UNDER-STANDING THE DIFFERENT OFFER OPTIONS WHEN BUYING A HOME

SAMMAMISH MORTGAGE

MULTIBLE OFFER SITUATIONS

After months of searching, you've finally found your perfect home. You sit in your Realtor's® office and write up an offer. You initial every page and sign the last one. You write a check for the deposit to show the seller you're serious. You're hoping to get the best deal possible, so you've decided to offer a bit less than the asking price. Everything is negotiable, isn't it? Besides—if they don't like your offer, they can always give you a counter-offer.

Then you wait. And wait.
After what feels like several lifetimes, your Realtor® calls.

"I'm sorry to tell you this," she says, "but they didn't accept your offer." Your heart sinks. "What kind of counter-offer did they give us?" you ask. "They didn't. There was another offer on the table, and they took that one instead of yours."

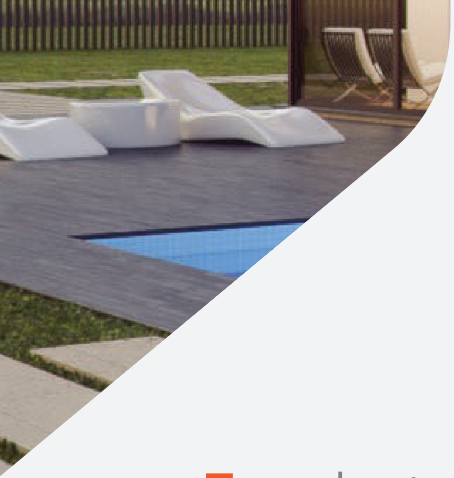
**And that's that.
Back to square one.**

WHAT'S INSIDE?

This scene plays itself out over and over again, not just in the Seattle area, but all over the country. As the housing market continues its recovery, buyers are finding themselves unexpectedly competing with other buyers—and too many times, they lose when they might have won.

This book will give you some ways to come out on top when you are making your offer to buy your new home.

What the seller thinks




THE SELLER

To understand how to come out ahead when you make your offer, you must understand what is going on in the seller's mind; after all, they are holding the cards at this stage.

You may think that the seller is considering price above all else, but this is not necessarily the case.

Their first concern—even above price—is whether the sale will go through. After the disaster of 2008 and the mortgage crisis that followed it, lenders began to raise their standards for loan approval. While it's true that some lenders did over-react at first, the reality is that they simply returned to traditional underwriting principles: borrowers must prove that they are a good lending risk. Lenders today require full documentation of income and assets, with pay stubs, verification of employment, tax returns and more.

This does not mean that getting a mortgage is particularly difficult, but the common perception is that the process is, in the words of one pundit, "insanely difficult."

What is the process?

UNDERSTANDING THE PROCESS

Because of this perception, sellers and their agents believe—incorrectly—that a buyer with a 20% down payment or more has a better chance of getting approved than one with 10% cash down or less. If the seller is looking at two competing offers that are identical in every respect but the down payment, the offer with the larger down payment will win out almost every time. The seller will get the same amount of cash in each case, but their belief that the offer with the larger down payment is somehow more likely to close. This will lead them to accept the larger one.

Real estate today tends to be more impersonal than in earlier times. Years ago, real estate agents would personally present their buyers' offers to sellers. This gave them an opportunity to advocate for their buyers, to tell the sellers how nice the family was, how much they'd enjoy living in this beautiful home.

Today, listing agents inform buyers' agents, "Accepting offers on Friday." Buyers' agents now fax or email offers to the listing agents, cross their fingers and hope for the best. Sellers make their decisions solely based on the numbers written on the Residential Purchase Agreement form. There little, if any, human interaction involved. All your hopes hang on a bundle of fax paper. It is as impersonal of a process as one can imagine.

CHANGING THE GAME

Now that you have some idea about the seller's state of mind, you can adapt your approach. Let's look at the essential mortgage component first.

Your pre-approval—showing your best face

You should already know that you need to be pre-approved for your financing before making an offer. Many sellers won't even consider an offer that doesn't provide some assurance that the prospective buyer has at least started the mortgage process.

