1031 Tax Deferred Gain, and there are rules for what you can and cannot do.

Because of complexities, you should plan well in advance of selling your investment property. Ask your agent to explain how to do this and the various rules involved.

Since each person's tax situation is different, it is critical that you speak with your tax preparer.

4. Some Real Estate Rules

There are some basic rules in real estate that are worth discussing. Here's my top four:

Everything is Negotiable in Real Estate

As a buyer, you should be aware that everything is negotiable in real estate. If you are out with your agent and fall in love with a home and you want the credenza in the hallway as well, it can be written into the contract. When writing your offer on a home, you, the buyer, set the price and terms of the offer. Repairs on the home are negotiable. Timing is negotiable. Everything is negotiable!

A word of warning to those who like to negotiate: buying and selling real estate is very emotional. The more complexity you add to the transaction, the more you try to negotiate or renegotiate, the more likely you are to upset the other people involved. Upset others enough and you'll find yourself in a very unhappy situation. The best negotiations are set up front and followed to the finish. Work with your agent in understanding what you want to negotiate and why—and be open to finding alternative solutions.

Seller Discloses, Buyer Investigates

The standard in the state is that a seller discloses and the buyer investigates. Review the seller's disclosures, ask questions, seek third party help and advice, do your due diligence! Your agent can help guide you on where to get answers, but you must ask the questions, read the disclosures, and do the investigation, as only you know what is important to you.

The Smoothest Transactions are When There's a Win-Win Between Buyer & Seller

Very often, the best thing is to find a solution that works for both buyer and seller. If both buyer and seller are happy, then the transaction is much more likely to go smoothly. If as a buyer you "beat up" the seller over every little thing, even the unimportant things, the seller is not going to be happy. If the seller were to do the

same to you as a buyer you may eventually get to the point where you no longer want the home.

Find the win-win and everyone will be happier!

No Two Transactions are Ever Alike

Your agent can guide you through your transaction but no two transactions are ever alike so do not expect anyone to know exactly how everything will turn out. The transaction is as individual as all the parties involved: buyer, seller, buyer's agent, seller's agent, escrow officer, lender, etc.

Execute your side of the contract on time and with purpose, expect that things happen and when they do be prepared and open to finding a solution. No one has all the answers but most issues can be resolved it just takes an effort to find a workable solution.

5. New Homes vs. Older Homes

There are fairly significant differences between buying an older home and a new home.

Typically you will buy a new home from a builder selling a number of units. These range from custom, semi-custom, to completely per builder specifications (no buyer design options). The home may already be built or may be a vacant lot. If the development is large enough the builder will have a sales office, most often at the home site.

In the sales office you can expect to find a sales agent (working for the builder as the seller's agent) and sometimes a loan agent. You should also have access to the floor plans, upgrade choices, development site map, current builder incentives, and

specials on any home(s) the builder is trying to sell quickly. You may also be able to tour the model homes (tastefully decorated to help you fall in love with them).

Most builders use their own contract, so you can expect to see a contract that is as favorable to the builder (seller) as they can get approved. There may not be a contingency period for the buyer, so be careful to understand your rights and obligations before signing the contract.

Many builders will offer incentives to induce you to buy. Incentives take many forms. It's important to consider the value of those incentives before making a decision.

Most builders, particularly in a buyer's market, will "cooperate" with real estate brokers (and thus agents). That means they are willing to pay a commission to the buyer's agent. The hard and fast rule they have is that your buyer's agent must accompany you on your first visit to the development.

The agents hired to work for the builder are very good at remembering faces and capturing your contact information. If you come back later with your agent, your agent will not be paid a commission and there's no agent in the world that will work for free and absorb the liability of helping a buyer for free. So if you are thinking about looking for new homes, talk to your agent before going.

Builders target their marketing to agents (and buyers). Builders very often prefer to work with agents, as an agent's buyer is most often better prepared financially and emotionally to purchase.

A good agent will be able to help you negotiate your incentives before signing the contract, often getting you a far better deal than you would have gotten without the agent. Also, agents will know good times of year to buy from certain builders, how certain builders do business, and what types of incentives to ask for based on your goals.

