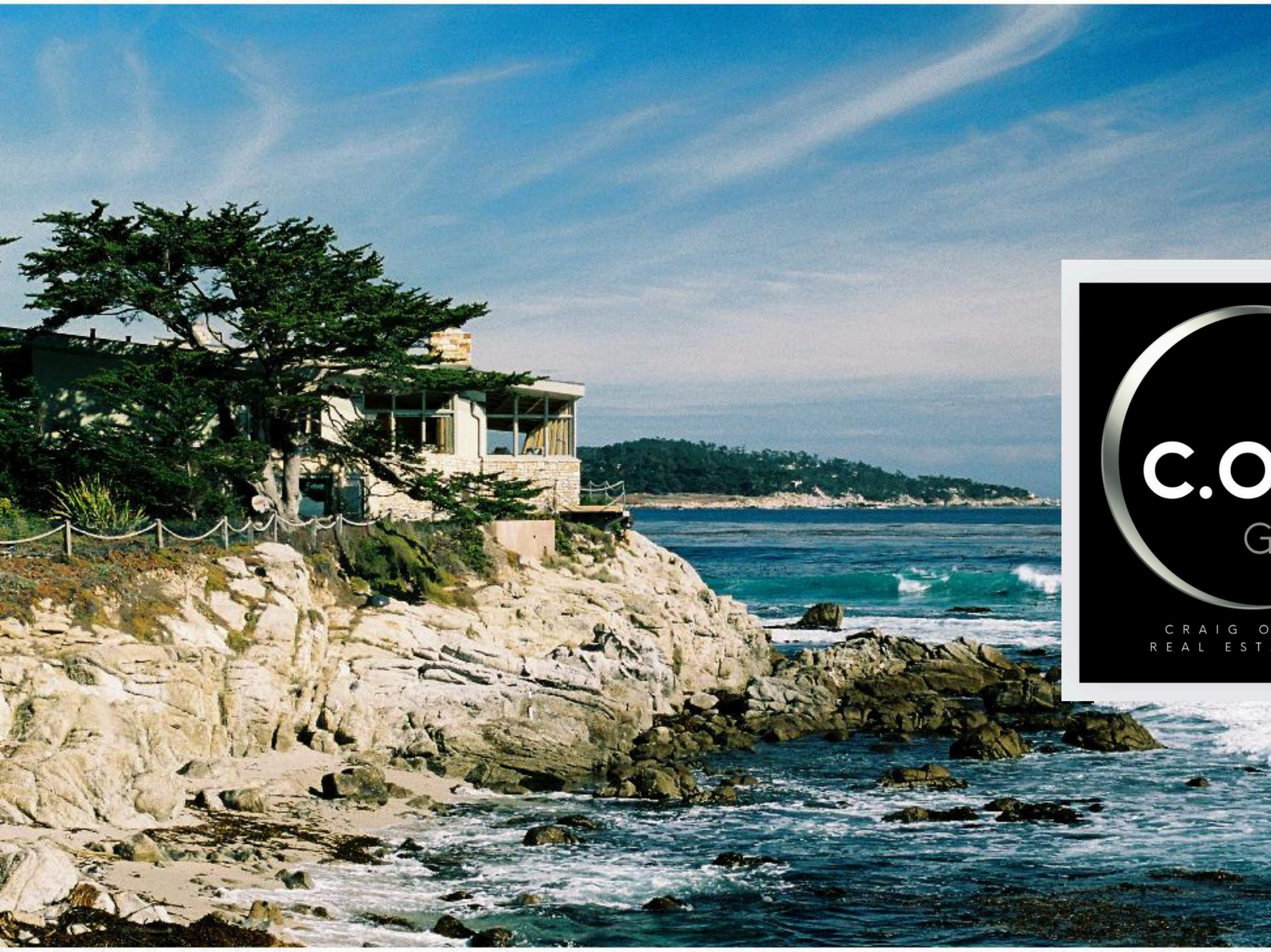

the C.O.R.E. GROUP

CRAIG O'ROURKE REAL ESTATE GROUP

YOUR NEW HOME

A COMPREHENSIVE BUYER'S GUIDE TO UNLOCKING THE CALIFORNIA DREAM

ESSENTIAL STEPS AND PITFALLS TO AVOID

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INTRODUCTION

Buying a house can be a stressful process. That is why I wanted to create a quick guide that talks about both the purchase process and possible mistakes to avoid. This guide, in which each chapter will be subdivided in "sub-sections" for ease of consultation, is simply a summary, and only highlights the major steps of the process itself.

Each purchase can be a unique situation, as different circumstances and people are involved every time. Because of that, each transaction should be treated as a case-by-case scenario, that may also present unique challenges. Each step can have ramifications which I encourage you to discuss with your Agent.

Just like a puzzle, the home-buying process is composed of many pieces that need to fall in the right spot but, unlike a puzzle, buying a house also entails the necessity to respect a precise timeframe (as much as possible).

A good portion of the following observations will also apply to the purchase of an investment property which, though, will require some additional evaluations, as the financial performance of the property itself becomes a parameter of primary importance.