What you may not know is that there are different kinds of pre-approvals. At the lowest level (and least credible) is a "prequal letter." This typically is a letter from a mortgage loan officer stating something like, "John and Mary Jones are prequalified for a loan of $300,000." While the loan officer may have gathered necessary documentation and pulled a credit report, a letter like this has little weight with the seller. It is not specific enough to convince the seller that the buyer has an excellent chance of getting the necessary financing.

LET'S GET SPECIFIC

A true pre-approval is very specific. It specifies the amount and terms of the financing they need for the purchase. It states the documentation that the borrower has provided the lender for the application. It indicates to the seller that the borrower's loan application has been pre-underwritten and that there is a tentative approval based on those parameters. This is the most common kind of pre-approval.

This would be a good time to mention contingencies. Most real estate offers contain one or more of them. A contingency—sometimes cynically referred to as a "weasel clause," is a portion of the contract that gives the buyer a way to get out of the contract if something happens or fails to happen. Two of the most common are the loan contingency and the appraisal contingency. They are so common that they are written into almost every real estate Residential Purchase Agreement.

The loan contingency states that if the buyer is unable to secure the financing specified in the offer, he will be allowed to void the contract (walk away) and receive his initial earnest money deposit back. In other words, if for some reason the loan falls through, the borrower isn't penalized. Loan contingencies generally must be removed within 17 days, although buyers and sellers are free to negotiate other time frames.

So what does this mean?

THE POSSIBILITIES

What the loan contingency means to the seller is that if he accepts that offer, the sale is not a sure thing until the end of the contingency period. In other words, it's still up in the air until the buyer removes the loan contingency—but the property is off the market during that time.

The appraisal contingency works in much the same way: if the appraised value is lower than the agreed price, the buyer gets to walk away from the contract with no penalty. In those instances where a property's appraised value is lower than the agreed price, the buyer and seller commonly renegotiate the price based on the lower appraised value. Just as with the loan contingency, the transaction is uncertain until the buyer removes the contingency.

Some buyers can pay cash for a home, without applying for a mortgage. These buyers have a powerful advantage; with no mortgage involved, there are fewer contingencies—possibly no contingencies at all. From the seller's point of view, a cash offer is a sure thing. From the seller's point of view, there is very little uncertainty involved with an all-cash offer.

STRENGTH & WEAKNESS

You can take some steps to minimize the uncertainty in your own offer. The first step is to get a stronger pre-approval, called a "TBD approval." With this approach, your loan officer submits your loan application and documentation to the underwriter as though you had already selected your property. The underwriter reviews and approves your application even though the property is "To Be Determined" (TBD).

When you make an offer with a TBD approval, you can assure the seller that your lender has reviewed your file and approved your loan and is just waiting for the purchase contract, appraisal and other property-related documents. Knowing that you have a loan approval (not a "pre-approval"), you may decide to omit the loan contingency from your offer.

Waiving the loan contingency puts you on nearly the same level as the cash buyer. The seller knows that if you are unable to complete the purchase, they may be able to keep your earnest money deposit as "liquidated damages." A word of caution is in order here. If you decide to waive the loan contingency and something unforeseen comes up at the last minute, your loan could fall through and your deposit could be at risk. You should have a conversation with your loan officer before committing to an offer with no loan contingency.

BARGAIN POWER

If you have a TBD approval in hand but are nervous about waiving the loan contingency, you can still enhance your chances of coming out ahead when competing with other offers. You can do this by showing the seller that your loan has been fully reviewed and approved by the underwriter. Your loan officer can add this assurance in the loan approval letter to make it more persuasive.

The appraisal contingency presents another level of uncertainty to the seller. No one knows for certain what an appraiser's opinion of the property's value will be. The lender bases its loan on the lower of the purchase price or the appraised value. Let's say you have offered $400,000 on a property and intend to make a 20% down payment with a $320,000 loan. The appraiser thinks the property is worth $390,000— $10,000 lower than your offer price. With an appraisal contingency, you can go back to the bargaining table with the seller and say, "I know I agreed to pay $400,000 for your property, but now that we have a $390,000 appraisal, that is what I am willing to pay."

