

This book guides the home buyer through the process of selecting a buyer's agent, defining their needs, obtaining financing, finding the right home, negotiating a favorable contract, and closing the deal.

Seven Steps to Home Ownership

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Seven Steps to Home Ownership

Home Buying Made Easy

John E. Cleek, Ph.D.

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*Insanity: Doing the
same thing and
expecting a different
outcome.*

-Einstein

PREFACE

I have bought and sold my share of homes. I paid too much for most of them because I did not have an experienced agent helping me. I bought my first home in Kentucky in 1964. I moved to Oklahoma City the following year and it took 9 months to sell my old Kentucky home. I simply called the agent whose name was on the sign in the yard and they told me the price and wrote up my offer.

I didn't know it at the time but the agent who wrote the offer was the Seller's Agent and I was an unrepresented Buyer. No wonder I paid too much for the houses I bought. I must be a slow learner. I kept making the same mistake. Too bad I didn't read this book before buying the house in Kentucky. Had I done so, I would have known it was not the right time for me to buy a home.

I began a career in real estate after almost half a century of experience working with people in roles ranging from the pastor of a village church in Kentucky to community college president, political campaign manager, management consultant, university professor and dean, and international business entrepreneur. In

some of my previous careers I was taking on challenges for which I had not formally prepared. To me that simply meant that I would not be limited by doing things the “way we’ve always done them” since I didn’t know how they had always been done.

I’m sure my penchant for asking why things were being done the way they were in real estate had to be a bit of an irritant to colleagues and associates. They had been successful practitioners of the art of buying and selling real estate while I was off in China attending trade fairs or leading MBA students on an international residency in Singapore or teaching MBA classes to Malaysian students in Kuala Lumpur. Whether they realized it or not, my questions were not intended to challenge the validity of the way they were doing things. Rather my questions were helping me understand the business so I could develop my own path to success in a new field.

As I have done in other careers I have pursued, I committed myself to learning everything I could about real estate and how successful agents and brokers did what they did. I wanted to know what as well as why. I earned designations from the Graduate Real Estate Institute (GRI), the Real Estate Buyers Agent Council, Accredited Buyers Representative (ABR), the Internet Specialist certification (e-PRO), and the Short Sales and Foreclosure Resource certification (SFR).

Along the way I became aware of an evolving transformation that will radically change the way real estate business is conducted in the future. It would be premature to say that the majority of agents or brokers either agree that radical change is coming or are eager to be a part of the changing face of real estate. The twin forces driving the change are the overwhelming impact of technology on everything we

do in any aspect of life in the twenty-first century. Ultimately agents and brokers who fail to recognize and embrace the emerging technology will be left behind. The other factor that has accelerated the pace of change is the global economic free fall that began to emerge in 2006 and reached a tipping point in late 2008.

I like the insight that is conveyed by the Chinese phrase wei ji. This is the Mandarin Chinese pronunciation of the two characters that together are usually translated as CRISIS. With only a slight stretch it is possible to say that the two characters wei and ji can individually be translated as danger and opportunity. A crisis is a turning point, a time of both danger and opportunity. I am an optimist. The glass is always half full as far as I am concerned. Regardless of the depth of the economic crisis which began to be evident in 2006 and has only recently begun to shown signs of bottoming out, dangerous times produce great opportunities for success if we but find the right strategy for confronting the dangers.

危机

Wei-ji Crisis

Wei danger

Ji opportunity

I was still searching for a clear strategy for identifying prospective buyers, when I began to receive calls from buyers who wanted me to help them find a home. The more I worked with buyers the more impressed I became with how personally rewarding it is to hand a family the keys to their new home and know that you have played a role in helping them find the right home at a price they could afford. I had heard veteran agents complain about buyers in a way that implied they would prefer to only represent sellers. I didn't understand their attitude.

By 2009 the percentage of buyers who use the Internet frequently to search for homes increased to 76% with another

13% using the Internet at least occasionally. It was clear that if I wanted to find buyer-clients the place to go was where 90% of them start their search for a home—the Internet.

I began to rely more and more on increasing my visibility on the Internet. It is now my leading source of prospective clients. As I was sharpening my focus on representing buyers, the market was rapidly becoming one that favored buyers. Any time the inventory of available homes exceeds the number of homes purchased in a six-month period, the market is considered to be a buyer's market.

The average inventory for 2006 amounted to a 6.5 month inventory. For 2007, the average inventory of homes on the market constituted an 8.9 month supply. By 2008, the average inventory was up to a 10.5 month supply. The peak came in November of 2008 when the inventory of available homes reached an 11 month supply. In some markets the inventory was well above a 12 month supply of homes.

Inventory levels began to fall in December 2008 and remained under 10 months through August 2009 except for April 2009, and reached a low of only a 7 month inventory in October 2009. What this means for home buyers is that with the inventory dropping, prices will become less negotiable. Thus buyers who have been waiting for the market to hit bottom may find that they have already missed the bottom.

The more buyers I represented, the more I was struck by how little home buyers know about the home buying process. Even repeat buyers often made it clear that they would like to know more about how to buy a home. Before making a commitment to write this book, I searched the Internet to see what I could find to recommend to buyers to prepare them for the most important financial decision of their lives. I found a

variety of resources but none that were sufficient to answer the questions I was hearing from buyers.

