Helpful information for buyers and sellers

Buying FSBO:

Buying a home directly from the owner has many advantages, not the least of which is saving money. The seller has priced the home more competitively by eliminating some or all of the real estate commission that is normally built into a sales price. The purchaser of a FSBO home also has the advantage of working directly with the seller, which means the FSBO purchaser has the opportunity to find out more about the home.

Making the Decision to Buy FSBO:

The motivation to buy a home directly from a homeowner is you can save thousands of dollars. To effectively compete, a seller will price a home at, or slightly below the market value of the home. The seller is aware that he/she has anywhere from three to seven percent "negotiating room" because a commission will not be paid on the transaction. Therefore it's in the seller's best interest to sell FSBO because he/she can sell faster (because the home should be more competitively priced than those listed or sold by full priced real estate agencies) and ultimately net more from the sale.

Sound confusing? It's really not. Take the example of a $200,000 home. Assume a full service agency commission for the sale is seven percent, or $14,000. In this scenario, the seller will only net $186,000 from the sale. If the seller sells on his own, then the price can be significantly lowered by several thousands of dollars, say to $195,000 and the seller benefits by $9,000 (the difference between the $195,000 sales price and the $186,000 net proceeds if listed with a full service agent). The buyer benefits by $5,000 because the purchase price was $5,000 less. It's a win-win situation for both buyer and seller. Both benefited financially and more than likely, the home was on the market for a shorter period of time.

Why Buy For Sale By Owner:

1. SAVES YOU MONEY!

Buying directly from the homeowner in a "For Sale By Owner" transaction can save you the cost of the real estate commission. The 6-7% commission that is typically charged by real estate agents will often times be added to the total cost of the home. When this is done, YOU (the buyer) are the one that will end up paying the commission.

Buying a home in a "For Sale By Owner" transaction can cost you less money and you can get **MORE HOME FOR YOUR MONEY!!**

2. SAVES YOU TIME!

You deal directly with the homeowner rather than through a third party. Communication is more direct, faster, and to the point. You will get more accomplished in a shorter length of time which means **YOU CAN BE IN YOUR NEW HOME SOONER!**

3. EASY TO DO!

Some people think that purchasing real estate from anyone other than a real estate agent or broker is difficult. This myth is very far from the truth. Purchasing "For Sale By Owner" is simple.

Getting Pre-Approved for your loan:

Becoming pre-approved for the purchase of a home is essential if you want to spend your time wisely. If you're pre-approved for a mortgage loan, then you know exactly what price home you can buy. Pre-approval is different than pre-qualifying and the difference is important.

- **Pre-approval** means a buyer has gone through the credit and full verification process of a mortgage lender, and the lender is ready to write the check. A pre-approval is a lender's firm commitment on a loan. This lets you to enter into negotiations with the seller with confidence.
- **Pre-qualify** simply means that certain financial data has been provided to a lender and based on the information provided, a buyer should be able to afford a home in a determined price range, but nothing has been verified as to the true credit-worthiness of the buyer. A pre-approved buyer is gold to a home seller. It's the best position a buyer can be in when negotiating a home purchase.

Getting pre-approved can also eliminate a lot of stress for both parties. If the buyer is aware of the amount of the home that can be purchased, then looking at and making offers on homes out of the price range is avoided. There's nothing more disappointing than to find the home of your dreams only to be told by a lender that you do not qualify for the loan. It's disappointing for both buyer and seller, and can be easily avoided by becoming pre-approved for the home purchase.

Why is being Pre-Approved so much better than being Pre-Qualified!

What's the Difference?

Every mortgage lender can offer you a "pre-qualification." It's usually done on the spot and costs nothing. This can be misleading, because just like free advice, a "pre-qualification" can be worth just about what you paid for it. To be pre-qualified, a lender will ask you the following questions:

What is your monthly income? (Gross wages and/or salary, plus any recurring overtime pay, bonus, commissions, child support, etc.)