The seller knows that you have a right to walk away and get your deposit back, so they are faced with the choice of renegotiating the previously-agreed price or losing the deal altogether. Faced with low appraised values, buyers and sellers commonly renegotiate the price to the lower figure.

But what if the seller doesn't want to reduce the price in a case like this? If they say, "That's my price—take it or leave it!" you do have some choices. You can put up more money, because the lender will base their loan on the appraised value. In this example, your 80% loan would be $312,000. This would mean paying an additional $8,000 down to buy this property for the agreed price. If that's not an option for you, there is another choice available to you.

In a case like this, you can complete your purchase in almost the same way, with $80,000 as a down payment and a $320,000 loan. The difference is that the lender now considers that this loan is more than 80% of the appraised value—82% to be exact. Lenders require mortgage insurance any time the loan is more than 80% of the property's appraised value.

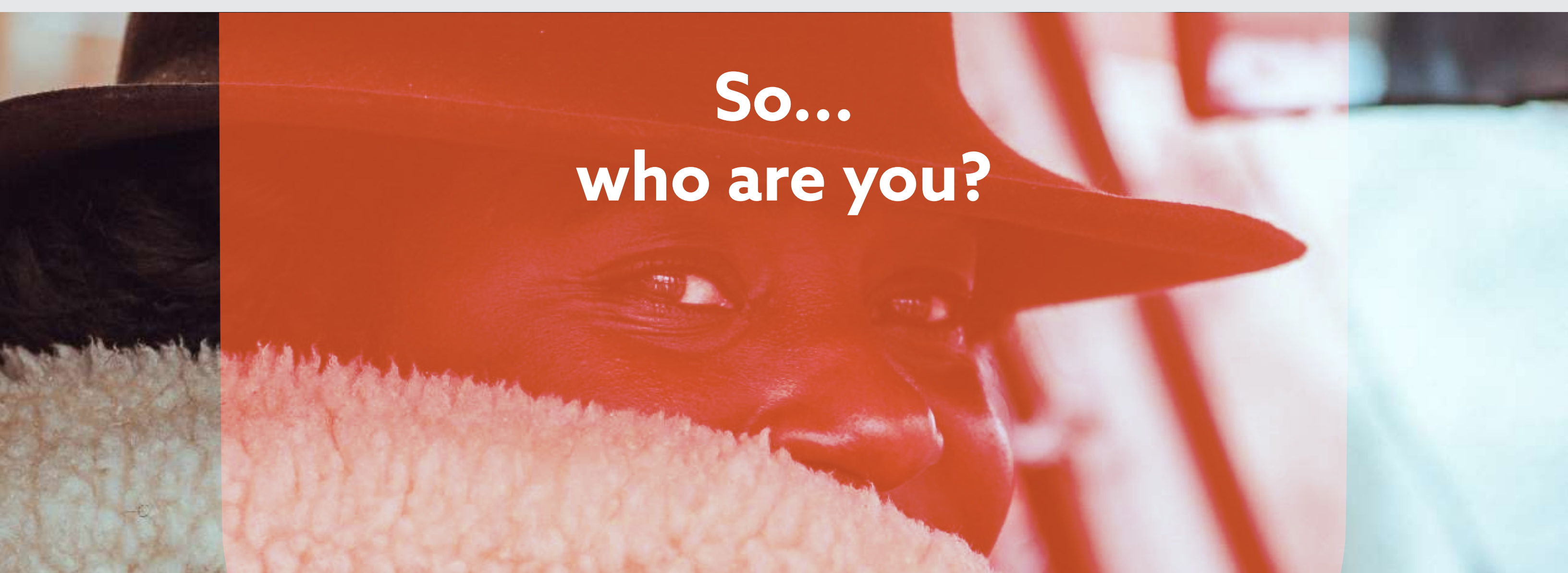
What else can you do to enhance your offer?