It was clear that a need existed for a comprehensive home buyers guide written for consumers. I was fortunate to be working with a diverse group of buyers who raised good questions and presented a range of concerns giving me an opportunity to search for answers for them and add to the materials I was compiling for the time when this book would become a reality.

What I was discovering was that by the time buyers came to me as clients, especially the demographic under 40, they had already been searching the Internet to see if they could find an available home that fit their needs. Of greatest concern were those who didn't know what they didn't know!

I considered writing a book for Buyer's Agents. Instead, I decided to concentrate on the needs of Buyers. One that would help them in their selection of a buyer's agent and help them make the most effective use of their agent in the process. Therefore, this book is written first for prospective homebuyers; but also for buyer's agents who want to do a better job representing their clients, and finally for real estate educators who may want to recommend it to their clients.

I make no claim that everything in the book is a completely original idea. I learn from every client and every colleague with whom I work. I have sought to give credit where credit is due throughout the book. References are included at the end of each section of the book. I have not knowingly or intentionally used the work of anyone without attribution. If any reader recognizes any occasion where it appears I may have violated my own rules, please let me know. You, the readers will be the judge of how well I have succeeded in this effort. I welcome your

suggestions for improving future editions of the book. I always welcome your questions, and your success stories about ways in which the book has been useful to you.

My hope is that this book will help you realize the American Dream of home ownership and avoid the disaster of seeing your dream become the nightmare of foreclosure.

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INTRODUCTION

I received a telephone call from Maurice inquiring about a house I had listed over a year earlier. I arranged to meet him at the house a little later and we made a quick tour so he could make it to work on time.

Maurice was a young man, close to the same age as my youngest son. I was very impressed by his sincerity, his openness and his vulnerability. He was not particularly impressed with the house which didn't surprise me. I assured him that my objective was to help him find the right house rather than to sell him one that didn't match his expectations. As he began to tell me his story I recognized how easily an agent who wanted to make a quick sale could take advantage of him.

We finished our tour and sat down on the large front deck to get better acquainted. I asked Maurice to tell me about himself, why he was looking at homes, and how I might be helpful to him. He was only 22 and I was concerned that his youthful naivete not be exploited. I told him I would treat him the way I would expect an agent to treat my own son.

First-time buyers, especially young first-time buyers deserve a buyer's agent to help them determine if the time is right for them to buy; how much they can afford to spend; and if a house is a good buy. What they don't need is an agent who is going to

encourage them to do anything that will not be right for them.

Every Buyer has a story that is different and the first thing a Buyer's Agent should do is listen to their prospective client's story.

Maurice's Story: He and his girl friend since high school wanted to marry but her father had never accepted him and opposed the marriage. He had a good job, had saved his money for a down payment, was out of debt, and was

willing to do whatever it took to impress his girl friend's father. It was late October and he wanted to buy a house as a surprise Christmas present for his future wife. A tight fit under ideal conditions.

With my encouragement Maurice included his fiancé in the process even though he had wanted to surprise her. She was a delightful girl and clearly as much in love with him as he was with her. We found a house and closed on Christmas Eve.

Every Buyer has a story that is different and **the first thing a Buyer's Agent should do is listen to their prospective client's story.** I want my clients to know they can trust me to never do anything that will be contrary to what is in their best interest. To make good on this commitment, I must get to know my clients and demonstrate to them that they can trust me.

Most of us are reluctant to share our story, our inner thoughts, our hopes and dreams, with a stranger. I understand this and I respect my clients right to privacy. I know that when they understand why it is important for me to know their story, their reasons for buying a home, and are ready to trust me to help them make one of the most important decisions they will

ever make they will share with me what they are comfortable sharing.

This book is written for all the Maurice's in the world who are ready to buy a home but need to know how the system works; where they can find help; how to spend \$100,000 or \$250,000 safely and prudently; and how to protect their investment in the future. This book is not a substitute for a Buyer's Agent. It is not a DIY set of instructions to be followed by the novice Buyer. The book can help you anticipate what an agent can do for you. It can alert you to the kinds of questions you can ask to get better and more practical answers. It can help you when you visit a home to know what to look for. My hope is that you will find it useful before, during, and after you buy a house.

Home Buyers In The 21st Century¹

The National Association of Realtors publishes an annual Profile of Home Buyers and Sellers. The first thing that caught my eye in the 2009 edition was the increase in the number of first-time home buyers from 41% in 2008 to 47% in 2009². No doubt the tax credit for first-time buyers was a factor. If half of all buyers of residential real estate are experiencing the process for the first-time the role of the Buyer's Agent must either adapt to this reality or half of the buyers will receive less service than they deserve or need. As the first-time homebuyer share of the market increases, the demand for REALTORS® with the specialized

If you are a first-time Buyer, ask prospective agents what extra service they offer to first-time buyers. This book will provide a rubric by which you can judge their responses.

skills needed to represent the increasingly diverse demographics of the home buyers of the twenty-first Century also increases.

The other two primary categories of buyers are the **MoveUps**, these are the repeat buyers. This may include buyers who are entering the market for only the second time as well as those who may have bought and sold several homes in the past. The needs of the MoveUps will vary depending on whether they are current homeowners, are moving to another house in the same neighborhood or to one in a community or neighborhood that is new to them.