- What are your recurring monthly payments? This is what you pay out every month on debts, loans, credit cards, child support, etc. It DOES NOT include other things like utilities, insurance, groceries, etc.
- The lender will then subtract your recurring monthly payments from your monthly income. A portion of what's left will be used to repay your mortgage loan.

For example, a borrower and co-borrower have combined monthly income of $7,000 per month. Their car payments, minimum monthly credit card payments and student loans take up $1,200 a month. This borrower and co-borrower could afford:

- A monthly principal and interest payment of $1,046. This would allow them to get a 30 year fixed rate Conventional mortgage at 8% interest; and buy a $150,000 house with a 5% down payment.
- A monthly principal and interest payment of $991. This would allow them to get a 30 year fixed rate FHA mortgage at 8.5% interest; and buy a $130,000 house with a 3% down payment.
- A monthly principal and interest payment of $1,514. This would allow them to get a 30 year fixed rate VA mortgage at 8.5% interest; and buy a $193,000 house with a 0% down payment.

But here's the potential problem with Pre-Qualification:

The lender issues the "pre-qualification" contingent upon the information they were given. Once the borrower and co-borrower in our example sign a purchase agreement, they will actually apply for financing approval. If any of the information changes between the pre-qualification and the actual application, the pre-qualification is null and void … useless. Often, it can be a very honest mistake. For example, the borrower and co-borrower miss-add their combined income. It's only $6,800 a month, not $7,000. Or, they overlook a credit card balance that requires a $50 a month payment. Simple things, but they can derail your next home purchase.

Get Pre-Approved!

How can you avoid these pitfalls? Insist on a "pre-approval!" What's the difference? Pre-approvals take a little longer (up to 48 hours) because you actually begin the application process up front. Also, there is usually a nominal charge for a pre-approval, to cover the cost of a copy of your credit bureau report. In a pre-approval, the lender will also verify your income. So, knowing what you make and what you have to pay out every month, the lender can issue with confidence a pre-approval letter stating that you are pre-approved up to a monthly payment of "X" in principal and interest.

A pre-approval letter from a lender is a powerful negotiating tool for the buyer! It's like walking into the purchase negotiations with cash. The last thing a seller wants to do is pin his or her hopes on the buyer getting approved for financing, just to see the whole deal fall through if the buyer can't get approved. This could cause a costly and inconvenient delay for the seller of the house to move on to their next house as well! Consequently as the potential buyer, with a pre-approval letter in hand, you could negotiate a lower price for your dream home because the seller knows it's like cash in hand!

Pre-approvals can speed your move as well! With the application process already started, income verified and your credit bureau report already a part of your file, once you sign the purchase agreement for your home, the only things left to be done are:

- Obtain an appraisal on the property.
- Wait for the title work to be completed.
- Schedule the loan closing.

Very often with a pre-approval, you can close on your home loan in just two weeks after you've signed the purchase agreement! So, pre-approvals can save you time AND money ... they're greatly preferred over just a "pre-qualification!"

How much can I afford?

How much of a mortgage loan can I qualify for?

You can usually obtain a mortgage valued at between two and three times your annual household income, assuming you have an average debt load.

What if I have had credit problems?

You will need to explain the circumstances. If you have over come the problem and kept up with your obligations on a timely basis for a year or more, most lenders will accept your mortgage application.

What is "private mortgage insurance?"

Private mortgage insurance may allow you, even if you do not qualify for an FHA-insured or VA-guaranteed loan, to purchase a home for as little as 5% down. Such coverage requires a monthly insurance fee to be paid.

Who are "Fannie Mae", "Freddie Mac" and "Ginnie Mae"?

Instead of asking "Who are" you might ask "What are."

"Fannie Mae" is the colloquial term for the Federal National Mortgage Association, an institute incorporated by Congress which buys and sells conventional residential Mortgages, as well as FHA-insured and VA-guaranteed mortgages.

"Freddie Mac" is the Federal Home Loan Mortgage Corporation, an agency that purchases mortgages from insured savings institutions and HUD-approved mortgage bankers.

The government National Mortgage Association**—"Ginnie Mae"—**funds residential mortgages insured through the FHA or guaranteed by the VA.

