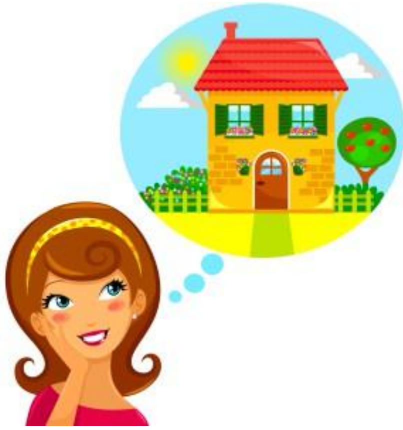
Jennifer LeBow's

Home Buying 101©

Buying a House in Pennsylvania



What do I do first?

What's the process?

How do I know I'm going about it the right way?

Sound familiar? Buying a house *is* complex and involves:

- soul searching
- financial realism
- compromise
- prioritizing
- decisiveness
- analysis
- research
- flexibility
- honest communication
- a sprinkling of blind faith

Every transaction and every person is unique, obviously, but my goal is to demystify and explain as much of the process as possible.

Of all the services I provide, I am convinced that the most valuable one I offer is my commitment to ANSWER THE QUESTIONS YOU DIDN'T KNOW TO ASK. While any decent realtor will answer your questions, what about the things that didn't even occur to you?

- When the leaves are off the trees in winter, what's the view?
- Will flood insurance be required on this property?
- How much will my heating bills be if propane is my fuel source?
- What should I budget for snow plowing? We're from Florida.
- Does the street get busy at certain times of the day due to the school two blocks away?

It's not knowing to ask these questions that often result in buyers' remorse. I'm dedicated to protecting my clients from unwelcome post-settlement surprises.

What do I qualify for?

The very first thing you should do if you are considering buying a house is talk to a couple of mortgage professionals. I say “a couple” because there are lots of different options and programs out there and no one person has them all to offer. Additionally, you may be able to obtain a better rate if the person you’re talking with knows that he or she has competition and that you may get your loan from someone else.

- What do you qualify for?
- What are the different types of loans? FHA? Conventional? 30-year fixed? ARM?
- What are the guidelines to get the best rate?
- Alphabet soup—what’s a GFE? What’s APR?

The formula the mortgage industry uses to determine what you qualify for is based mostly on your income and your liabilities (car payments, student loan payments, etc.). Your mortgage professional will calculate your debt to income ratio in order to determine the amount you qualify for as a first step. Sometimes, there are factors which can alter this number. For example there are “doctor” loans which take into account that, at the time a doctor is finishing residency, he probably has a lot of debt and not a terrific income, the expectation is that that scenario will change and those loans may qualify him for more than just the debt to income formula would. Your income may be commission-based or include performance-based bonuses, which may lead to more questions. The mortgage company will require even more documentation if you are self-employed. Once your lender has a clear picture of your financial situation, the next thing to tackle is type of loan.

Most buyers go with a conventional 30-year mortgage with a fixed rate, but there are shorter-term loans as well as adjustable rate loans. There are VA and FHA loans as well, designed for people who don't have much cash for a down payment. While they allow for smaller down payments, they may have mortgage insurance for the life of the loan (it never "rolls off" until the entire loan is paid off) and may have slightly higher rates. Be sure to discuss whether you want your taxes and home owner's insurance fees built into your monthly payment (so that you have the same financial obligations each month) or whether you just want to pay the bank your principal and interest each month and handle your taxes and home owner's insurance separately, in a lump sum when those bills come in. Most buyers go with the PITI (principal, interest, taxes, insurance) payment, but it's not the best choice for every buyer.

The "rate" that is published as today's interest rates assume a credit score of well into the 700s and often a down payment of 20%. Let's address the credit score piece first. I can't tell you how many buyers I've had who think they have great credit only to discover that getting rid of two credit cards they never used lowered their credit score! Sometimes one late car payment can do a load of damage. By the way, checking your credit too often can actually lower the score. Did you know that? If your credit is under about 740 (it vacillates with the economy), you probably won't qualify for the best rate. It can take six months or more to "clean up" a credit report, so be sure to know where you stand early on in the process.