A subset within this category are the **downsizers**. These may be the **empty-nesters** whose children are now gone and they want the freedom to try or do other things without the constraint of as much house or yard to maintain. The downsizers may also be approaching retirement and desire to reduce their housing costs or convert some of their equity to funds they can devote to other things.

Finally there are the **Relocators**. They involve some who are first time buyers and others who have owned several homes before. The expectations of buyers who are motivated by different circumstances or who have different goals in mind require different types of service. The Buyer's Agent who fails to recognize this and adapt the service they offer to match the needs of their buyers should not expect their clients to recommend them to their friends and family.

Are You Ready To Buy A Home?

What does it mean to "own a home"? Typically anyone who holds title to a home is considered to be a homeowner even if they have zero or negative equity in the home. By this imprecise definition of home ownership, the percentage of Americans who own their own home has been above 60% for the past half

century. Before the flood of foreclosures took its toll the percentage was generally estimated in the range of 66-68% in 2008. The implied policy of the nation has been clearly tilted toward buying versus renting for decades. The only significant remaining form of consumer credit interest deductible for income tax purposes is interest paid on a home loan.

An additional incentive for home ownership is inclusion of interest on home equity lines of credit (HELOC) whether the money borrowed is used for the purchase or improvement of a personal residence. Ironically this generous interpretation which encouraged homeowners to use Home Equity Lines of Credit (HELOC) to buy all sorts of things they otherwise could not afford and/or indulge themselves beyond their means may be a contributor to the present mortgage crisis.

According to First American CoreLogic, a real-estate information company based in Santa Ana, California, "Nearly 10.7 million households had negative equity in their homes in the third quarter [of 2009]."³ The result is that the percentage of "U.S. Homeowners who owe more on their mortgages than the properties are worth has swelled to about 23%, threatening prospects for a sustained housing recovery."⁴ Many homeowners are only in a negative equity position because of second mortgages.

If one in four borrowers is underwater on their mortgage, it is probably a stretch to include them as homeowners. Not only do they not have any equity in their home, they owe more than it is worth. It is estimated that 5.3 million U.S. households have negative equity exceeding 20% of their home's present value.⁵ It would be inaccurate and misleading to imply that the majority of these homeowners are in a negative equity position due to the combined debt from the first mortgage and subsequent HELOC.

Many of them made down payments as high as 20% and do not have a HELOC yet they have lost their cash equity and more due to the bursting of the housing bubble. It is not uncommon in some markets to find current values less than 50% of the value at the peak of the housing market only 3 or 4 years ago.

Owning your own home is widely considered the fulfillment of the American Dream. Yet, according to The Joint Center for Housing Studies of Harvard University, "In any given year, some 34 million US households make their homes in rental housing. Like the general population, renters are highly diverse in demographic and income terms, as well as in their reasons for residing where they do."⁶

The flood of foreclosures and short sales is adequate evidence that millions of Americans who bought homes over the past 5 to 10 years might well have investigated their options a little more carefully before taking on more than prudence would have dictated. There are really three questions here instead of one. Buying may have many advantages over renting and still not be the right decision for you at this time. Moreover, this may be a great time for you to buy a home, yet if you make the wrong decision about how much to spend on a home or where you buy, you may still find that you made a mistake.

I am not implying that all homeowners who are facing a loss they will regret for years should have known better. They got caught in the perfect storm when the virtual collapse of the global financial system and the collapse of the overheated housing market occurred at the worst possible time for them.

With the benefit of hindsight many of those who have lost everything are blaming themselves for making bad decisions either about whether to buy, how much they could afford to pay, and the type of loan they signed. In some cases these

homeowners listened to the wrong advisors or perhaps they refused to take the advice they were given. Even cautious buyers with fixed rate loans have been affected.

Timing Is Everything!

Home ownership can be the pinnacle of stability and self-reliance but the thrill of home ownership can become the agony of foreclosure if the decision is made lightly or ill-advisedly. Personal circumstances can change quickly due to loss of job, medical bills, divorce, or other circumstances. Often I have heard the sad refrain, we should have waited to buy a home; or we should have bought a less expensive home.

My motivation for writing this book is rooted in my desire to do what I can to educate prospective homebuyers to the reality that home ownership may not be the best choice for everyone. And some who bought homes during the past dozen years discovered too late that home ownership was not the right option for them and have now gone through the painful process of losing their home to foreclosure or are struggling to make mortgage payments far larger than they anticipated.

Renting is not always chosen because it is the only option available. As the Harvard study notes,

“Many higher-income renters could buy homes but prefer to rent because they want to maintain a flexible lifestyle, with easy access to work and the amenities of the city. Others rent because they want to take advantage of the low transactions costs, at least relative to those involved in homeownership. Still others rent to avoid the risk of a potentially volatile home purchase market.

For working families with more modest incomes, rental housing provides a place to live during such life transitions as a

job change or divorce. Renting also enables households to save to purchase a home.”⁷

“For many households, rental housing offers a number of advantages over homeownership. In particular, renting can provide more flexibility, greater convenience, and lower costs than buying a home.”⁸

A quick Internet search will produce dozens of websites offering you an interactive calculator to weigh the relative advantages and disadvantages of renting or owning. Some will be skewed more toward buying and some more toward renting by the formulas they use. It’s best to select a calculator on a site that does not have a direct in which decision you make.