Some important facts about buying from a builder:

- Price is very often not negotiable as the builder has commitments with their lender on what the homes will sell for.
- Typically the front yard will be landscaped but the side and back yards are not.
- You may receive incentives from the builder's lender but not always the best loan for you, so you should shop around!
- Close of escrow can be delayed (delays in building due to labor or supply shortage, slow sales, weather, etc.) with you having little or no control and potentially no agreement from the seller to release you from the purchase during extended delays.
- With a builder, you will get a warranty on the home; it's important to understand what's covered and for how long.
- There are minimal disclosures required of builders, so you frequently get as little as a Natural Hazards Report only.

When talking about buying an “older” home we really mean the resale of an existing home, which may be six months old or 60+ years old.

A significant difference is that with older homes price is negotiable, although it's often a difficult negotiation as the seller very often has already mentally spent the list price.

Usually resale homes are already landscaped; sometimes that landscaping could use attention. You may find resale homes that are listed as “fixer-uppers” to indicate the need for work to be done on the home. Perhaps there's been deferred maintenance, or the home is simply dated and could use some remodeling. These homes represent an opportunity to “build” equity (sometimes referred to sweat equity when the home owner makes the repairs themselves) by making repairs or remodeling and adding value. Sometimes these homes can be bought below market value.

In the resale market, the state requires (as do local industry standards) certain disclosures from the current owner. While there are exceptions to some requirements, you can expect a lot of seller disclosures regarding a property.

When buyer and seller reach an agreement regarding the sale of an existing home, one of the agreed-upon terms is the close of escrow date. That date is initially decided based on factors of the transaction, goals of the parties and lender requirements, but it's reasonable to see timeframes between 21 days and 45 days.

Delays in escrow in the resale market can and very often do put the whole transaction at risk. It's important for all parties to stick to the transaction timeline defined in the purchase contract in the resale market.

In the resale market, an agent represents the buyer. In most cases that agent is a dedicated buyer's agent. Sometimes the buyer will work with the listing agent in a dual agency situation (more on this topic in section 9). The buyer's agent can be involved from the start or may be involved as late as writing the offer and helping close the transaction. I have never met with a situation (and can't think of any) where a buyer's agent would not be able to work with a client to help them buy a resale home.

Obviously there are significant differences between buying new vs. old homes. You should discuss all your options with your agent before going out to look at any new developments. One last piece of advice: if you are going to look at new homes, ask your agent if they hold the Certified New Homes Specialist designation.

6. Making an Offer

Writing an offer on a property takes planning. You should educate yourself on the home buying process, the market, price ranges and what they offer, what the seller is looking to accomplish, what options the seller and buyers have, etc. The more time and effort you invest, the better prepared you'll be—and the happier you'll be in the end.



The Home Buying Process

There is no right or wrong home buying process, as every situation is different. There are, however, some steps you can expect to happen along the way.

First you should work with your agent to understand what you are looking for, local market activity, tradeoffs, timing, etc.

Next you should plan to view properties with your agent. This is a great opportunity to see what's out there, what your money can buy, how you work with your agent, and educate yourself on what homes offer in certain price ranges. For example, a good agent will show you properties above and below your price range. This is an important step as you will learn the market, see what you get for your money and, in many cases, you will get to the point where you can walk into a home and feel that is overpriced or underpriced.

At some point you'll find a home you are excited about and want to make an offer on. Your agent should begin gathering as much information as possible for you, including speaking with the listing agent regarding the property, and about what the seller wants to accomplish (this is very important as it will help you with your offer).

Unless you have previously read a purchase contract, the first time you sit down to sign one you will have many questions. It may take an hour; it may take much longer. You are making an offer that binds you to spending a lot of money. Take the time necessary to fully understand what it is you are offering, the price and terms,

ramifications, contract language and terminology and seek the professional advice and answers you need. You will also be setting the time limit the seller has in which to respond to your offer.

After you have submitted your offer, you will wait until the seller decides how they will respond. This time is best spent eating ice cream, doing Sudoku puzzles, or catching up on work neglected while out house hunting! Find a way to take your mind off the offer (not going out to look at more property or you shouldn't have made your current offer). When the seller responds then you will take the next steps, which are detailed below in the Acceptance, Rejection and Counteroffers section.