IMPORTANT NOTE ABOUT BUYERS AGENT'S COMMISSIONS

I am sure you have heard about the settlement that involved the National Association of Realtors.

Despite what keeps being said about the Buyers Agent's commissions, it is not true that Sellers will no longer have to pay for them. In fact, commissions have ALWAYS been a term to be negotiated between property owners and their Listing Agents, and many Listing Agents will keep suggesting their clients to offer commissions to the Agent representing the Buyer(s).

Most importantly: please do not forget that **you can ask your agent to visit ONLY properties that offer commissions to the Buyers Agent.**

As of 08/17/2024, the main differences with the past common practices are:

- Commissions for Buyers Agents will no longer be advertised on the MLS (but can be advertised on social media, for instance).
- Buyers MUST sign a representation agreement with their Agent before seeing a house.

Regarding commissions not being advertised, I can only make one comment: Buyers Agents can still call the Listing Agent and ask if commissions are offered. You will not be left wondering whether you'll have to pay for commissions or not.

Also, to avoid any additional confusion about this delicate topic, I would like to quickly summarize the different main scenarios that you, as a Buyer, may encounter on your path to ownership, once your Agent calls the Listing Agent(s) of the property/properties in which you are interested. Granted that it is important to have a conversation about the commissions your Agent is charging and to reach an agreement before any showing takes place, here are the different possibilities:

1) Seller offers to pay for the full amount of your Agent's commissions.

This is obviously the simplest scenario and does not change anything from what has happened so far in the past, aside from some additional/different forms and documents.

2) Seller offers to pay for your Agent's commissions, but not the full amount.

In this case, you can still try to ask the Seller to pay for the full amount as a term of the offer, you can decide to pay for the difference, or you can decide to look at another property or work with a different Agent. (If you decide to work with a different Agent, make sure that there are no obligations toward the previous Agent, that may have been established with a Representation Agreement. In this regard, MAKE SURE to have a deep and detailed conversation with your Agent).

3) Seller does not offer to pay any of you Agent's commissions.

What said in the previous point, still applies. As I previously mentioned, since your Agent can still call the Listing Agent to verify if commissions are paid, you will likely be aware of the terms.

Regarding the Representation Agreement to be signed, I can only (and strongly) encourage you to discuss it with your Agent.

There are though, a few important points:

a) You will not be forced to write an offer on a property just because you visited it;
b) The Representation Agreement can be limited to one (or more) properties, and you can decide to go see other properties with another Agent [be careful about the provisions of the representation agreement you may have signed with a previous Agent, especially in regard to the properties you have seen with them, and verify if the Agreement was exclusive];
c) The Representation Agreement can be limited to a specific timeframe. In theory, even just the time to see one house.

I hope I have been able to reassure you and/or clarify this very confusing topic.

Let's now analyze all the main steps of the purchase process…

1. WHY IS IT IMPORTANT TO WORK WITH A BUYER AGENT?

Topics:

a) **Timeframes and duties.**
b) **Negotiating the best possible deal.**
c) **Avoiding possible mistakes**.
d) **Evaluating the "cost of waiting"**.

Before we dive into the main points of the actual purchase process, there is a very important question to answer: when buying Real Estate, why should you work with an Agent who only represents you, as opposed to working with the Listing Agent?

As per what stated in the Agency Disclosure form (which is signed along with any listing agreement or purchase agreement, depending on the case), dual agency is legal in California (at least as of August 2024) as long as it is disclosed and accepted, meaning that both parties are aware they will be represented by the same Brokerage and accept such condition. Sometimes, dual agency also means both seller(s) and buyer(s) will be represented by the same Agent/Broker (other than by the same Brokerage), and the same need for disclosure and acceptance of dual agency still applies.

Having that said, there are, in fact, a few good reasons as to why it can be a good idea to work with a buyer's Agent:

a) **Timeframe and duties**. When it comes to the timeframe it is easy to understand: if you go to an open house, it means the Agent who listed it has executed a Listing Agreement with the Seller(s). Therefore, the contractual obligations and the fiduciary duty of utmost care toward the seller, to which the listing agent is bound through the provisions of the listing agreement, arose before you even saw that property.
b) **Negotiating the best possible deal**. This should be the easiest reason to explain, yet this point is not always something buyers think of.
   Let's use an example: if I am the listing agent of your property, it is my duty to try to maximize the sale price

YOUR NOTES:

(utmost care toward the seller). As a seller, would you be happy if I took the buyer's side in a negotiation on the price? On the other end, if I am representing both you as a buyer and the seller, would you be happy to know that there are facts (such as willingness to accept a lower offer) that I cannot disclose because of my duties toward the seller? As a buyer's agent I still wouldn't be aware of those facts, but I would be allowed to negotiate primarily in your interest.

c) **Avoiding possible mistakes**. Yes, we all do make mistakes. Good faith mistakes, of course. Let's assume that you are planning on buying an investment property (easier way to explain this point). The elements you will want to verify are mostly related to the financials of the investment itself, along with the actual inspection of the property. Would it be a bad idea to have someone "on your side" to make sure that the disclosed information is accurate? What if the listing agent was wrong in the evaluation of how much revenue the property can generate? Or in the evaluation of the operating expenses that, as property owner, you will have to sustain? The same approach can be applied to residential real estate. Wouldn't you want to make sure that the price is really aligned with "comps"? You can also think of it in these terms: if you decide to purchase a used car, while trusting what the seller/dealer tells you, wouldn't you prefer checking it out with your trusted mechanic?

d) **Evaluating the cost of waiting**. The mathematics behind a home purchase are not very complicated…but still require some attention. It is true that assumptions about the future can only rely on guesses based on historical data and no one knows for sure what will happen, yet there are a few easy calculations that will allow you to understand if it's appropriate to purchase at a certain point in time, or if it could be a better idea to wait. I must recommend talking to your Agent and making all the necessary evaluations.