As far as down payment amount goes, if you can't put at least 20% down, not only will your interest rate be higher, but you will probably have mortgage insurance added to your monthly payment. (If you are choosing a conventional loan, as soon as you have paid off enough of the loan so that the lender is owed LESS than 80% of the property's value, mortgage insurance typically disappears, but be sure to check with your lender.) Also, make sure your mortgage contact explains the difference between your rate and the APR (which can hide other bank fees and increase your monthly obligation). Insist on seeing a GFE (Good Faith Estimate) that outlines all of the mortgage company's fees, both for securing the mortgage as well as for making the monthly payment.

Finally, keep in mind that many buyers who already own a home (as opposed to renters) have to sell before they buy either to have the necessary down payment on the new house, to qualify for the mortgage, or both. Talk with your lender about your options–What's a bridge loan and do you qualify for one? What about gift money? You mortgage professional is the first stop when you are looking at the financial aspects of buying a house, but there are other considerations, though, too, in terms of affordability.

What other factors affect affordability?

While your mortgage professional will try to get a picture of how much money you can afford on a monthly basis for your mortgage, interest, real estate taxes and homeowners insurance, there may be some expenses that he or she doesn't think to ask you about. The last thing you want when buying a new house is to find you can't afford to live there. Here are some questions buyers I've fielded from buyers that you should consider:

- What if there's a homeowner's association that charges $225 per month?
- What if a house I'm considering have propane ($$) heat or other costly utilities?
- What if the roof is old?
- Oh, there's a pool? What does that cost to maintain?
- Speaking of maintenance, how much should you budget for maintenance a year? And not just for the house itself, what about the yard and the driveway? I heard tree work can be expensive. And my cousin had to spend $4700 to replace the sewer line to the street.
- How much will it cost to furnish this place? We're coming from a 2-bedroom apartment.
- How much does a mover cost?

And what about your financial situation? Do you have student loans? Is your money liquid? Thinking about what you can afford, if you do it right, requires you to prepare a budget or at least come up with a number in terms of what you spend a month.

- Do you like to go out to dinner?
- Do you want season tickets for the Eagles?
- Is travel important?
- Do you pay for any club memberships?
- What about summer camp and orthodontia?

Be honest about these expenses. Being house poor is no fun and no matter how terrific a house seemed when you bought it, if it's costing you so much that you can't do any of those other things, you'll grow to resent it. Discussing these costs with a lender will help you understand and answer these questions. Then, you will have a much clearer picture of *what you qualify for* ***and*** *what you can afford to spend on/for a house*. Now you can see why these two numbers may not match.

So, I've made the financial obligations of buying and *owning* a house seem a little daunting, haven't I? Don't kid yourself: they are. I'd rather have my buyers go in with their eyes open so they don't end up house poor or, worse, forced to sell (possibly at a loss) because they are overextended and cannot afford their home. That said, there are actually some hidden financial benefits, which you should be aware of as well. As you know, as you pay down your mortgage, you are building equity. The idea is that, when you sell, you will most likely walk away with a profit (though you need to figure about 7% in closing and real estate fees). Clearly, there is zero profit to be made if you've been renting–you walk away with nothing to "show for" all the rent you've paid. What you might *not* know is that, when you pay a mortgage, the interest is tax-deductible. So are your property taxes and, if you work from a home office, there are additional tax savings you could qualify for (ask an accountant for specifics).

Closing Costs

Closing costs are the expenses other than your down payment which you need to set aside to settle on your new home. They include but are not limited to:

- mandated transfer tax (usually 1% of purchase price, but can be more)
- title insurance (set by the state and correlated with price)
- closing protection letter ($125)
- broker fee (usually around $375)
- appraisal fee (often $450)
- credit report fee (usually around $50)
- recording fees ($300-$350)
- flood and tax certifications (usually around $100)
- notary fees (usually around $50)
- tax and homeowner insurance escrows (depends on taxes and insurance amounts)
- title endorsements (because Pennsylvania does not require surveys—about $300)
- association capital contribution fees (often 2 months' worth of hoa/condo fees)
- mortgage application or processing fees (can be as high as $900)
- any points you have agreed to pay in order to lower your rate (depends on points)
- lender escrows
- reimbursements to the seller

Please note that closing costs in Pennsylvania are much higher than in most other areas. My rule of thumb is to tell buyers to figure about **4.5-5% of the purchase price** OVER AND ABOVE THE DOWN PAYMENT in closing costs which is CASH—not financeable money due at closing. While there are instances where the mortgage company will roll certain fees into the mortgage payment, it's safest to assume that the entirety of closing costs will be cash. Again, this amount will be less if you are planning to pay your homeowner's insurance and/or your property taxes in full when the bill comes as opposed to paying these bills as a portion of your monthly payment to the bank. In order to be better able to cover your closing costs, you may want to consider a seller's assist. (For an explanation of seller's assist, please see Making an Offer.)