If you get into contract then your agent will work with you on the next steps such as: starting escrow, getting the lender going, inspections, review of disclosures, contingencies, etc. It will be a hectic time. You may want to let your employer know, as your attention will be divided and there will be events you should be involved in (such as inspections) during the workweek. It's better your employer knows you are buying a home than think you are out interviewing for another job!

If you are not able to get into contract, then your agent can recommend next steps such as submitting a new offer or finding a new property. One piece of advice: move on emotionally as best you can. In the vast majority of cases, six months after you move into your new home you will not be thinking about the one you didn't get.

Price

Price is fairly straightforward; it's the amount the property is being sold for. Sellers want more, buyers want less and so the price is most frequently mentioned in counteroffers.

You as a buyer get to decide (most often) what you'd like to offer for the home. To help you with this decision your agent will give you a Comparative Market Analysis (CMA) for the property. The CMA will show recent sales and should also list pending sales (properties "in contract") and current active properties. The properties listed should

be as close to the property you are interested in terms of location, when sold (more recent is better than older sales), beds, baths, size, lot size, etc. Sometimes there are not good comparables, so tradeoffs have to be made.

Review the CMA and ask questions. Go and visit some of the properties if possible. This time spent will help you better understand the list price and the price you'd like to offer on the property. There is no right or wrong answer. The property should appraise for the price agreed to (ask your agent the ramifications if the property does not appraise).

Terms

Any clause or item not related to price can be considered a term. There are standard terms to all contracts such as Escrow Company, close of escrow date, how much money down, etc. The buyer and/or seller can also ask for specific terms pertaining to the purchase/sale of the home. The more terms added to the agreement, the more complexity added to the transaction.

You should work with your agent to determine what terms are important to you and what terms are important to the seller. Agreeing to some or all the terms the seller wants makes your offer that much stronger.

Often very good terms can be presented to the seller in exchange for a lower price. In some cases a higher price may be offered in exchange for some buyer's terms (such as a credit to help with closing costs).

Contingencies

You have made an offer in good faith to buy a property. As part of that offer, you have contingencies on the purchase that allow you to back out of the purchase without putting your deposit at risk. There are important factors involved with this, such as Liquidated Damages, timing, and fraud, so you should be very clear about how

contingencies work. Your agent can explain in more detail and you should seek legal advice if there are specific concerns.

Generally speaking, you will have a contingency for each of the following: Financing, Property Disclosures and Condition (including inspections), and Lead Paint. If the property is a town home or condo or in a Planned Unit Development (PUD) and has a Home Owner's Association (HOA) you should also have a contingency on the HOA paperwork. There are other standard contingencies and if there is something specific you wish to have a contingency on, you can work with your agent.

The seller, by accepting your offer, is taking their home off the market. That means it will likely not be shown and no other interest will be taken in their property. In a declining market, they may be risking some of the value in the home.

Sellers like to see as short a contingency period as possible to minimize their risk of accepting your offer. You as a buyer want as much time as possible as it allows you to back out easily with little to no risk. An acceptable time period needs to be found, and that's typically between 7 and 17 days. Work with your agent to determine what will work for all parties.

Acceptance, Rejection, and Counteroffers

OK, so what happens now that you have submitted an offer? Needless to say, you will be excited (if you aren't, then it's not the right property for you!). You'll be calling or emailing your agent and they should be keeping you up to date on any news when it happens.

A seller has four options concerning your offer. One is "no response to your offer" and rarely happens (only with very low offers); they ignore your offer and you hear nothing. A good seller's agent will never do this and at the very least communicate the rejection verbally to your agent.

The most exciting response is the seller accepts your offer! Congratulations, you have reached contract ("In Contract"), and now you will be working with your agent to execute the purchase contract.

The most disappointing response is the seller rejects your offer. This may be because they have a better offer (from their perspective), or that your price and/or terms were not what they were looking for. There is no requirement that the seller give you a counteroffer. If you have a good buyer's agent they can usually find out from the seller's agent why the offer was rejected. Take heart, you can always resubmit an offer with different price and/or terms.