A March 2009 Kiplinger.com article, “Are You Really Ready to Buy?”, addresses some of the short and longer term pluses and minuses of renting versus buying.⁹ According to the writer, “In the short run, renting can make more financial sense than buying, in terms of how much shelter you can afford for a given price. But the long-range view is different. Over time, rents tend to rise. On the other hand, if you have a fixed-rate mortgage the monthly payment of principal and interest stays the same. This relatively stable cost, combined with price appreciation, is what makes homeownership financially attractive in the long run.”¹⁰

Among the rewards of homeownership, the Kiplinger article cited:

- ▶ The opportunity to leverage the purchasing power of your money,
- ▶ Appreciation in value over time, and
- ▶ Tax breaks such as interest deductibility.

On the downside, the article cited:

-
- ▶ The risks of homeownership including the possible decline in value,
 - ▶ The possible loss of opportunity to make other short term investments that might produce a greater reward,
 - ▶ The cost of maintaining a home, and
 - ▶ A reduced level of flexibility in case of a need or desire to move on short notice.

The decision to buy or rent should reflect a careful analysis of your personal and family circumstances, your lifestyle expectations, your financial circumstances and your emotional health. Peer pressure is never a valid reason to buy a home. This will most likely be the largest single financial decision you will ever make. Do your homework, examine your motives, consider whether you are ready for the responsibilities and constraints that go with owning a home.

If you decide after careful consideration that this is not the right time for you to buy a home, you need not give up permanently on owning a home. Continue to save your money and work on your credit score and your time will come. If you decide that this is the right time to look for a home of your own, you will be able to proceed with greater confidence if you have worked through the steps involved rather than jumping into the biggest financial decision of your life and hoping nothing happens to cause you to regret your decision.

The good news, especially for first time home buyers, is that the conditions that favor the buyer are all in place now and will likely continue to favor buyers at least through 2010. Interest rates are low, an abundance of homes are on the market at record low prices, and sellers are more willing to negotiate now than at any time in the recent past.

Four Dimensions Of Readiness

There are four important dimensions to be considered before you make a decision to buy a home. The issues are complex and the distinction between being ready and not being ready may be a close call. Regardless of the decision you make, it is important that you be aware of the issues involved as you move forward.

◆ *Personal Readiness*

Renting an apartment may have been the right option when you were single, or married with no children. Rather than spending evenings and weekends maintaining a home or yard, you had time for social events and activities and life was relatively simple. However over time you have come to realize that your priorities are changing and you are ready for a different life style with room to grow, to play in the yard, and to be your own landlord. When you make that decision it is time to talk with a professional who specializes in helping people find a home suited to their needs and budget.

One of the things that may have triggered your interest in owning a home is that your friends with whom you used to spend time are buying homes. Nothing surprising about this. It's been happening for a long time. The only caution is that you make sure you are ready for the changes home ownership will bring with it.

How committed are you to the idea of owning your own home? Take at least a mental inventory of how you spend your time and your money at present. What changes would home ownership require? What about your job? How long have you been on the same job? Is it a career that you intend to pursue long-term or is it a job that you will work at until something better comes along? Is it likely that you might need to relocate to

pursue a more satisfying job? If so, would owning a home become a burden?

Ask yourself, Why am I buying a home? Because my friends are doing it? Because I think it will be an investment that will grow over time? Because I want more room and flexibility than is possible in a rental home? Have I saved enough for the down payment? This is not a scorecard where you must achieve a certain score. Rather it is a personal inventory that should force you to think long and hard rather than making an impromptu decision.

◆ *Life Style Readiness*

Are you prepared to curtail travel or weekend recreation to keep up with the maintenance that goes with home ownership? If you have been living in a full maintenance apartment or condo, have you thought about who is going to mow the grass every week during the spring, summer, and fall? Or do you have sufficient discretionary income to hire someone to handle the maintenance, landscaping, and repairs that go with owning your own home?

Are you single or have a roommate, partner, or spouse? Do you like to host loud parties that might cause problems with neighbors in a subdivision? Do you have children who are constrained by the absence of a yard or playground? Do you have pets that need to be outdoors and the only way you can find a suitable home is to buy? Do you want to have your own garden, maybe some chickens, and this is out of the question in a rental home?

Do you travel extensively for business or other purposes? Will your home be unattended for extended periods? If you own a home you are usually responsible for lawn maintenance and security unless you buy where these amenities are a part of the

homeowners association dues. I want to be clear that home ownership may be the perfect choice for you regardless of life style, family composition, age, gender, etc.

Do you like the freedom and relative anonymity that is possible through apartment living? Are you eager to put down roots and have neighbors who will share your desire for stability? Life style may be more of an indicator of the type and location of the home you buy than a reason to buy or not. Did you grow up in a small town where 'everybody knew your name'? Or have you always lived in an urban or suburban location close to shopping, recreation, and entertainment?