What is the difference between fixed rate mortgages and adjustable rate mortgages?

The differences are that fixed rate mortgages are offered with an interest rate that remains unchanged for the term of the loan. Adjustable rate mortgages sometimes referred to as ARMs and also called variable rate mortgages, have rates that change at predetermined intervals during the term to reflect general interest rates.

What is a "convertible mortgage"?

This is a mortgage that allows a borrower to convert from an adjustable rate to a fixed rate during specified time periods. An additional fee usually applies.

What is an "adjustable interval"?

This is the time between changes in the interest rate and/or the monthly payment on an adjustable rate mortgage.

What is "amortization"?

Amortization is the division of principal and total interest charges into equal payments that will result in the complete payment of the debt by the end of a fixed period of time.

What are “points”?

Points (sometimes called “loan discount points”) are pre-paid interest on your mortgage, Charged at closing. Each point is equal to 1 percent of the mortgage amount.

What does “APR” stand for?

This stands for Annual Percentage Rate and reflects the annual cost of the mortgage, taking into account points and other credit costs. The APR can be used to compare the annual cost of different types of mortgages.

What is an index?

An “index” is a financial reference rate on which a lender bases mortgage and other loan rates. Typical indices include the rate of return on 1-, 3- or 5-year U.S. Treasury bills or the monthly average interest rate on loans closed by savings and loan associations. As this rate goes up or down so too will your mortgage rate.

What is a “buy-down”?

A “buy-down” occurs when a lender lowers the interest rate on a mortgage—for a fee—for the first few years of the loan.

What are “caps”?

“Caps” are limits that are placed on the changes allowed in the interest rate and/or monthly payment on an adjustable rate mortgage.

What is “locking-in”?

“Locking-in” means that - - for a fee—your lender will guarantee the interest rate on your mortgage for a limited period, regardless of fluctuations in market rates. If you are concerned that rates will go up between the time you apply and the time the loan closes, you should lock-in.

What is “PITI”?

It is simply “Principal, Interest, Taxes and Insurance”—the components of your monthly mortgage payment.

What is an appraisal?

An estimate of the value of the property you intend to buy or reference.

What is closing?

“Closing” is the date set when the buyer, seller and lender, or their agents, agree to legally transfer the property and all associated funds, or reference the property.

What happens at closing?

This is also called the “settlement”. The buyer, seller and lender, or its agents, meet and legally transfer the property and all associated funds.

What is “escrow”?

“Escrow” is the process wherein a neutral, third-party is responsible for carrying out the buyer’s and seller’s instructions and paperwork relating to closing. Escrow can also refer to an account set up by the mortgage lender into which a portion of each mortgage payment is deposited to cover insurance and taxes, or an account set up to hold funds for needed repair.

What are “closing costs”?

“Closing costs” are those costs that include the mortgage broker’s fee, discount points, appraisal and title search fees, insurance charges, survey fees and other charges associated with the legal transfer of the property. These costs typically amount to between 2 percent and 3 percent of the mortgage amount.

How often do I have to make mortgage payments?

This depends on the lender you choose as you may select from monthly, bi-weekly or weekly payments.

What happens if I'm late with a payment or miss a payment?

Continued delinquency (late payment) or defaulting on mortgage (failing to make one or more payments) can lead to foreclosure, or judgment against you on the note for the amount owed.

What if I want out of my mortgage?

You may pay off the loan prior to the end of the term. Some mortgages do have a prepayment penalty, but many do not. Ask your lender about the program for which you are applying for.

Making an Offer to purchase your new home:

Negotiating the Deal

A deal is successful when both you and the buyer are happy with the terms. The negotiation process should be friendly and non-confrontational. After all, you're both winners… they're getting a new home and you're able to move on.

Presentation of An Offer

The presentation of an offer/contract can be handled several ways and often times is dependent upon the buyer since they are the party making the offer. Any of these scenarios and others are possible.