The final response is that you get a counteroffer. Most counteroffers are one or two pages. The counteroffer indicates the changes from the offer that the seller would like (on existing or new terms). For example, if the seller agrees to your close of escrow date but wants a higher price then the counteroffer will reflect the higher price only. Both parties have agreed to the term of close of escrow date so no counter is required on that clause/item.

If you get a counteroffer, that's a good thing (usually). You know what it will take to get the offer agreed to from the seller's perspective. You then have the same choices the seller had with your offer. You can ignore or explicitly reject it. You can accept it in which case you are now "in contract." Or you can make a counteroffer to the seller's counteroffer. This can get confusing, as you can counteroffer the sellers counter-offered terms and/or you can counteroffer with new or previously agreed to terms.

Keep in mind that counteroffers can go back and forth. Until all parties agree to the price and terms and there is an acceptance, anything can happen. Your agent will explain risks and ramifications as you go. At any time, including after submitting an offer but before the seller's response, you can withdraw your offer or counteroffer. A withdrawal must be done in writing and time is critical, so work with your agent.

Loan Sign-Off

At some point before closing you will need to sign your loan documents. This is typically done about one week before closing, to give the lender enough time to get the documents back from escrow, review the paperwork, and wire the funds to escrow.

Each person on the loan must bring ID for the loan sign-off. A driver's license will be sufficient. Your agent will work with you to set up your sign-off and you should expect your agent (and sometimes loan agent) to be there with you. It takes approximately 45 minutes per note to sign-off.

Sign-off is most typically done at the escrow office although arrangements can be made to sign-off in alternate locations and outside business hours. There is usually an additional fee for this, typically \$75 - \$150, but you should verify first.



7. A Buyer's Due Diligence

In the state of California the seller discloses and the buyer investigates. You as a buyer should plan on doing your due diligence. For most buyers, the purchase is the largest investment they have made in their lives. Take the time you need to understand what you are buying, do your due diligence, and never assume you know the answer.

Inspections

There are no required inspections—it's a choice the buyer makes at the time of the purchase. As a buyer you should be aware of the types of inspections available to you. The most common inspections are a Property Inspection and a Pest Inspection.



The property inspection should give you a good picture of the state of the house, specifically concerning structural, mechanical, electrical, and plumbing. The inspector should also indicate the general condition of the roof, chimney, and other key components of the home.

When contracting a property inspector, you should make sure you clearly understand what they inspect, how they inspect it, and what their findings mean. Make sure that if you have something specific you want them to inspect you give that information to the inspectors so that it gets done.

A property inspector is not allowed to quote repair costs. Fees for this inspection can vary by area and are approximately \$200 - \$500. Your agent will know local rates.

A state licensed pest control inspector conducts the pest inspection (or termite inspection or pest control). The pest inspector looks at wood destroying pests and organisms. Specifically, they look for things like termites, wood boring beetles, and water damage. The inspector will classify his findings as Section 1 (active infestation of wood destroying organisms), Section 2 (past evidence of infestation), and Further Inspection.

The inspectors are allowed to, and typically do, quote repair fees. Sometimes the lender will require a section 1 clearance, which means that the section 1 work identified by the inspector has been completed and the inspector has granted a section 1 clearance. Unless the lender requires the section 1 clearance there may not be a requirement to have the work completed at time of close of escrow or even at all.

Most pest inspectors do not make a living off the inspections—they make a living off the repairs. Very often the repair costs quoted can be completed for less than the

quoted costs if competitive trades skill professionals are engaged. Sometimes the pest inspectors quote a cost and subcontract the work, taking a fee for doing so.

You should be aware of what has been classified as section 1 and 2, what is a priority to repair and if a section 1 clearance is required, what competitive quotes can be gotten, etc. Fees for the inspection vary by location, as do repairs. Typical inspection fees run \$150 - \$250; ask your agent about local costs.

Other common inspections include roof, pool, and chimney inspections. Many other types of inspections exist and you should work with your agent regarding the property and the information you need.

Disclosures

The seller has the responsibility to disclose what they know about the property. There are statutory required disclosures, industry standard disclosures, and local disclosures.

Your agent will know what disclosures to expect. Different areas of the state make disclosures available at different times. Some areas have the seller complete disclosures and make them available for a prospective buyer before making an offer.