So PLEASE, talk to a mortgage professional before you start looking at houses on line—falling in love with houses in the $600,000 range only to discover you can realistically spend $475,000 stinks. Another important nuance: things like taxes can vary greatly in our area, so a pre-qualification for a purchase price that doesn't address the tax burden/HOA/homeowner's insurance is incomplete. Make sure you are crystal clear on the TOTAL monthly amount the lender is approving you for because a house in one area that costs $505,000 may have taxes of $8,687 per year, while in a different township, that $505,000 house might have a $11,235 annual tax. That's $212 more per month more in taxes.

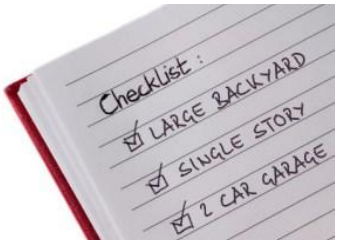
Choosing an Agent

The overwhelming majority of buyers ask for recommendations for an agent from someone they know and trust. Those personal references, in my opinion, are the best way to start. Interview a few different agents and see whose credentials and personality seem the best fit for you. Obviously, when selecting an agent, you want to ask about her experience:

- Is she familiar with the areas you're looking in?
- How long has she been in business?
- Are you confident she is organized? Proficient at negotiating? Detail-oriented?
- Does she seem so busy with other clients, you wonder about the level of service she can offer you?

If you've had other experiences with realtors, discuss what you did and did not like. I cannot emphasize enough how important the relationship between a buyer and agent is. It is built on communication, connection and trust. This is probably the biggest purchase you'll ever make and, let's be honest—it's stressful. You need to feel confident that the person not only advising you but representing you in the transaction understands and respects your perspective and has the knowledge and motivation to provide you with the best service and most positive experience.

Defining Priorities



The process of actually identifying a house that you would like to buy is the biggest chunk of the home buying experience in terms of time, energy and effort. The first step is to define, in the abstract, which features you really want.

The first thing that I do with my buyers is address the "soul searching" component that I think is required of all buyers in order to clarify their priorities and end up with a house that they love. As elementary as it seems, I have found that, in order to zero in whether prospective buyers really should be buying and, if so, how to focus their search so they end up with the best fit is to ask the (deceptively) simple question: "Why are you considering buying a house?"

The reality is that, once that question is posed, if buyers truly consider it, the ensuing discussion yields the most useful information necessary to identify IF a purchase makes sense and, if so, what kind of home I should be helping them find. So, for example…

- *Well, our house is too small. We had no kids when we bought it and now we've outgrown it.* Great. That comment lets me know that, no matter how nice a neighborhood is or how well updated a given house on the market is, if it doesn't give them measurably more space, it's not going to be a good fit.

- *I have a new job and the commute is too far.* Ok. Makes sense. So what is the maximum commute that buyer is willing to do and is it by car? Or does he want to be near a train station? Is it easy to get a parking permit at train stations in the areas he's considering?
- More often, answers sound more like this: *We'd like a nice neighborhood, not on a double yellow line road. We want a garage and a big yard and schools are really important to us but we don't want to be more than about half an hour from our jobs. Oh—at least four bedrooms and two full baths and an updated kitchen and finished basement are important to us but, if we could find something that needed those things for a little less, we might be able to do the work ourselves….* Aha. So now it starts to get complicated because, invariably, no matter the budget, it's difficult to find one property that has everything a buyer is looking for.

That's where prioritizing and compromising come in. I always tell my clients that they need to be honest with themselves about what they can and can't live with. If big closets are important, then I need to be sure that there's enough room for clothing storage (sometimes there's room for creativity, like if there's a small 5th bedroom that could be converted to a great closet). And if a garage would *"be great but we've lived without one this long, so it's not a deal killer,"* I start to understand which properties might work and which are simply not good solutions.

- Generate an honest, but open-minded list of house/neighborhood features you can and can't live with, and ones you can't live without. This includes commuting distance and school district as well as lot size, condition, number of bedrooms and whether there is a garage. Be really self-critical in this step (though you may need to see a few properties before you can re-evaluate this list).