Life styles are as varied as anyone can imagine and everyone has a right to make their own choices as to lifestyle so long as the choice you make doesn't interfere with the rights and freedoms of others. Don't slide past this threshold question. It could be the key to future happiness or it could lead to buyer's remorse. Be honest with yourself about what type of housing is a good match for you and share this with your Buyer's Agent. You should know that your Buyer's Agent is committed to full compliance with the Fair Housing Act. The key provision of the Fair Housing Act is as follows:

It is important to have a good match between your lifestyle and the type of housing you buy.

It shall be unlawful for any person or other entity whose business includes engaging in residential real estate-related transactions to discriminate against any person in making available such a transaction, or in the terms or conditions of such a transaction, because of race, color, religion, sex, handicap, familial status, or national origin.¹¹

You are always free to tell your agent you want to look at homes in a specific neighborhood or subdivision, but don't expect your agent to select homes on the basis of the concentration of owners who may fall in one of the above protected classes. Your Agent will not select homes in a subdivision because of the race or color of a majority of the home owners. That would be "steering" and that is both unlawful and unethical. Keep in mind that it is the diversity of our communities that enriches the lives of all of us.

◆ *Emotional Readiness*

Most people experience stress when they decide to buy a home. Experts on stress tell us that buying a home ranks along side marriage, birth of a child, losing your job, and divorce at the top of the list of the most stressful experiences in life. When we experience excessive stress—whether from internal worry or external circumstance—a bodily reaction is triggered, called the "fight or flight" response, which is hard-wired into our brains and represents a genetic wisdom designed to protect us from bodily harm.

By its very design, the fight or flight response leads us to fight or to flee—both creating immense amounts of muscle movement and physical exertion. This physical activity effectively metabolizes the stress hormones released as a result of the activation of our fight or flight response. Once the fighting is over, and the threat—which triggered the response—has been eliminated, our body and mind return to a state of calm.

In most cases today, once our fight or flight response is activated, we cannot flee. We cannot fight. We cannot physically run from our perceived threats. When we are faced with modern day, saber tooth tigers, we have to sit in our office and control

ourselves.¹² The impact of stress is even greater when we attempt to deal with multiple stressors simultaneously.

The point to keep in mind is that it is best to spread out big decisions. Most healthy adults can handle most any challenge

...do not worry about tomorrow, for tomorrow will worry about itself. Each day has enough trouble of its own. (Matt 6:34)

without an unbearable level of stress. The decision to buy a home is one about which you have a high degree of control regarding timing, cost, location, etc., compared with other changes over which you may have much less control.

If there are a number of changes going on in your life, e.g., you have just begun a new and challenging job, you recently married, or your favorite uncle recently died of cancer, you might consider working through the other stressors in your life before you take on the search for a home. This may mean that it would be wise to delay buying a home until after your daughter's wedding or until you are settled into your new job.

You can still work on developing your plans but do it at a less hectic pace. Concentrate on what you are doing at present until you are emotionally ready for the next big challenge. No need to worry about what comes next. Do a good job with the present task and the future tasks can be accomplished in due time.

If you focus on Step One and resist the temptation to take on subsequent steps before you have finished the first step, you will find that your stress level is more manageable. Individuals who borrow trouble from the future often have trouble coping with the challenges of today.

Accept that a little buyer's remorse is inevitable and will probably pass. If you have fears or concerns, let your

REALTOR® know. She/he can help you through them. It might surprise you that most people experience increased stress when facing decisions that can literally be life-changing. If you plan well and follow your plan, look forward to the joy of moving into your new home!

◆ *Are You Financially Ready?*

The issue here is not selecting a lender, obtaining a pre-approval letter, or securing a mortgage to finance your home. We'll cover that in Step 3. The issue here is taking stock of your financial preparedness as a part of your decision whether buying a home is the right decision for you at this time.

▶ *Real Estate Settlement Procedures Act (RESPA)*

The Department of Housing and Urban Development has developed programs and consumer protection guidelines that every prospective homeowner should know about.¹³ The Real Estate Settlement Procedures Act (RESPA) requires lenders and mortgage brokers to give you HUD's Settlement Cost Booklet, Shopping for Your Home Loan, within three days of applying for a mortgage loan. RESPA is a federal law that helps protect consumers from unfair practices by settlement service providers during the home-buying and loan process. You may download a copy of the booklet at the HUD website at any time. I encourage you to do this sooner rather than later. It will provide you an excellent reference to assist you as you consider your readiness to buy a home.

You should assume that you will need cash for a down payment in an amount ranging from 3% to 20% of the purchase price of a home.¹⁴ The remainder will be the amount you will need to borrow using the house as collateral. The true cost of the house will depend in part on the interest rate and terms of the loan for which you qualify. The best interest rates are available

to buyers prepared to make a down payment of 20% of the value of the home they are buying. Lenders want the Buyer to have some 'skin' in the game. With little or no equity to lose, buyers are more likely to walk and leave the lender with a house they don't want.

You will also need cash to cover closing costs¹⁵ which will amount to 3%-5% of the amount of your purchase. It is sometimes possible to roll the closing costs into the loan depending on the type of loan and whether the appraisal will cover the increase. How much you can borrow and the interest rate you will be charged will depend on something called a Credit Score.