In most areas of California, the seller completes the disclosures after accepting an offer from a buyer. Make sure you get your disclosures promptly and read them completely, asking questions and for more complete or current information as needed.

Repairs

Before closing escrow, the buyer may request repairs. You must thoroughly understand:

- What repairs you wish to request
- The timing of those requests

- The seller's response to a request for repairs
- Who will be making the repairs
- Verification of repairs

Your agent will help you with this process. You should also discuss with your agent the ramifications of making an "As-Is" offer before making any offers with this term/clause.



Neighborhood Research

You will be living in the neighborhood—get to know it! Don't wait until you've moved in to find out about the neighborhood.

If you care about barking dogs or neighborhood through traffic or local amenities, you need to research them. Do it before making an offer or during your contingency period. Work with your agent and let the agent know what your concerns are so they can suggest ways of researching to get the answers you want. Your agent can't do it; it's your concern, not the agent's, and only you can feel confident you have the answers you want.

Two great ways to learn more about a neighborhood are driving around the neighborhood during different times of the day and week and speaking with neighbors.

Schools

Schools are extremely important whether you have children or not. Schools have perhaps the biggest affect on a home's value. That affect will be felt when you sell the home, as well as if you refinance the home.

You must do the research to determine the schools for a specific property. Do not rely on what the agent tells you. Schools can be changed for a home without an agent knowing. Overcrowding may result in new students having to attend a different school. School funding cuts or even closings can have major impact as well. The best way to determine the actual schools, at the time of purchase, is to call the school directly and ask them. Make sure to understand any significant school problems in the area.

A useful online resource is www.greatschools.net.

Insurance

Once you own your new home, make sure it's insured. If you have a loan, the lender will require insurance. You have to have this insurance in place before closing escrow.

In fact, the best time to plan for the insurance is when you get into contract. You should speak with your insurance agent and determine your options regarding deductibles and premiums. In addition, you should understand if you want—or the lender requires—flood insurance. You should also discuss earthquake insurance with your insurance agent.

If you are buying a condo or townhouse, the Home Owners Association (HOA) probably has insurance. Your lender may not require you to carry more insurance, but you should understand what the HOA insurance coverage is and what additional coverage you should have.

For example, most HOA insurances do not cover internals. Should a unit burn down, for example, you will be responsible for replacement of drywall, paint, flooring, fixtures, cabinetry, counters, and appliances, as well as all your belongings. This adds up very quickly. If you have little to no equity and no savings, what will you do? Where will you stay in the meantime? Know your coverage and get the insurance you need.

It's also very important to find out if there have been any prior insurance claims against the property. Prior claims affect both the insurability and the premiums of a property. Review the disclosures and ask for information on previous claims (if any). Another good tool is the Comprehensive Loss Underwriting Exchange (C.L.U.E) report, which outlines any previous claims. Ask your agent for this information.



8. Escrow

In California, the real estate transaction is done in escrow (some other states use attorneys, primarily on the East coast), and is processed by an escrow officer. The escrow officer will work with the real estate agents, lender, buyer, and seller to execute the transaction.

Different areas of California handle escrow differently. Some notable differences include: when escrow is opened, when escrow instructions are signed, Escrow companies vs. Title companies, and what the escrow officer does during the transaction. Your agent can explain the local customs and what they mean to you.

The length of escrow is set by the agreement of the buyer and seller. Typically in California the escrow period is 21 days to 45 days. There's not much point in escrow being longer than really needed so choose a timeframe that makes sense. Your agent will know more about this.

9. Real Estate Agents/Brokers

In the state of California, the Department of Real Estate (DRE – website: www.dre.ca.gov) issues licenses for agents and brokers. An agent must work under a

broker (or brokerage); a broker may work solo, have agents working for them, or may work for another broker (typically seen as a Broker Associate or Associate Broker).

Real estate agents are sole proprietors. They are responsible for their marketing, advertising, budgeting, and expenses; they are taxed at higher tax rates (including paying both employers and employees social security taxes), errors & omissions insurance, etc.