- Be financially realistic–if the property on your wish list is simply not available in your price range, regroup and see how you can adjust your parameters–could you spend more? could you look in a less expensive area? could you make due with something smaller?
- Listen to your agent. He may have insight that causes him to caution you about certain houses or, conversely, suggest you look at ones you might not have put on your list.

The point is that taking some time to ask yourselves "why" you are moving can really put your priorities into focus. I also always hope it will plant the "you're going to have to be open to compromise" seed. Some buyers like to use a spreadsheet or point system when comparing/considering houses to feel confident in determining if a house would be a good fit. Here's my two cents on this topic:

It's a great idea to put those things down on paper to help you clarify what's most important. Point systems are great because they not only force you to rank things, but they can show you if you and your significant other don't necessarily agree on those criteria (which is hard, but must be addressed). Now, that said, sometimes, quantifying things like the value or closet space or a flat backyard can be like nailing Jello to a tree, but I do think it's worth trying. Once you've done your best to set up the objective analysis piece, remember that, in order to make a wise choice in a home purchase, you need the emotional component of "I could see myself living here" or "It feels like home". Sometimes, a house's characteristics, on paper, make it seem perfect, but if "you're just not feeling it", don't ignore your gut. That visceral response is equally important.

Location, Location, Location!

 We all know that certain areas are more expensive than others. When you are identifying neighborhoods that you are interested in, be sure you know why you've selected them. What is it about those areas that is attractive? What does "location" mean when you're considering buying a house? Well, several things.

- Commuting distance to school/work
- Accessibility to places and activities you frequent, like the airport, ballet lessons and the drug store
- Which school district you're in, (which on the Main Line, is a huge consideration)
- The kind of street you're on—double yellow line road?
- Whether you're within hearing distance of a highway?
- How much privacy you have from neighbors, including lot size
- The style of homes in the area
- The general "feel" of the neighborhood

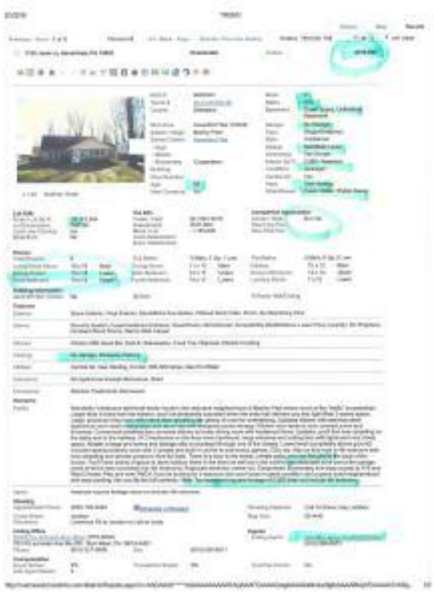
Let's say you can't find something that meets all of your priorities (I know, inconceivable, but just humor me). If you've set a 30 minute maximum on your commute, but you want a minimum of four bedrooms and an updated kitchen and baths as well as a finished basement, what happens when any house that meets that criteria in the area you've chosen exceeds your budget by 25%?

What do you do? Maybe you look in a different area. Maybe you borrow less and choose to liquidate some savings you hadn't planned on using so you can increase the budget but keep your monthly payment the same. Maybe you decide you'll consider houses with older bathrooms and commit to spending half of what you have in the past on travel and set a goal to save enough to redo them within four years. Or you decide that the finished basement can, with some creative thought, serve the guest room purposes you needed that fourth bedroom for.

My point? You need to be honest about what you really need (or can't abide) AND be prepared to be flexible and willing to compromise on the rest. Remember, too, that no matter what the budget, it's nearly impossible to get everything you want and nothing you don't want in a single property. So don't expect perfection and you're less likely to experience disappointment.

Please note a Pennsylvania idiosyncrasy regarding school districts that greatly affects housing values and how you search for houses. While in most places, if you live in a fairly small town, all the houses are within the same school district. That is not the case here. We have towns as well as townships and their borders are rarely the same. As a result, our townships, which dictate which schools any given property is districted to, sometimes divide towns right down the middle. Certain towns, like Wayne and Newtown Square each funnel to three separate school districts, so be aware of that fact when you are searching. So, if you can find a search engine that allows you to plug in school district, you might want to use it. Or, better yet, let me search for you!