YOUR NOTES:

EXAMPLES

YOUR NOTES:

1 - Timeframes and duties

Let's assume I was listing a property for $1,000,000, with such price being the amount that was agreed upon on the listing agreement.
My fiduciary duties of utmost care toward the seller(s) entail my obligations to do my best to sell that property for <u>at least</u> $1,000,000. This obligation also exists if the seller confidentially told me that they would be willing to accept a lower offer. In some cases, I may be allowed to tell prospective buyers something to the effect of "there may be room for negotiation" (if the seller agrees), but I would not be able to disclose the exact number, as the existing obligations toward the seller(s) still mean that "I must do my best to make the most out of the sale".

How does this apply if a buyer who is not represented by another agent, walked into an open house and asked me to represent them? Once again, it is very simple: I would <u>not</u> be allowed to tell them that the seller is willing to sell for $950,000. If you are thinking that it may be an uncomfortable situation, you are not wrong. I would still be able to write an offer for whichever amount the buyer wants to write it, but I would not be able to use information I received from the seller to leverage the offer or facilitate the buyer.
To summarize: while duties such as honest and fair dealing, good faith, and diligent exercise of reasonable skills are always owed to all parties involved, the duty of utmost care is primarily owed to the part with which we first signed an agreement and the Agency Disclosure. In the case of a listing, that form is first signed with the seller(s) as it is specific to that property.

<u>**Lastly, I need to be extraordinarily clear about one aspect: what I said above does not mean, on any level, that a listing agent would not be able to do an outstanding job while representing both parties (in fact, I have had instances in which I was in a Dual Agency situation). It only means that there would be some limits on what can be disclosed, and that those limits are imposed by the duties I previously mentioned and summarized. If you, as a buyer, decide to work with the Listing Agent, just keep in mind that there may be limitations to what that Agent is allowed to disclose and in the negotiation of the deal.**</u>

YOUR NOTES:

2 - The cost of waiting

In this paragraph, we'll evaluate two examples with the purpose of understanding the cost of waiting. These numbers refer to a strong sellers market (like the market we have been experiencing in the last few years in L.A. County), in which properly priced properties tend to receive multiple offers and sell above asking.
For ease of consultation of the following results, let's make these assumptions based on current average conditions (early April 2024):
A – Purchase price: $1,000,000.
B – Interest rate: 6.5%.
C – "Future" interest rate: 5%.
D – "Future" increase on prices: 15%. (This number is based on an average increase the market has witnessed in 2021 and during the first months of 2022 - some multiple offers scenarios have seen properties selling roughly 30% more than the listing price).

Let's now see what the monthly payment could be:

Current purchase (full price, full rate)		Future purchase (higher prices, lower rate)	
Purchase price	**$1,000,000.00**	Purchase price	**$1,150,000.00**
Down Payment	**20%**	Down Payment	20%
	$200,000.00		$230,000.00
Amount Borrowed	$800,000.00	Amount Borrowed	$920,000.00
Interest Rate	**6.50%**	Interest Rate	5.00%
Duration (years)	30	Duration (years)	30
Number of payments	360	Number of payments	360
Insurance	**$1,500.00**	Insurance	$1,500.00
Taxes	**$12,500.00**	Taxes	$14,375.00
Monthly Payment	**$6,223.21**	Monthly Payment	**$6,261.68**

While the monthly difference is minimal, there is a difference nonetheless, especially in regard to the downpayment.

Disclaimer: these are simple examples of what evaluation could be done. Every purchase must be evaluated at a specific point in time, under specific market conditions. E.g. if the market experienced a reduction in prices (which usually occurs only with higher inventory and/or lower demand), numbers would likely change.

2. GETTING PREAPPROVED

Topics:

a) **You will know exactly which properties you can afford.**
b) **You will know exactly what the closing costs related to the loan will be.**
c) **You will know if your lender will allow buydowns.**
d) **You will have the time to apply for the strongest possible approval.**
e) **You will be able to write an offer in the shortest possible timeframe.**

Let's now get to the core of this guide and go through some details about the first step of the purchase process: the preapproval.

I know getting approved for a loan is often a step prospective buyers take after starting to browse the internet for properties but, unless you are planning to purchase in cash, I firmly believe it is advisable to get a strong preapproval before you even start looking for homes. Obviously, a cash offer does not require any approval so, if that's the case, you can skip to the following chapter.