The agent pays the brokerage for what the broker offers the agent, typically the right to do business under that broker's name, a website and email, some lead generation, some advertising, use of business machines such as fax and photocopier, etc. Agents pay the brokerage for this right in the form of commission splits, royalty fees, and monthly fees. For a newer agent, this total cost to the brokerage can be 56% of a transaction commission or more. For more experienced agents the fees are less but still substantial.

The real estate brokerage is actually responsible for the transaction. The brokerage gets paid from escrow and then pays the agent their portion. The brokerage reviews all paperwork, approves documents, etc. When a listing for a house to be sold is taken, the agent takes the listing, but the listing is really with the brokerage, and thus it's the brokerage that works for the seller.

Real Estate Agents vs. Loan Agents

Some brokerages allow their agents to help their clients to obtain the home loan. This is not recommended for a number of reasons, not the least of which is as a buyer you want a dedicated professional to handle your real estate purchase (the real estate agent) and a dedicated professional to handle your home loan (the loan agent). Both of these jobs are full time professions and as a buyer you should be seeking experience in both areas. Additionally, a real estate agent who also originates loans (or a loan agent who does real estate transactions) may not have the focus, contacts, and experience needed to do the best job for the client.

One important aspect to a real estate agent is her or his team. The team members (or affiliates, as they are called in the industry) are professionals with whom the real estate agent has built relationships.

There are two key team individuals: the loan agent and the escrow officer. It's critical the loan agent work in conjunction with the real estate agent, as they both must work to close the purchase in the client's best interest.

All parties rely on the escrow officer to continually do his or her job in a professional manner. Other members of the team include inspectors, a CPA, contractors, and handymen. In most cases, the real estate agent constantly reviews the work of the team to make sure that the current and future purchases go as expected.

Dual Agency

There are pages of law written about dual agency. The topic is outlined here because entering a transaction where there is a dual agency situation has important ramifications on buyers (and all parties).

Dual agency is when the brokerage your buyer's agent works for is the same brokerage the seller's agent works for.

Your agent, either as a buyer's agent or as a seller's agent, has very definite responsibilities to you. One of those responsibilities is to help you negotiate your purchase for as little as possible, with the best possible terms for you. The seller's agent holds the same level of responsibility to the seller as your agent does to you: the seller's agent must help the seller get as much for their property with the best possible terms.

The issue with dual agency situations is that the agent must suspend their responsibility to help buyer and seller negotiate. Thus, as a buyer you may lose your agent's experience, insight, etc., into all aspects of the purchase where there could be a

conflict due to dual agency. This would include price, terms, who pays for inspections, repairs, closing costs and credits, etc.

If you have a listing agent who is willing to give you a “rebate,” the true cost of that rebate may be far more than you realize (and probably far more than the rebate) when they have to suspend their ability to help you negotiate—not to mention they have a written contract with the seller with whom they have been working and have known longer than you.

Before signing any contract (listing agreement, purchase contract, buyer-broker agreement, etc.), your agent should discuss agency with you and should have you sign an Agency Relationship Disclosure Statement. The agent should clearly state what type of agency is involved, and you should ask questions about what it means to you.

10. Who I Am

Commitment to the highest ethical standards, uncompromising honesty and integrity—my mission is to provide the highest level of service for my clients through education, communication, and dedication.

Born and raised in Massachusetts, I am a graduate of the University of Massachusetts, School of Management. For over fifteen years, I worked in the Information Technology and High Technology markets in a variety of capacities including management, technical sales, customer support, marketing, and development. Through these roles, I developed very strong project planning and negotiation skills.

I always go above and beyond the call of duty for my clients; it’s the norm, not the exception. I want a mutually beneficial long-term relationship—not short-term gain.

I stay current with the market by looking at properties, examining contracts, and understanding market trends. This allows me to better represent you when the time comes to buy or sell a home.

I focus on your needs at all times, and leverage my negotiation skills to your benefit. When in contract, I communicate with you clearly and immediately about the process. As your agent, I believe “time is of the essence.” My goal is to help you close your transaction successfully!

My Designations



Designations are very important to me. I am proud of receiving my CRS® designation within two years of entering the industry. I also hold my ABR® and Senior's Real Estate Specialist® (SRES®) designations. As well as these three designations, I am also a Certified New Homes Specialist, and I have earned the Accredited Seller's Representative® (ASR®) designation.