Looking at Listings Online



Once you've defined your criteria, it's time to start looking on line to see if you can find properties that match your wish list. My recommendation is to use whichever property website (foxroach.com,realtor.com, zillow.com, trulia.com) you find easiest to navigate and save searches as well as receive updates when new matches hit the market. Put in a price range and I'd recommend going about 10% above your range as you might be able to get a property listed at $675,000 for $640,00.

Some criteria to consider:

- Location
- School district
- Price range
- Square footage
- Number of bedrooms/bathrooms
- Garage?

- Central air?
- Finished basement?
- Lot size
- Age

Also, if you determine that houses in a category slightly above where you'd decided you would look seem WAY better in some way, you might want to re-evaluate (while remaining very clear on your other expenses and income—I'm NOT encouraging you to overcommit your financial resources). You want to provide parameters, but not ones that are so restrictive they return too few properties.

Once you start looking at MLS listings, you'll begin to learn how to read both the actual print and the meaning behind some of the words. As far as the hard information goes, in addition to the bullet points above, the MLS should include:

- List price
- Taxes
- Type of heating and cooling, water supply (public or well),
- Waste removal (public sewer or septic)
- Days on market

Square footage is also usually included, though that one has a caveat: after the number, you'll see either "S","L", or "A". Those letters tell you whether the **S**eller, **L**isting agent or county tax **A**ssessor is the source of the square footage. You want to see "A". Here's why: if a seller finishes a basement, he may estimate that square footage and add it in. In our area, unless you're looking at new construction which has the basement finished at delivery, finished basements are NOT included in square footage. So, when you are comparing listings, you'll be looking at apples and oranges.

If an addition has been done, permits should have been pulled and, as a result, square footage *should* have been adjusted in the tax record . If, though, say a porch has been enclosed, it IS possible that that square footage will not show up in the tax record, but really is additional usable living space. So just be aware of what letter follows the square footage and if there's any confusion or lack of correlation between that number and other property information, check with your agent.

Another important letter to look at is the one after the room names—"M" means main floor, "U" means upper floor (could be second floor or a finished attic space) and "L" means lower (usually a basement, except in a split-level). This distinction is important as it tells you whether you have any bedrooms that are on the main floor (which you may or may not want) and whether the family room is actually a finished basement or a main floor space. Also, sometimes a house with two full baths may have one on the main floor (instead of a powder room) and one upstairs which means there is no master bath. The fine print is important!

As far as specific language, after you read enough descriptions and visit enough properties, you'll understand that "cozy" means small, "lovingly maintained by original owners" means not updated, "whimsical" means somewhat bizarre, "elegant" means slightly sterile or stuffy, "relaxed" means messy and "waiting for your personal touches" means the place needs a complete overhaul. So read the copy, but have a large bag of (grains of) salt nearby.

Hitting the Pavement

I love the internet and how much information, including videos, mapping tools and mortgage estimates you can find on line and I definitely believe you should start your search there. Once you've identified some properties that peak your interest, though, there is NO substitute for visiting them in person, in real time. The most obvious reason is that often, the area surrounding a given house is not shown. Sometimes a house that looks great is right across the street from a gas station or backs up to the highway (which you CAN see online, if you take the time to look). Sometimes the lot slopes down so severely in the back that, although it's half an acre, there's no usable yard. Even if there's no glaring "deal killer" in terms of the location, it's almost impossible to get a sense of what a neighborhood is like from an MLS listing of any house. When you plan a home visiting tour, keep these things in mind:

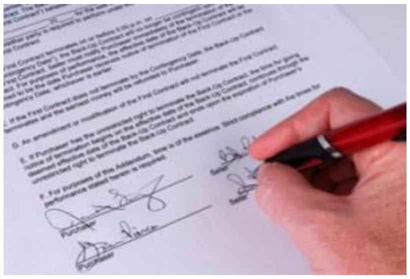
- Don't try to see too many in a day–you will end up not remembering them distinctly and feeling generally overwhelmed by the process of trying to evaluate them if you visit more than about 7.
- For first visits, do your best to go in the daylight (if you're going for a second showing and are concerned about traffic patterns or whether headlights from the road will be an annoyance, then it's a good idea to come back at the time where you can address those concerns).

- Take notes and even video (ask agent permission) so you can better remember each house.
- Make note of the neighborhood–what services or eyesores are nearby– and the condition of surrounding houses.