We'll talk about this in more detail later but before you make a decision to continue you do need to know your current credit score.¹⁶ Remember there is a difference between the Credit Report which you can obtain free at least once a year and the Credit Score which you will probably have to pay to receive in spite of the misleading television ads to the contrary. The most high profile ads I have seen are those for <http://www.freecreditreport.com>. If you enroll in the 7-day free trial offered on this site you should be aware of the terms and conditions of the free trial. Read the fine print of the Terms and Conditions before going further.¹⁷

The most highly rated source for credit information is <http://www.myfico.com/>. This site has been rated by Kiplinger's as the best place to obtain consumer credit products for the second year in a row. They offer a 30-day free trial but don't count on them to warn you when your 30 days are up.

The higher your credit score the better, but "there is no single cutoff score used by all lenders. However, you should expect that if your credit score is under 700 you may be approved for a

loan but you will not receive the best interest rate and your loan may be considerably more expensive.¹⁸

Are you prepared to make changes in how you currently spend your money to meet the payments on your mortgage? Are you maxed out on several of your credit cards already? Are you having trouble stretching your paycheck to cover all of your current monthly bills? How much margin do you have for error? Are you relying on two incomes or one? If one of the paychecks goes away due to loss of job, illness, or the need for one of you to stay home with children, could you cover the increased cost of home ownership?

▶ *How Much Can You Afford to Spend on a House?*

Everyone asks for a simple formula to determine how much they can afford to pay for a home. Some financial advisors suggest using 21% to 24% of your monthly income as the maximum amount you can pay for principal, interest, insurance and taxes. Others will tell you to multiply your gross income by 3 to determine what you can afford to pay for a home. Still others attempt to factor into the formula the amount of debt you already have. They will suggest your total monthly debt load including all of your consumer credit payments including a home mortgage should not exceed 40% to 41%.

There is no shortcut that will fit all situations. There are only two reliable ways to determine what you can comfortably afford. One is to prepare a budget comparing your net after tax income to your monthly expenses. The difference between your total expenses and your net income is the maximum you can consider paying each month for a mortgage payment.

- ▶ Use the HUD "WHAT YOU CAN AFFORD WORKSHEET"

Determine Your Monthly Income And Expenditures	Monthly Amount
Income (what you take home after taxes and other deductions)	
Borrower Salary	\$
Co-borrower Salary	\$
Other Income	\$
INCOME TOTAL	\$
Expenses	
Credit Cards	\$
Car Payment	\$
Car Insurance	\$
Health Insurance/Medical Expense	\$
Savings and Retirement	\$
Medical Expenses	\$
Utilities	\$
Clothing	\$
Entertainment	\$
Other Expenses	\$
EXPENSES TOTAL	\$
TOTAL MONTHLY INCOME	\$
SUBTRACT TOTAL MONTHLY EXPENSE	\$
EQUALS	\$

The worksheet from HUD's Settlement Cost Booklet will assist you in calculating your monthly income and expenses to determine the amount you have left over every month to pay for housing-related expenses such as your monthly loan payment, property taxes and homeowner's insurance.

▶ *How much are you paying at present?*

Another option is to consider the amount you are currently paying each month for rent plus renter's insurance, HOA dues and other housing related assessments? Is this amount the most you can comfortably pay each month for housing? Don't play any games with yourself because in this game you are the one who will be the loser if you try to fake it. Don't tell yourself that if you buy a house you can pay more because you will drop your health club membership, stop going out to dinner, take a less expensive vacation, spend less on clothing, or drive the same car longer. You will get some help from the mortgage interest deduction that isn't available to renters, but don't count on that being a huge windfall. And don't forget about the hidden costs of home ownership including maintenance, repairs, and lawn care.

As your Buyer's Agent I have the obligation to be honest with you about the cost of home ownership. If I encourage you to buy before you are financially ready, or to buy more than is prudent for you, there is a strong likelihood that you may come to regret your decision. Worst case, you might even lose your home and any equity you have in it. Buying more house than you can afford is a serious mistake and I do not want to be an enabler. Your first home is not likely to be your last home. Be realistic about what you can afford today, and if you are as financially successful as you hope to be, I'll be there to help you buy the bigger, more expensive home when you are ready.

Don't try assessing your readiness alone. If you haven't selected a buyer's agent, now is the time. Don't even think of trying to go through the process without the assistance of a professional. Using a professional REALTOR® is the smart way to buy a home and if you pick the right REALTOR® the odds of it turning sour in the future will be significantly reduced. There will always be a risk—a risk that your financial circumstances deteriorate, a medical emergency occurs, or you lose your job, but trying to do it by yourself without the help of a professional guide escalates the risk beyond the limits of prudent decision making. Of course it is important that the REALTOR® you select be the right one for you and the lender you select encourage you to select the right type of mortgage.

Hiring a Buyers Agent early in the process is really a no-brainer. First, you select your agent but the Seller will pay him/her. Second, whether you select an agent to help you early or late, the cost is the same. The sooner an agent is involved the more value they will bring to the process.

Buying A Home In An Uncertain Economy

By the end of 2006, the real estate market in the U.S. was heading downward but the angle of incline and rate of decline were not yet readily apparent in real time. With nearly 6.5 million homes sold, 2006 could easily have been considered a banner year except for the fact that fourth quarter sales were at an annualized rate of only 4.7 million. Moreover, both the mean and median sales prices in December were 20% below the figures for the full year.