One detail that I always want buyers to keep in mind: the amount for which you will be approved does not necessarily need to be all spent on the purchase of the property. In fact, if the approved amount is higher than the actual purchase price, your offer may be perceived as stronger than those which preapproval amount matches the offer amount. We will discuss more details about the specific topic of the offer's strength later in this guide.

Lastly, while talking to your lender, make sure to have a thorough conversation about all the fees related to the mortgage, as well as discussing property taxes and insurance. While the loan payments can certainly include those two expenses, I must recommend always evaluating ALL details, and asking as many questions as necessary regarding your loan. Even if you fear that the answer may be "didn't we already talked about this?" or "of course payments will include taxes and insurance", ask questions! It is always much better being safe than sorry!

YOUR NOTES:

Now, to the **main reasons as to why it is better to start browsing for homes once the approval is issued**:

a) You will know exactly which properties you can afford.
As obvious as it may sound, it is not. Many prospective buyers start looking for homes once they have an idea of the monthly payment with which they are comfortable. The problem, though, is that there are many factors - other than the price of the property – that can affect that number. Primarily and along with the downpayment, the interest rate. The rate is dependent on parameters such as credit history and credit score, type of loan, loan-to-value ratio, etc. Knowing what your rate and all the associated fees/expenses will be, is PARAMOUNT, and will allow you to better plan for the future of your home ownership experience.

b) You will know exactly what the closing costs related to the loan will be.
That's information your lender must disclose, and I think it is important to avoid "bad surprises" a few days before closing.
At close of escrow, you will be provided with a document called "closing statement" that will list and highlight all the expenses associated with the purchase. A preliminary closing statement can also be asked to the Escrow officer a few days after the offer has been accepted (except for some differences which could arise as a result of possible re-negotiations that may take place during due diligence – see later in this guide), yet I must recommend being aware of as much information as possible from the very beginning.

c) You will know if your lender will allow buydowns.
Without getting into the details of this topic at this time, it is important to know that some lenders allow to "buy down the rates". What does that mean? Simply that, in exchange for a lump sum, it will be possible to reduce the interest rate (and therefore the monthly payments). The lump sum usually equals 1% of the borrowed amount for each 0.25% of interest rate reduction. Interestingly, it is sometimes possible to negotiate for the seller to pay that amount (or at least part of it), but it is still important to know whether it can be done or not from the beginning.

YOUR NOTES:

An interesting comparison that can be made at this point is between monthly payments with and without buydowns.

Such comparison, though, becomes even more interesting if we add a third monthly payment evaluation: the one that arises from a price reduction equal to the cost of buydown used to create the previous observation. It will be easy to observe that, such price reduction, will not necessarily lead to a better (aka lower) monthly payment, and that the buydown path, when allowed, may be a better option to save both on the short and long run.

Purchase full price full rate		Purchase full price with buydown		Under Asking Purchase with full rate	
Purchase price	**$1,000,000**	Purchase price	**$1,000,000**	Purchase price	**$952,000**
Down Payment	**20%**	Down Payment	**20%**	Down Payment	**20%**
	$200,000		$200,000		$190,400
Amount Borrowed	$800,000	Amount Borrowed	$800,000	Amount Borrowed	$761,600
Interest Rate	**6.50%**	Interest Rate	5.000%	Interest Rate	6.50%
		Cost of buydown	$48,000		
Duration (years)	30	Duration (years)	30	Duration (years)	30
Number of payments	360	Number of payments	360	Number of payments	360
Insurance	**$1,500.00**	Insurance	$1,500.00	Insurance	1,500.00
Taxes	**$12,500.00**	Taxes	$12,500.00	Taxes	11,900.00
Monthly Payment	**$6,223.21**	Monthly Payment	**$5,461.24**	Monthly Payment	**$5,930.50**

YOUR NOTES:

d) You will have the time to apply for the strongest possible approval.

There are three types of approval: pre-qualification, pre-approval, fully underwritten pre-approval.

What is the difference? It is mainly about the amount of collected information before the approval is issued and, therefore, the strength of each type. Here are the different types:

- pre-qualification. It can quickly be obtained from many websites; it relies on information directly provided by the borrower and not verified by the lender until the offer is accepted. Sellers don't like uncertainties and a document that relies on information that has not yet been verified carries a lot of them.
- pre-approval. It relies on documents provided to the lender, along with your most recent credit score. The lender will evaluate parameters such as debt-to-income ratio and credit score, and will leave the evaluation of other documents (e.g. credit card balances) for a later analysis, which takes place after the acceptance of the offer (see the loan contingency paragraph for additional details).
- fully underwritten preapproval. It is the strongest type of approval that can be obtained, as ALL FINANCIALS are evaluated before writing an offer. The only outstanding items that the lender will need to receive and verify, are the fully executed offer, the appraisal report, and the Title report. These last three documents are necessary for any type of approval but, in the case of the fully underwritten, they are basically the only outstanding ones. The issue with this preapproval is that not all lenders provide it and, those who do, will need a few days to review all the necessary documents. Despite of the longer time needed and the additional work to collect all documents ahead of time, I still strongly encourage you to pursue this approval, as it will make your offer much stronger both in terms of timeframe and reliability (see the paragraph about close of escrow loan contingency).