- You and the buyer meet to discuss terms face-to-face before it is put into writing to come to a meeting of the minds. Once you have agreed in principle, a contract needs to be drawn up that documents the agreement.
- Your buyer has their attorney prepare a contract and presents it to you.
- Your buyer has a real estate agent and that agent makes the offer to you on behalf of their client, the buyer. In this scenario, it is assumed that you have agreed to co-op with real estate agents.

If your prospective purchaser is working with a buyer's agent (real estate agent) or had an attorney draft the contract for them, it is important that you understand that they are representing the buyer and not you. If you are not an expert and in this situation, our advice - hire a real estate professional to handle the negotiations on your behalf to ensure that you are adequately represented. Even if you are not in this position, it is advisable for you to get professional assistance in documenting the contract for the sale of your home.

Once an offer is presented, your options are as follows:

- Accept the offer as is, sign it and it becomes a binding contract.
- Counter-offer back to the buyer by making changes in the offer and initialing the changes. The buyer has the option of walking away if the changes are unacceptable to them, but this makes them know you are interested in selling them the house and keeps negotiations open.
- Decline the offer – meaning telling them no thanks, their offer is so far off that you do not wish to counter. Our opinion is that this is never a good decision. If their offer is way off, make a counter. It can't hurt to try.

There are numerous issues that can arise during a negotiation, far more than we can address here, but it is worthwhile to discuss a few that you should understand and be prepared to handle.

Buyer Offers a Low Price

If the offer is lower than the range you are willing to accept, counter offer a little below your asking price. Be prepared to go through several counter offers. You also consider asking the buyer how they arrived at their offer. It is possible that the buyer may have done more research than you and has good evidence that your price is high in comparison to the market. If this happens, then you'll eventually have to drop your price - no matter who buys the property. If the buyer tells you this is all they can afford, then very likely they are not really qualified to buy your home so don't spend a lot of time negotiating.

Buyer Has a House to Sell Before They Can Buy Yours (The Contingent Offer)

Accepting an offer contingent on the sale of another property has many pitfalls. If possible, you should avoid accepting an offer of this nature. Your first response should be to suggest to the buyers that they get a bridge loan. They will need to qualify to carry both houses at the same time. If they can qualify, you can extend the closing date on your house to give them the time to

sell their house. That way, they have the time they need and you have a guarantee that they will close on your house regardless of if they sell their current home.

If they can't qualify for the bridge loan, but it seems reasonable to you that their house will sell and these buyers seem like good prospects, you should consider amending the offer to include a "Contingent on Sale of Home" addendum or clause. This contract language means that you continue to market your house, and if you get another offer, the first buyers will have 24-48 hours to prove that they can perform on their contract without selling their current home and remove the contingency on the contract for your home. If they don't, they lose their first position on your home and you are allowed to sell the property to the new buyer. In this scenario, they will get their earnest money returned and you are free to accept a contract with the new buyers.

It is important to note that if you include the "Contingent on Sale of Home" Addendum or clause, you must make an agreement with the new buyers that their contract is contingent on the first buyers being released. This is a good example of necessary, but tricky contract language that makes getting the assistance of a real estate professional advisable.

Buyer Wants To Do a Lease-Purchase (or Lease-Option)

This means the buyer wants to rent the property for a period of time and then purchase it during or at the end of the rental period, which is when you get your money. A lease purchase is often used to sell less desirable properties or to sell properties in a slow market. It is also used in lieu of other contingencies. If a buyer has a house to sell and can't qualify for a bridge, a lease-purchase can be a good solution.

The Offer Is Contingent Upon The Buyer Obtaining Financing

This is very a standard situation since most people do not pay for a house with cash; however, there are certain financial contingency circumstances that you want to avoid as a seller.

Generally, you should not enter into a contract that is contingent on the buyer receiving a certain interest rate, certain points or other similar terms. Let the buyer know that it is fine for them to shop around to get the best mortgage terms, but that the contract must say that that they will take "market" terms. This means that the buyer can't get out of your contract just because interest rates go up - unless they no longer qualify for the loan.