Once you're inside a house, you may have the urge to check the listing in your hand to be sure you're in the right property. Sometimes the reality bears little resemblance to what you saw on line. Realtors tend to use wide angle lenses to make both exterior and interior spaces look larger than they really are. Remember that distinction you made to your parents as a teenager: "I didn't lie, I omitted?" Realtors do the same thing—they don't include pictures of or descriptions of the ancient bathroom with old pea green floral wallpaper and chipped tub. So beware of the areas not photographed and/or described. Additionally, some spaces look better in person and others look better in pictures, so use you own eyes!

If the house is furnished, I caution buyers against being distracted by the owner's personal items as they won't be there once the buyer takes possession. On the other hand, in a vacant house, it can be difficult to envision how you might set up the room. So my advice is, look at the furniture to give you ideas about what you might and *might not* want to do in a given room. Again, there is no substitute for moving through the space. Need another reason it makes sense to see it in person? How about those areas that are just too difficult to photograph or are just not usually included in listings, like closets and bathrooms? You know what they say: size matters. You may have no sense of how large a closet, bathroom, pantry or basement storage area is until you're there. If the size of any of those spaces is important to you, you'll need to see them "non-virtually". I also mentioned "real time"—think about how traffic and sunlight may change on the property depending on the time of day (especially if there's a pool, or morning sun in your kitchen is a must). That's why you've gotta go.

Making an Offer



Once you've seen some properties, you may find one that you're considering making an offer on. For some people, that thought is immediately followed by this one: "What if I'm making a mistake? What if this isn't the right one?" People often ask me how they will know when they've found the "right house". Here's my answer:

Although it makes me smile when my buyers walk in to a house and say, "This is it. This is the house," there is not one single "right" house, which, by definition, implies that all the others are "wrong". Obviously, there will be houses that are not the right fit. The goal is to find a house, choosing from what's available at the time you're looking, that meets your needs "on paper" AND resonates with you on a more emotional level. I just caution you to not set yourself up for disappointment by expecting that there will necessarily be a house out there that, if you could but find it, would be so obviously "the one". There isn't just one.

Review your financial situation, double check with your mortgage person about all the costs as well as timetables involved. Also check your priorities list again, to make sure you're not being swayed by one factor, like curb appeal, if the house really doesn't meet some of the other important criteria.

The nuts and bolts of an offer

Once you've decided that a certain house could work for you and that you want to make an offer, your realtor will walk you through the process. While not an exhaustive list, here's a good guide for what you need to consider when writing an offer:

- Pre-qualification letter
- Financial obligations and resources for the purchase (down money, closing costs, moving costs) as well as monthly (including taxes, insurance and home maintenance)
- Seller's assist
- Settlement date
- Inspections–which ones and the time period in which they must be completed
- Mortgage information including commitment date
- Inclusions and exclusions
- Buyer's responsibilities to avoid default

First thing: make sure you have that pre-qualification letter I mentioned from the lender. It will need to be fewer than 30 days old. I'm not going to mention every single thing that goes into an offer, as every state is a little different, but some major things to consider, other than the offer price include the settlement date, which inspections the purchase will be contingent on, how many days you have to perform and negotiate those inspections, how much you will be putting down in deposit money and when those deposits are due (make sure funds are liquid enough so you're not in default of these dates) and be sure to specify inclusions and exclusions (like window treatments, washer and dryer, swing sets, etc.

Be sure that you are VERY clear on when you are required to formally apply for the mortgage, furnish the reply to inspection and the second deposit check, provide the mortgage commitment, and any other date-sensitive responsibilities. Understand that the seller can potentially terminate the deal if you do not meet those deadlines and he might, if he thinks he has a "better" buyer.

You should also think about whether a seller's assist is in your best interest. In essence, a seller's assist is when you inflate the purchase price by a certain dollar amount that the seller then contributes toward your closing costs at settlement. So, for example, if you were going to offer $400,000 for a house, but find you're a little short of cash for the closing costs, you could offer $408,000 with a $8,000 seller's assist. The seller still nets $400,000, but you will have $8,000 of your closing costs already taken care of. You will have a tiny bit more cash out (as, if you borrow 80%, you will now have to put down 20% of the original $400,000 as well as of the additional $8,000 you're building into the purchase price, which is an additional $1600) as well as a title insurance amount that might go up $20 or so and your 1% transfer tax will be on $408,000 instead of $400,000, but you still have a lot more cash with the $8,000 to be provided by the seller.