YOUR NOTES:

e) **You will be able to write an offer in the shortest possible timeframe.**
It is not that common but, should you walk into a property and fall in love with it, you will want to be able to write an offer right away. I have seen it happening with my own eyes: a couple I was assisting with the purchase of their home, saw a property they loved and decided to apply for the preapproval. Sadly, by the time the document was ready, the property had gone under contract with someone else. In real estate, time is of the essence. Collecting all the necessary documents, and waiting for the lender to review them, can take quite a bit of time: do not miss a chance just because you weren't ready!

An additional detail: the approval letter is usually submitted with the offer form, but you can also elect to submit within three days from the submission of the offer. Since it is such an important part of the offer bundle (the proof of funds, to show ability to cover down-payment and closing costs, must be attached as well), I must recommend avoiding delays and having it ready to be sent with the offer.

Remember: every uncertainty can lead the seller to take a step away from your proposal and closer to someone else's.

YOUR NOTES:

MISTAKES TO AVOID.

The first mistake is not giving yourself the opportunity to talk to enough lenders. Most buyers only rely on the long-lasting relationship with their bank and, while there is nothing wrong with talking to people you already know (and who already know you), it is not always and/or necessarily the way to get the best conditions on your mortgage.

A lender must be someone whom you trust and feel comfortable with, and it is always wise to explore several possibilities before moving forward with one. The timeframe to get a preapproval, minimum timeframe to get the loan funded (the shorter the time, the stronger the offer), all the costs and fees associated with the loan, and best interest rate are all parameters you need to assess before choosing the person who will help you making your home ownership dream come true!

Remember: it is not only about the interest rate!

Speaking of rates, I must also encourage you to discuss the process of refinancing your loan, should the rate decrease. Make sure that ALL conditions to refinance your mortgage are clear (timeframes, fees, costs, etc.), as you want to take advantage of that possibility, should you have the chance to do so.

The second mistake is not asking your lenders all the questions you may have until you are certain that everything has been clarified. Even if it is something you already discussed but is still not 100% clear, keep asking those questions until you are left with no doubts. The relationship between you and your lender is going to be a long one, and it is always best not to have doubts in the long run.

The third mistake is not making sure you have evaluated all the possible ramifications of a potential price reduction vs. rate buydowns. It is important to make all those assessments to plan and strategize the strongest offer and possible negotiation of terms.

YOUR NOTES:

3. FINDING THE RIGHT PROPERTY

Let's address the elephant in the room: I do not believe in the existence of the perfect house. Why? Because people's wants and needs can (and likely will) change with time (RIGHTFULLY SO!). When I was working as a structural engineer in Italy, I also designed several homes: NOT ONE TIME, the needs of the client at the beginning of construction matched their needs at the end of the process. Were they always significant differences? Of course not, but they were differences, nonetheless. The ability to look forward and identify the house that gets as close as possible to the idea of "perfect" in the long run, is an important skill to master. It is not uncommon, for many prospective buyers, to be attracted to some features of the house while not noticing details that could become a problem with time: a beautiful view from the primary bedroom is certainly a wonderful feature…but if the room is on the fourth floor and there are steep stairs to get upstairs, it may become an issue you will regret later!

With that being said, let's focus on the actual research. Most buyers think that navigating generic websites is the best way to identify a place to call home. I respectfully disagree. While browsing the web for the new market updates is a good starting point, <u>it is not the only resource to use</u>. I always advise exploring several possibilities, such as older listings, expired and canceled listings, off-market deals, etc. The reason why I do not only rely on the newest listings, especially in a market like the one we witnessed during the last few years (strong sellers market with low inventory and high demand), is very simple: they attract most of the attention and often receive multiple offers. Depending on market conditions, "battling" for the last property that was listed, may not always be the best strategy to follow. I am not saying to ignore new listings, rather not to ignore other opportunities. Avoiding bidding wars typical of a sellers market, is a great way to increase the likelihood of a smooth negotiation without wasting money.

Time is still of the essence, but that does not mean being in a rush (unless particular circumstances exist).

Give yourself the right time while being ready to move forward.

YOUR NOTES:

MISTAKES TO AVOID.

The first mistake is obviously limiting the research to the most common websites and only to the newest listings.

The second mistake (perhaps more dangerous than the first one) is not giving yourself the right time to evaluate all aspects of the property, including long-term ones, while being ready to move forward with an offer if you find the one that fits your current wants and needs.

The third mistake, which is anything but uncommon, is not asking your Agent all the questions you may have. While we are limited to discussing material facts and avoiding personal opinions, we are in the business of assisting people and providing a service. It should not matter whether you have already asked a question or not: until you feel confident with the information that is available to you, keep asking! (I will remark this point again, I am sure).

YOUR NOTES:

4. WRITING THE STRONGEST OFFER

Topics:

a) **The purchase price.**
b) **Proposed close of escrow date.**
c) **Initial deposit.**
d) **Loan amount.**
e) **Inspection contingency.**
f) **Appraisal Contingency.**
g) **Loan contingency.**
h) **Removal of contingencies.**
i) **Additional Expenses**

You read the title of this paragraph correctly: it is about writing the STRONGEST offer, not necessarily the highest.