A FEW FACTS

Having to pay mortgage insurance may seem to be an unattractive prospect, but you should be aware of some facts about mortgage insurance.

First is the cost. Depending on your credit score, the monthly mortgage insurance premium could be as little as $50 per month. The second fact is that mortgage insurance is temporary. Once you can prove to the lender that your loan is lower than 80% of your home's value, they'll let you drop it. If you're faced with this kind of choice, you should check with your Sammamish loan officer for the details of removing mortgage insurance.

If you're willing to waive the appraisal contingency, you can provide another layer of certainty to the seller. This is one other thing you can do to "supercharge" your offer.



YOUR PERSONAL STORY

There are few life events as emotionally charged as buying or selling a home. Even though today's technology has apparently removed much of the human element, there are still real people behind the paperwork. The sellers may have owned the home for decades. Much of their family's story is in the bricks and mortar. Regardless of their personal situation, they are selling much more than the bricks and mortar.

As the buyer, you are placing your hopes and dreams in that home; you may hope to start a new life within those walls. Even though technology may be trying to remove the emotion from the transaction, you can put it back into the picture and gain a competitive advantage.

What I'm going to recommend next may seem to be over the top, or unnecessary. But please bear with me.

CONNECTING

You should write a personal letter to the seller.
Your agent will include this with your offer and pre-approval letter. You should tell the seller how much you love their home, and how much you're looking forward to raising your family there. You shouldn't be afraid to include your personal story in this letter. Some of our clients have even included family photos with their letter.

The letter doesn't have to be fancy, or literate—you are becoming a person instead of words on a form. By writing a letter we have seen cases where a seller accepts a buyer's offer instead of others that were higher. Reading the letter, they say, "We want THAT nice family to own our home!"

Writing your letter to the seller may take you a few minutes. There is no disadvantage to doing this, and a great deal of possible benefit.

What opportunities are there
if your the only offer?

IF YOU DON'T HAVE TO COMPETE

Your real estate agent should tell you whether you are competing with other buyers. Being on stage all by yourself gives you some options you don't enjoy when there are other offers. For one thing, you may have the opportunity to negotiate the price by offering less than the seller's asking price. If you are the only offer on the table, you may be able to ask the seller to accept a price lower than his listed price. If he doesn't like it, he can give you a counter-offer.

Even when you're the only offer on the table, you should still follow the advice we're given you in this book. You should also keep in mind that as you are trying to negotiate a "good deal" with the seller, there is still the possibility that someone else could come out of nowhere and make an offer as well. Until you and the seller have come to a final agreement in writing, you are at risk of having a "spoiler" present a better offer. By making your offer as attractive as possible, you'll find that the seller will see the negotiation process as being more of a meeting of the minds than a battle of wills.

YOUR PLAN

You've created at least a simple budget. You have identified the "leaks in the payroll," those items that you have been paying money for, but which don't fill a need or bring you joy. Now it's time to make your plan to get out of debt.

Your first step is to determine how much money you can allocate to retiring these accounts. Some of this may come from cutting your discretionary impulsive spending, while some may come from other expenditures you have decided to suspend. It is completely up to you, but you must make a deal with yourself to stick to your plan. We will call this your "debt-killing money."

Next, gather recent statements for all your credit card accounts. Put them all in one place. Although there are multiple approaches in retiring credit card balances, we'll use the simplest one; we will identify the account with the smallest balance. Let's say that it has a balance of $1,000. You will direct your debt-killing money each month to that account until it is paid off. You will make minimum payments on the other accounts.

What have we learned?

THE BOTTOM LINE

Buying a home, whether it is your first or your fifth, can be a stressful process. It doesn't have to be that way. Remember the advice we've given you in this book:

1) Understand the seller's concerns about uncertainty
2) Get the strongest possible pre-approval before making an offer
3) Consider waiving contingencies for loan approval and/or appraisal
4) Write a personal letter to the seller to help make your case

All of us at Sammamish Mortgage are here to be a part of your home buying process from the beginning.

We wish you the very best!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