Seller's assist discussions flow perfectly into the topic of appraisals. The most important thing to think about if you are considering structuring an offer with an assist is this: your mortgage company will agree to lend you a certain percentage (usually 80%, 85% or 90%) of the APPRAISED VALUE of the house, which everyone starts by assuming is going to equal the purchase price. It usually does, but if you start to artificially inflate the price to get a seller's assist, you need to be aware that the property might not appraise for the inflated price. If the house only appraises for, say, $403,000, then the bank will lend you, for example, 80% of $403,000, not 80% of $408,000. That means the difference in cash due will be made up by you.

The agreement of sale in Pennsylvania states that if the appraised value is less than the purchase price agreed to by the buyer and seller, the buyer can terminate and receive all deposit money back or the buyer and seller can renegotiate something satisfactory to both parties. So just be careful, even if you are not asking for an assist, that your agent looks at comparable sales to get a sense of what appraised value might be (appraisals are not completely objective; no two appraisers will be identical, but the goal is for them to find comparable sales that support the price agreed to). While your deposit money is protected in the event of a "bad" appraisal, if you and the seller are unable to compromise to reach a new agreement, it means the contract is terminated and you have to start your home search all over again.

Read the **seller's disclosure** carefully; if the roof is 21 years old, you should be budgeting for a new one. Your offer should reflect that you've read and understood that document. (Of course, there will be discoveries as the result of inspections and those negotiations happen after you're already under contract so they are a second, totally separate set of negotiations.)

Once you've made the offer, expect a counter from the seller. It's rare that an opening bid is accepted as is. Sometimes, in situations where a buyer offers above asking price, it might be. However, if you considered putting in an over-asking price bid, chances are, another buyer might, too. So there can still be negotiations and counters from the seller, even if you offer asking or above. Buyers who find themselves in multiple bid situations sometimes consider signing a form called an **escalation clause** which gives the listing agent permission to increase your bid by a specified amount in case another buyer's bid is higher. In any event, be sure that your agent communicates clearly with you so you can make quick but informed decisions about counter offers.

Negotiating an offer

It's rare that a seller accepts an offer exactly as it's written. A huge part of your agent's job happens at this stage of the game. There's a delicate balance between playing hardball and recognizing that you get more flies with honey than vinegar. There's always the pressure of trying to guess what the seller's bottom line really is and how any bluffing might go over. I have found it does pay to try to find out what matters to the seller, so, if it's not a hardship for you, you can offer something that you know the seller wants (like settlement a week sooner than you'd originally offered) in the hope of getting something you want in return.

Once you're under contract

Immediately schedule inspections! They can take five or more days to schedule, especially in the spring when the market is busiest and one way to make your offer to a seller more attractive is to have a shorter inspection period. Why? If you choose to walk away after inspections either "just because" or if you and the seller can't agree on what should be repaired, the seller can get his house back on the market sooner and lose less time. The other reason to try to get the home inspection done early in the specified time period (this period is a number of days you and the seller have agreed to as part of the contract) is that you want as much time to schedule other contractors (plumbers, roofers, electricians, etc.) so you can get estimates for issues that the home inspector brings to your attention. Also, as soon as you have an executed (signed by all parties) agreement of sale, formally apply for your mortgage.

A common concern at this stage of the game is "What if I get cold feet?" Understand when you're committed! Certain states have attorney review, and the deal is not actually executed until the end of that time period; in Pennsylvania, no attorney need be involved and we don't have that period. Once buyer and seller sign, it's a legal binding document and you can only get out of the deal and get your deposit money back under specific conditions. Make sure you understand what they are (ask your agent).

Inspections

Digesting and understanding an inspection report (and separating the important stuff from the fluff) can be challenging, particularly if you are unable to be present for the actual inspection. However, most inspectors are very willing to go over the report with you and explain anything that requires clarification. Many also will give you a price range to remedy material defects or safety issues (the items they are required to note on their reports), which can be useful when negotiating, especially if it's too expensive or there's not enough time to have individual contractors come out for quotes.

- Understand the scope of the inspection. Read the section that explains what they are responsible for reporting (safety concerns and material defects, which are systems that have failed or are not functioning properly) and what they can't be expected to know about a house (like the condition of electrical wiring behind walls). They are not meant to comment on carpet stains, bent curtain rods and other cosmetic features.
- Be clear about the "snapshot in time" concept. The inspector can only report on what is evident at the time he inspects it. If a pipe that is intact the day he inspects it begins to leak a week later, he is not responsible for not having been able to predict its failure.
- Think about the purpose of the inspection. The goal is to educate you about potential problems with the house and help you figure out how to alleviate them/budget for repairing them.