The Residential Purchase Agreement (aka "the offer") can be an intimidating document. Without counting all the mandatory attachments (disclosures and advisories which, by the way, are not always the same for each transaction), it is a 16-page long form. A detailed review of every aspect of the document is something I MUST encourage but, for the purpose of this guide, we'll go through the main points of the form, so it will be easier to figure out what can be used as leverage to increase the strength of your offer.

Once again: the highest offer is not always the one that wins (in case of multiple offers) and, a weak offer, could prevent you from starting a negotiation with a point of advantage. It is all about the overall strength of the offer itself.

The new offer form (last review was done in December of '22) has a useful grid that allows for a very easy review of all the terms (see attachment).

Once again, we'll only discuss the main points.

YOUR NOTES:

a) The purchase price.

While it is not the only/most important factor, it is definitely a very important one. I never recommend pushing the limits to a point of discomfort, and I always encourage evaluating the offer and all its terms as a case-by-case scenario.

In a multiple offer scenario, for instance, I always encourage buyers to ask themselves a simple question: what is the ultimate number that, even if the property sold for $1 more, I wouldn't mind if it went to someone else? I know it contradicts the aforementioned "not pushing the limits", but a multiple offer scenario requires a somewhat "aggressive" approach.

In the case of a single offer scenario, I always ask one simple question: what is this house worth for you? (which is clearly a question that generally should be asked in every transaction). The value the property has, according to your point of view, is not about the listing price, nor is it about the seller's expectations: it is your perception and your perception alone.

The problem, at this point, is to understand if your perception is aligned with what could be considered a fair market value, but the last thing I want is for a client to walk into their new house thinking they could have offered less. If the offer is too low for the seller, then some negotiations may take place, if you are interested in having them. Otherwise, the right house will be another one.

b) Proposed close of escrow date.

I cannot stress this enough: a fast close of escrow is a VERY STRONG leverage. The longer the escrow, the more uncertainty. A short escrow is always very appealing for the sellers unless particular conditions exist (e.g. sellers have yet to find another property). This is one of the reasons why, a fully underwritten approval, becomes important (unless it's a full cash offer, of course): as it was previously mentioned, all evaluations and assessments have been made before the offer is even written. That saves a lot of time and the close of escrow can potentially take place in 15-18 days instead of 28-30.

Should the buyer exceed the agreed upon timeframe, the seller has the right to send a document called "demand to close escrow". This request gives the buyer an additional 72 hours to comply, after which, the seller has the right to cancel the offer.

YOUR NOTES:

YOUR NOTES:

c) **Initial deposit.**
On the offer form, it is referred to as Earnest Money Deposit (EMD), it is customarily equal to 3% of the offered amount, and it constitutes a portion of the downpayment. The Earnest Money Deposit is refundable should you cancel the offer during the due-diligence period (see following points about contingencies).
Some buyers also decide to have a higher EMD to show more interest in the property. While a higher deposit may indeed be perceived as a stronger sign of commitment, it is not always the factor that makes the difference.

d) **Loan amount.**
Depending on the type of loan, the minimum required downpayment can vary and, with it, the loan amount. In most cases, a downpayment lower than 20% triggers the need for Private Mortgage Insurance. While I advise you to talk to your lender in this regard, for the purpose of this guide I want to highlight a different aspect. Obviously, the higher the downpayment, the lower the amount that must be borrowed and, often, a lower loan-to-value can be perceived as a point of strength in the offer.
Think of being the seller of a $1,000,000 property and receiving two offers: one has a 20% down-payment and an approval that matches the asking price, while the other one has a 40% down-payment and a slightly higher approval. The first one has an 80% loan-to-value and, the other has, roughly, a 60% loan-to-value.
Both offers are at asking price.
Which one would make you feel more comfortable about the fact that there will be no issues with the funding of the loan? I am quite confident you would prefer the latter…and so would many sellers.

e) **Inspection contingency.**
It is the third contingency listed on the offer form, but it is the first one with which you, as a buyer, will actively have to deal. One first important aspect to keep in mind is that, while its name could be confusing, the inspection is not limited to the physical aspects of the property, and I cannot stress enough the importance of this step.

In fact, as a buyer, you will have the chance to evaluate ALL aspects of the property, including all the documents pertaining to it. These documents can include (but are not limited to) permits, Title report, seller's disclosures, etc. Once again, the number/type of documents can vary depending on the transaction. Once you have reviewed the inspection report(s) and all the documents, there are three possible outcomes: you can accept the findings and move forward, you can cancel your offer and get the initial deposit back (minus expenses, if any – with the exception of the money spent for the inspection, as the cost of the inspection is an out-of-pocket expense) or, lastly, you can use the findings to re-negotiate terms. Please remember that sellers have NO obligation to accept any demand to re-negotiate, and your request could be rejected. At that point you will have the chance to accept, cancel the offer or try to renegotiate with other terms, and so on…

One important note about inspections: there are MANY aspects that could be worth investigating. While a general inspection performed by a licensed inspector is always recommended and will likely highlight most (if not all) major defects, specific investigations such as sewer inspection and/or termite inspection, can be advisable. Some buyers also elect to perform a chimney inspection, a mold inspection, etc.