Little did we know then that these negative trends in the real estate market were but a small part of the massive economic meltdown that was on the horizon. By the fall of 2008, a full-blown crisis dominated all news media both in the U.S. and

around the world. There is never a good time for an economic crisis of this magnitude but if one time could be described as worth than another, this would be it. The presidential election was in its final weeks and indications were growing stronger that on election day the United States would have a president-elect from a different party than the president. The incumbent lame duck president had limited political capital left with which to broker any kind of response that would have a chance of slowing the rate of decline in the economy.

It seemed that each day's bad news dwarfed the news of the previous day. In the midst of the economic free-fall the real estate market was among the hardest hit sectors. By January existing home sales had dipped below an annual rate of 4.5 million and it seemed that home prices were falling faster than the MLS listings could be revised. Suddenly it became apparent to everyone that thousands of homeowners were discovering that they owed more on their mortgage than their home would bring on the market.

Even more troubling for the residential market, millions of homeowners were discovering that the Adjustable Rate Mortgage that brought them such attractive interest rates and monthly payments 3–5 years ago, were beginning to roll into sharply higher interest rates and monthly payments they could not afford. The refinancing option they were counting on had also become an impossible dream. As more home mortgages were adjusted upward the number of foreclosures began to flood the market and the overheated market went into free-fall in some parts of the country. The magnitude of the mortgage crisis was widely assumed to be much greater than anything that had hit the real estate market in recent memory.

By the end of 2009, home sales had begun to recover exceeding an annualized rate of over 6 million in October of 2009. While mean and median prices were no longer in free-fall they did not appear to be showing any sign of a return to previous levels. The low point was in January 2009 when the median price was only \$164,800. Gradual improvement began in February 2009 and continued through the spring hitting a high of \$182,000 in May.

At the beginning of 2010 the market seems to be making progress but there are still more than enough causes for concern. The dark cloud over the market continues to be the flood of foreclosures and short sales that are forcing millions of families from their homes and depressing the real estate market for all homeowners who decide to sell their home. It is hard to envision a robust real estate market until the flood of foreclosures is abated either through loan modification, voluntary short sales, or direct mortgage aid from the government.¹⁹

Since the mortgage crisis became such a visible symbol of the condition of the economy, the debate has raged as to where the blame should be placed. This book is not the proper venue for resolving this issue. My view is that regardless of the underlying causes the crisis could not have reached the magnitude that it has without a host of conspirators or enablers who may not have even been aware of what was happening. However anyone who helped a buyer acquire a home and debt beyond a prudent level for them became a part of the problem. I include in this category real estate agents, mortgage loan officers, buyers who took on debt using exotic mortgage arrangements such as interest only loans or ARMs with a balloon at the end, and policy makers who were overzealous in their efforts to assist high risk borrowers through sub-prime and no-doc loans.

The lesson to be learned from the collapse of the housing market that began in late 2006 and is only began to move in a positive direction in late 2009, is not that buying a home is too risky and the prudent course of action is to remain a renter indefinitely. The lesson to be learned is that **buying a home is not for amateurs**. It is the largest financial decision most families will ever make and carries with it the opportunity for improving the quality of life for every member of the family group.

In the pages that follow I have broken the home buying process into seven steps. In a practical sense some of the steps are not linear in nature. They are interactive and overlapping but they are best understood from a conceptual viewpoint if we discuss them in a linear manner.

1 2009 Profile of Home Buyers and Sellers, National Association of Realtors. Specific references re also cited but it is safe to conclude that all data regarding the characteristics of home buyers and sellers as well as how today's buyers and sellers go about finding a home to buy are drawn from the NAR Profile.

2 2009 Profile of Home Buyers and Sellers, p 16

3 Ruth Simon and James R. Hagerty, One in Four Borrowers Is Underwater, The Wall Street Journal, November 24, 2009.

4 Ibid.

5 Ibid.

6 America's Rental Housing – Homes for a Diverse Nation. The Joint Center for Housing Studies of Harvard University, Graduate School of Design, John F. Kennedy School of Government. 2006. p. 1

7 Ibid.

8 Ibid., p 4

9 "Are You Really Ready to Buy?" <http://www.kiplinger.com/basics/archives/2003/03/buying1a.html>