Buyer Has Too Many Personal Property Items in the Contract

If it's not nailed, fastened or attached to the House, it is not included in the sale unless the buyer has made special provisions for it in the contract. Buyers and sellers must be careful because if there are too many valuable personal items in the contract, the mortgage lender may deduct the value of these items for the purpose of the mortgage. These items will also not be included in the appraised value of the property, which can also cause the buyer financing problems if the property does not appraise as a result of including many personal items.

Sale is Contingent On The House Passing Inspection

A home inspection is separate from an appraisal and is becoming common practice for this contingency to be in real estate contracts. The purpose of the home inspection is to disclose the condition of the property to the buyer; the contract usually sets a limiting dollar value for repairs within the contract. As a seller you do not want an open-ended clause, it needs to be capped.

It is important to note, that in New York State, the law requires a Property Condition Disclosure by the seller for purposes of property condition and history. In some cases, it may be prudent to opt to have your home inspected prior to putting it on the market. This shows potential buyers that you are selling a structurally and mechanically sound house and brings any known issues to the forefront immediately. Regardless of when it is done, a prudent buyer will require an inspection and you should expect it.

Several times in this section, references were made to engaging professional assistance for contract and negotiation assistance. If you are not well versed in these items, we believe you are best served by getting assistance. This is not say that you will not save lots of money by not using the traditional system, just that you should not cut all the corners if you are not in a position to do so. These types of services can be procured from attorneys, title companies and real estate professionals.

Moving to your New Home:

The first decision regarding your move is whether you are going to hire a professional moving company/van line or do it yourself. Either way, you'll find a wealth of information available from the moving company/van line or a truck rental company.

Regardless, chances are you'll pack some things yourself. You probably will handle certain valuables or irreplaceable items even though a van line may move the box or boxes with the majority of your other household belongings. Whatever you pack should be properly labeled and well identified if the box or boxes contain fragile items. If you use a moving company, they are responsible for any damages and will usually exert caution on items they pack. Be alert to the various provisions for insurance and make sure that you are properly covered for problems.>

If you're packing and moving yourself, it's even more critical to label.

Often you'll think, "I'll remember what's in this box" because it's heavy, light, big, little, etc. Wrong! When your new garage has three hundred boxes in it, you'll be lucky to remember what was in the last box you packed, much less what it looks like. Also, when you're moving yourself, you'll probably use "used" boxes from retailers, liquor stores, etc., which tend to already have writing on them. You may find it helpful to buy tablets of colored paper or simple construction paper. Tape two pieces of the same color paper on at least two sides of the box. Write on one of them what the box contains. Then assign each room of your new home a color; literally tape a piece of colored paper on the door to the room. When you're moving in, you simply put the boxes in the corresponding room, i.e., yellow-labeled boxes go in the room with the yellow paper on the door. You'll find this very helpful when you have children, friends or relatives helping with the move.

Moving is never easy, it's in the top ten stress factors of life. But, there are things that can be done in advance to make it as simple as possible. Look to the professional for advice.

Notice to Sellers:

Don't waste time negotiating or accepting an offer from a buyer who is not at least pre-qualified) by a mortgage professional. If they have not been pre-qualified have them call your mortgage professional so that you can continue negotiating.

Nothing is more upsetting than taking time with a Sunday cruiser who was out looking for their dream house before they know what they can afford. Almost everyone wants more house than they can afford.

Keep in mind that BUYERS want to obtain the LOWEST PRICE and BEST PRICE for themselves.

It is recommended that you DO NOT DISCUSS the following types of information with any BUYERS or REAL ESTATE AGENTS that represent buyers.

1. Reason for Selling.
2. Motivation/urgency to sell.
3. Willingness to consider an offer less than the listing price.
4. Terms under which you would sell.
5. Relocation, timing, benefits of relocation policies etc… if applicable.
6. Items of personal property that you "might" be willing to include in a sale.
7. Any confidential information that would serve to disclose your negotiating strategy.

Once you have a Potential buyer,

Don't let the contract and transaction details kill the deal.

(If the deal dies, you are back to square one)