The extent of the physical investigation is a choice that is entirely a buyer's decision, and some buyers also elect to skip the physical inspection and focus only on the review of all documents (this example can apply to properties that are clearly and evidently a tear down).

Please remember that, should you elect not to have the property inspected, you would be acting against your Agent's advice. Once again, it is your choice as a buyer…but I would never recommend it.

Lastly and once again, do not limit your research for an inspector to one person and one estimate. Ask your Agent or browse the internet for the contact of at least 3 inspectors. Call them all and make sure to choose the one who makes you feel more comfortable.

YOUR NOTES:

YOUR NOTES:

f) Appraisal Contingency.

The appraisal is going to be ordered by your lender. The cost of the appraisal is one of the fees associated with the loan I previously mentioned, which your lender should disclose from the very beginning.

The results of the appraisal report are another item that can be used (in good faith) to re-negotiate terms. Should the appraisal come back at a value lower than the offered price, you can accept, try to renegotiate on the price, or cancel the offer and get the deposit back.

The offer form allows you to specify the minimum appraised value that you, as a buyer, are willing to accept (by default, such value matches the offer value, but a different amount can be specified). Buyers also have the choice to pay for the difference between the appraised value and the offered amount (appraisal gap) if the seller is not willing to renegotiate terms. Be careful and discuss with your Agent the best strategy not to lose the protection offered by the appraisal contingency, while not losing strength on your offer.

A quick note on the appraisal contingency: it can be used even in the case of a full cash offer. It will likely weaken the strength of the offer itself (if all cash), but no one says you cannot have the right to have an appraisal done on the property to make sure you are not paying more than what you feel comfortable with.

g) Loan contingency.

The loan contingency is in place as the lender may find conditions that may prevent the loan from being funded (even an outstanding credit card balance, in theory, could cause issues or delays to funding). Should the lender determine that there are conditions for which the loan cannot be funded, and should those conditions be represented by issues that cannot be addressed, please remember that you, as a buyer, have the right to cancel the offer and get the deposit back, as long as the loan contingency has not been removed.

While in escrow, a buyer also has the right to connect with another lender to get the loan funded but, should the second lender not be able to perform, that buyer would be bound to contractual obligations through the lender whose approval was attached to the offer.
A mention regarding the importance of the fully underwritten preapproval is once again necessary, at this point: since with a fully underwritten preapproval ALL conditions (except for receiving a fully executed offer, an appraisal report, and a clean Title report) have been evaluated before writing the offer, it is easy to understand how it can represent a major difference in your strength against possible competitors. Remember: the fewer uncertainties your offer presents, the more likely the seller will be leaning toward your proposal.

h) Removal of contingencies.

The timeframe to remove each contingency is agreed upon as terms of the offer. All contingencies must be actively removed. To do so, a specific form must be signed and sent to the seller, within the agreed upon time. Contingencies can be removed singularly or all together. Should the buyer exceed the timeframe to remove contingencies, the seller has the right to send a notice to perform. This notice gives the buyer an additional 48 hours to comply, after which, the seller has the right to cancel the offer.
Once all contingencies have been removed, buyers are bound and may lose the deposit, should the inability to perform arise.

YOUR NOTES:

Additional expenses.

The purchase of a house also entails expenses that are in addition to the purchase price and the closing costs directly associated with the loan.

Let's review the main ones:

1) Property transfer taxes. They are customarily paid for by the seller. The amount depends on the City in which the property is located and is proportional to the purchase price. Sometimes, to increase the strength of the offer, buyers propose to split or assume this cost.

2) Escrow. The service provided by Escrow is necessary and has slightly different fees for sellers and buyers. It is not uncommon to see each party pay for their own fees, but it also happens that the seller will pay for both. Needless to say, the less the seller has to pay, the more they may lean toward your offer rather than another one.

3) Title. Same as above. You may decide to allocate that cost to the seller through the offer (as customarily done) or split the cost.

4) Home warranty. Buyers have the right to incorporate that expense in the offer or decide to pay for their own warranty.

Regarding the home warranty, and regardless of who will be paying for it, my advice is to evaluate different companies and their services. Read reviews and evaluate all their offers. Even if the seller pays for it, it will be the company with which YOU will have to deal, should some issues arise with the property after the close of escrow.

5) Property taxes. While this point may sound similar to the first one of this list, it is definitely a different expense. Property taxes are customarily paid in advance in two installments (Feb 1st and Nov 1st). Should the closing of escrow take place on different dates (vast majority of cases), the buyer will have to refund the portion of taxes that the seller has already paid, for the period between close of escrow and the following due date.

YOUR NOTES:

IMPORTANT DETAILS ABOUT CONTINGENCIES

As I mentioned earlier, contingencies offer protection to the buyer.

If any of the reports/investigations does not lead to the desired outcome, buyers have the chance to cancel the offer and receive the refund of the Earnest Money Deposit, as long as all contingencies have not been removed, and the cancellation of the contract is in good faith.