I have a continued dedication to education, most recently completing classes in home auctioning and in risk mitigation.

You should expect your agent to care about education and designations!

How I Get Paid

How do I get paid? As a buyer's agent, the seller compensates me at the time of close of escrow. The listing agent sets the commission I receive at the time the listing agreement is signed with the seller. I have no control over the commission I am offered. The commission varies depending on property.

As a buyer, there are very few instances where you would write a check to me. The most common instance where I ask you to write a check is for the deposit on the

property—and the check will be made out to the escrow company. I will hold the check and forward to the escrow company after acceptance of your offer and then only per the terms of the contract. The escrow company will then cash the check and you will get a receipt for the amount to reflect your deposit into escrow.

I would prefer to never handle your money, even if it's a check made out to a third party such as an inspector. I ask that you arrange payments directly with such third parties, and I will be happy to help you arrange this.

In very few cases there are properties being sold where the seller is not offering a reasonable commission to the buyer's agent. Most common are listings that offer less than 2.5% commission to the buyer's agent and For Sale By Owner's (FSBOs) who do not feel they have to cooperate with a buyer's agent. In those rare cases I will tell you in advance and we will discuss the situation and hopefully find an agreeable solution or tactic.



11. What I Can Tell You and What I Can't

It's important to remember that your real estate agent was licensed by the state to conduct real estate transactions. Unless they have passed the state bar exam they cannot practice law. If they have not passed the Certified Public Accountant's exam they are not a CPA and should not be relied on totally for your tax questions.

A real estate agent can give you general information about things like how to hold title, mediation and arbitration, your taxes, etc., but if you have a specific question

about how something affects you, you should seek the advice of an appropriate professional.

12. Next Steps

Hopefully, this guide has helped you by filling in some blanks and given you an idea of what to do next, what will happen, and what to expect.

I have helped many buyers and I can help you. If you already have an agent, let's meet anyway! We can get to know each other and if for some reason your agent is not available I can be available to help you. It's always smart to have a plan B.

I take a low-key, low-pressure approach with my clients. The first step is to meet for approximately 45–60 minutes to discuss your goals. After that meeting, we'll have a plan to move forward. We'll move at your pace and I can help get you in touch with a lender if you do not already have one.

When you look at houses, I will be with you, hearing your feedback, seeing your reactions, and listening to what you think. I learn very quickly what works for you and what doesn't. In most cases I find the home for the buyer while out previewing homes and then have the buyer come see it. Many times I have "felt" I had found the right home for my buyers—and been right.

I would also like to share with you some of my references for past clients. My hope is that we can forge a lifelong relationship. I want you to be excited to refer me to your family and friends and I know you will only do that when I give you the best possible service. **That is my commitment to you.**

I hope this guide was useful, and I wish you happy house hunting!



Chisholm Gentry

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www.cgentry.com

References

"I believe what I liked most about Mr. Gentry was his caring attitude." - ER

"Interested in tying up loose ends after the purchase. You are a very gifted real estate agent." - RT

"Chisholm has displayed a high level of professionalism based not only on his extensive knowledge of the field of Real Estate, but also on his dedication to each and every client." SA - Lender

"Chisholm matched our intensity and energy and guided us through the ups and downs of house hunting with professionalism, perspective, and a well-timed sense of humor. In every way a real estate agent can excel, Chisholm did. He knew what we were looking for and without him we might have never found our beautiful home." RC & JR

"Chisholm remained in close contact with us throughout the process, did far more work than was required of him, never complained about the number of phone calls, responded to any dilemmas we were having and stood by us through and after the close of escrow. Overall he is a very hard working, determined, likeable, persistent, and able bodied negotiator whose interest lies in helping people find a property they will love." CW & SP

"Not only were you our Realtor, you've become our friend and gave us advice when we needed it." PH & KH

"Thank you for making the home buying process as stress free as possible. Your quick response to new homes on the market was invaluable in attaining the right property." MJ

"In terms of the personal touch, and, especially for a first-time home buyer like myself, you were the 'knight in shining armor.'" TL

"We had many Realtors to choose from (especially since I am a lender with Countrywide) and were pleased with our decision to work with you." RV & JV