- Remember that the inspector's job is to look for problems. Even well-maintained houses will have items that are reported on an inspection. Realize you're buying a "used" house and don't be unrealistic in your expectations.

So, realize that the inspector is looking for defects and safety issues and don't be surprised when he finds some. On the flip side, make sure you don't imbue him with super powers, like x-ray vision. He can only inspect what is visible and what he sees *on that day*. Even though inspections definitely have value to the buyer, there is still a certain portion of "buyer beware" that you need to assume.

Negotiations — Which items?

Every buyer has certain things that he or she thinks the seller has a responsibility to repair. Most of the time, that list doesn't exactly match the seller's ideas about what he or she should fix. And therein lies the reason we have these negotiations. When, as a buyer, you are deciding which things to ask for the seller to repair or to credit you for, (and it's important to talk to your realtor about the differences in the two scenarios—back to that shortly) please keep two things in mind:

- You are not buying new construction, so it's unrealistic (not to mention unfair) to expect the seller to render the house brand new.
- Put yourself in the seller's shoes. My most "reasonable" buyers, when it comes to writing a reply to inspection, are the ones who are also selling their homes at the same time and know what it's like to receive a reply to inspection that seems "nitpicky" or "ridiculous".

Negotiations—Repair or credit?

- If the seller chooses the contractor, the buyer has no control over the quality of the work. (That said, any repairs the seller does are to be done in a "professional manner" and the buyer must be satisfied with the work.)
- If the buyer is going to redo the bathroom and the inspection shows a leaking shower pan, do you really want the seller to repair it (vs. give you a credit)?
- If the seller agrees to repair something and the job ends up being more expensive than anyone had thought, the seller is responsible for completing it, regardless. If a credit is agreed on and the buyer discovers it's a bigger project than anticipated, he's usually not very happy.
- If a buyer accepts a credit to repair something, he can't have that work done until he takes possession of the house. Consider your time line for moving in and whether any repairs will delay you (which can cost you money).
- There is also a psychological point to consider: some sellers are less likely to give you a cash credit than spend the same amount fixing things because they suspect (sometimes accurately) that the buyer is just trying to squeeze money out them and may not even intend on fixing the items that they claim the credit is for.

Remember, you can also be creative here: might a home warranty or water company insurance satisfy your concerns about something on the report, or be a compromise you and the seller can both tolerate? Your agent should be able to give you guidance during this negotiation and help you think about how much certain things will cost, which things on the list are most important to you to have remedied, how long you might be able to wait (and save) to do them, etc. Your agent should also guide you as to when it’s wise to have a specialized contractor come to the house to provide a quote and when it’s “safe” to rely on the home inspector’s estimate. Sometimes you have more to think about after an inspection than when you originally decided to buy the house!

Cruising to Closing

 Once inspections have been negotiated and the second check has been delivered, it's time to breathe. Your title company will procure the title commitment and your lender should already know the date for the mortgage commitment.

Some of the items on your to do list will be:

- Shop around for and choose homeowner's insurance.
- Make sure any funds to be used towards the purchase are liquid.
- Select and schedule a mover.
- Call utility companies to transfer on the day of settlement.
- Call locksmith/alarm company and arrange appointment.
- Schedule to have a cleaning service come the day of settlement.
- Schedule any contractors (painter, hardwood refinishers) for work to be done before you move in as their calendars fill up.

It's also a good idea to request that the sellers leave any manuals/instruction booklets AND, if they are willing, a list of contractors who have worked on the house (landscaper, plumber, house cleaner, painter, etc.). And remember—if you have negotiated repairs to be done, check that they have been completed when you walk through the property just prior to closing and be sure to collect the receipts for work done at closing. That way, if there is any question as to what was done and warranties for work, you have the information.

Be sure to check with your agent about what you need to bring to closing (usually just ID, but if you won't be there and need a P.O.A. or to sign paperwork in advance, ask what you need to do).

At closing, the title company will make sure all reimbursements for prepaid taxes and sewer and trash bills are figured out—you don't need to worry about that. You will be notified a few days before settlement with an amount to either have wired or to bring to closing in the form of a bank check for the balance of the down payment as well as the closing costs.