It is also important to highlight that, in some cases, some contingencies may not be necessary. In the case of a full cash offer, for instance, the loan contingency would have no purpose and the appraisal contingency would not affect the ability to get a loan, as a loan is not involved.

Lastly, some lenders, when issuing a fully underwritten preapproval, state that the loan contingency can be removed with the offer. While it is possible to do so, I must encourage you to evaluate the consequences of such a choice. It is undeniable that removing contingencies with the offer dramatically increases the strength of the offer itself, but it also increases risks.

Always talk to your Agent about the implications of an early contingency removal.

YOUR NOTES:

MISTAKES TO AVOID.

YOUR NOTES:

Once again, the first mistake to avoid, as obvious as it may sound, is not to ask your Agent all the questions you may have, even if they sound irrelevant. A purchase contract has ramifications and, as a buyer, you MUST be aware of their meaning and consequences.

The second mistake, as I already mentioned, is not to talk to 3-4 inspectors before deciding who to hire. An inspector is the first "line of defense" in the process of assessing property conditions. Make sure the inspector you choose is someone whom you feel you can trust, and you believe will deliver the most complete report.

The inspector will likely be your first line of "defense". It is VERY important not to have doubts on the choice of who will be helping you figure out whether or not your property has major issues.

It is also important to understand that the inspector may highlight issues of which the seller was not aware. Think, for example, of a minor leak in the attic or in the crawling space under the house. What if the seller has not seen the attic or the crawling space in years? Or, perhaps, due to inexperience in construction, has not noticed the leak? Or, lastly, what if the leak is so small that would be undetectable to the untrained eye? The seller, most likely, would not be aware of it and, therefore, it would not be highlighted in any of the seller's disclosures. The price of it? You would probably end up with a bigger issue later in time. The inspection report may also highlight defects such as a light switch that is not operating properly, but that does not reduce its importance.

This can be extended to all other specific inspections (such as the chimney inspection): while a major defect could be present on the general inspection report, minor issues may not be highlighted. Always discuss with your Agent all the possibilities you have available to inspect the property and evaluate the cost/benefit of each of them (in this regard, in CA, a form called "Buyer's Inspection Election is used).

The third mistake is to remove contingencies lightly. As stated above, once all contingencies have been removed, buyers are bound and have no opportunity to cancel without the risk of consequences such as losing the deposit.

In regard to Appraisal and Loan Contingency, once again, I must recommend discussing all details with your agent.

Remember: always evaluate the risks associated with removing a contingency while not forgetting that they must be removed within a specific timeframe.

The fourth mistake to avoid is a miscalculation in closing costs. Once in escrow, I recommend asking your Escrow officer for a draft of the closing statement. That will give you a perception of what the final balance to pay will be, except for differences that may arise (and be agreed upon) as consequence of the due diligence (e.g., credits granted by the seller because of a re-negotiation that takes place after receiving the inspection report).

5. CLOSE OF ESCROW AND THE AFTERMATH

Once all contingencies are removed, we are almost at the end of the process. Just a few final steps are left.

While still in escrow, it is advisable to schedule a deep cleaning and the movers. It may be wise not to schedule those services before all contingencies have been removed (unless you can cancel or reschedule at no cost). Depending on the sellers' timeframe to move out (sometimes sellers need to rent their former home back for a short amount of time – all these details are agreed upon with the offer), you may have flexibility on those services. Make sure they are scheduled according to the terms on the offer.

After all funds have been received by Escrow, the deed has been recorded with the City and all funds have been disbursed, you'll be the legitimate owner of your new home! You did it! It is time to relax and celebrate…but not before you take care of a few last pieces to the puzzle!

Make sure to:

a) change the locks (not mandatory, but advisable);
b) ask the seller who the utility providers are and change all utilities in your name (this step is fairly fast and usually easier done than explained);
c) set up a forwarding service with USPS (usually doable through the USPS website);
d) change your address on your drivers license (usually doable through the DMV website);
e) notify your insurance company and your bank about the change of address (unless the latter funded the loan, in which case it is still best to double-check to make sure they acknowledged the change). Change of address shall be communicated to all the entities that have it on record, such as credit card companies, medical providers, employer, etc.
f) create a maintenance schedule (some home inspectors can provide it as well!).

YOUR NOTES:

CONCLUSIONS

I opened this guide with a statement: buying a house can be a stressful process. I stand by that statement, and I want to add one detail: choosing the right Agent is the best way to minimize that stress. Every Agent should be able to provide you with the necessary guidance, but not every Agent will be the right fit for you. We all are different people, and we all interact in different ways with each other. Talk to as many Agents as you need until you feel like you have found the right one.

As I previously mentioned, this is a simple and general guide. Every transaction presents different challenges, and I must encourage you to keep asking questions and discuss with your Agent each detail at each step of the process.

I know I have been redundant on this point, but it is extremely important to avoid as many uncertainties as possible.

So, for the last time, ask questions and keep asking questions: I'll be happy to provide the answers you are looking for.

I hope this guide will help you approach the purchase with more confidence and fewer uncertainties. As I always tell all the clients with whom I have the privilege of working, please always feel free to ask me all the questions you may have. I will be happy to provide the answers…or to look for them.

Ciao,
Matteo