10 Ibid.

11 <http://www.justice.gov/crt/housing/title8.php>

12 Ibid.

13 The HUD website can be accessed at <http://www.hud.gov>

- 14 There are still some programs available that require only a very small down payment but they are only available under certain limited conditions. E.G., VA loans may be made at zero down but only qualified military veterans are eligible. Rural Development loans through the Department of Agriculture are zero down but they are restricted on the basis of income and also to areas that meet the definition of rural.
- 15 Closing Costs include items such as the Appraisal, Inspection, home owners insurance, mortgage tax, underwriter fee, points to buy down the interest rate, and private mortgage insurance that is usually required if the down payment is less than 20% of the purchase price.
- 16 The national distribution of FICO scores is taken from <http://www.myfico.com/crediteducation/creditscores.aspx>
- 17 The terms and conditions read in part: "You will be asked for valid credit card information when you sign up for the free credit monitoring trial. CIC will verify your credit card information before processing your order. An authorization in the amount of one dollar will be performed on your credit card, to make sure it is valid and in good standing, but CIC will not actually bill your card until the free trial period has passed. ... Because monitoring with Experian may take 48 hours to begin, we will start your 7-day free trial 48 hours after you enroll. Therefore, you may cancel your trial membership without charge at any time within 9 days of placing your order."
- 18 Ibid.
- 19 On October 15, 2009 RealtyTrac, (www.realtytrac.com), the leading online marketplace for foreclosure properties, ... released its U.S. Foreclosure Market Report™ for Q3 2009, which show[ed] foreclosure filings on 937,840 properties in the third quarter, a 5% increase from the previous quarter and nearly 23% from Q3 2008.

STEP 1

D-I-Y IS NOT GOOD

ENOUGH!

Would you consider filing a lawsuit against anyone without hiring an attorney? I don't think so.. If you thought you needed surgery you would immediately seek out the best qualified surgeon you could find and ask them to handle it. Why then would you even consider making the biggest financial decision of your life by yourself? Don't even go there!

If you delay retaining an agent for fear it will cost you for an agent's services, you will not only not save any money, you may end up paying more for the house you buy because you won't know whether the price you are paying is a good price for the house or not. Fortunately for you, buyer's agents don't work by the hour. Sometimes I wish we did considering how long it takes when the buyers are unable to decide what it is they want in a home.

In my own experience I have had a few buyers who wanted to see every home listed in a three county area in their price range. I know some agents would have dropped them as a client

long before I found them a home. I will admit the thought occurred to me a few times.

What Buyers Most Want From Real Estate Agents

NAR's 2009 Profile of Home Buyers and Sellers¹ provides insight into what home buyers want agents to do for them. Nearly half of the homebuyers said their first priority from an agent was to help them find the right home. Twenty nine percent ranked help with negotiation highest. Together these categories accounted for 75% of the homebuyers with the remainder spread among help with paperwork, determining how much comparable homes were selling for and how much they could afford to spend.

Although not identified in the survey, many of the most effective and highly qualified buyer's agents would rank **buyer education** at or near the top of their list of services. This process often begins with a coaching or counseling session as a part of the get-acquainted meeting between the agent and the buyer.

Especially for first-time buyers I feel that an initial conference covering the home buying process is important. In fact, this book is an elaboration of what I like to cover in this initial conference. One reason for writing the book is to provide buyers with the material in advance or as a take away from the meeting.

More often than not, when a buyer calls, they are not calling to schedule an orientation session. They are calling to inquire about a specific property. Like most agents, I will usually agree to show one or more properties as a means of getting acquainted. This also gives me an opportunity to assess where they are in the process and how much they already know.

◆ Buyer Conference

The next step is arranging a time to spend perhaps an hour with them reviewing the topics covered in this book and developing a timeline and a game plan to get them to their desired goal of home ownership by the deadline they have established or which may have been established for them. The target date for completion is often externally driven. Relocators will usually have a very specific target date for their move; repeat buyers may have a contract to sell their present home and have promised to give possession by a date certain; and first-time buyers may have a wedding date already established and would like to have possession of a home by that time.

If I have not already had an opportunity to do so, I want to listen to the Buyer's Story before we go any further. This is one of the most important pieces of the trust relationship between agent and buyer. If I am to help a buyer achieve their goals, I need to know what their goals are and also know the emotional drivers that have shaped these goals.

Before going further, I review the Buyer Agency Agreement with them and explain that in order for me to represent them fully, I need their written authorization to proceed. If they are not yet comfortable with me, I suggest they take the Agreement with them and we'll talk about it again at our next meeting.

The other objectives I seek to achieve in this conference are to provide an overview of the buying process; develop at least a working description of the home they have in mind including the price range and neighborhood they have in mind. I encourage them to remain flexible regarding these details. I know from experience that they are likely to revise their thinking about the type of house they want, where it should be,

and how much they can pay as they get into the process. No problem, but we have to have a starting point.

If they have not already done so, I help them make contact with prospective lenders to get the pre-approval process underway. We also review practical details such as communication preferences and availability to tour homes.

A Buyer's Agent Job Description

I'm not sure which is worse, not hiring a buyer's agent or hiring the wrong agent. To improve your chances of selecting the RIGHT Agent, you need a Job Description setting forth skills and personal characteristics you are seeking. I suggest you start with a job description for a buyer's agent My suggested job description would look something like the following:

- ◆ ***Position: Exclusive Buyer's Agent***
- ◆ ***Location: My Town***
- ◆ ***Start Date: Immediately***
- ◆ ***Compensation: Paid By Seller***
- ◆ ***Reports To: Buyer***
- ◆ ***Primary Duties:***
 1. Promote the best interests of Buyer with the utmost good faith, loyalty and fidelity;
 2. Seek a price and terms acceptable to Buyer;
 3. Accept delivery of and present to Buyer offers and counteroffers to purchase the property the Buyer seeks to purchase;
 4. Assist Buyer in developing, communicating, negotiating, and presenting offers, counteroffers, and notices that relate to the offers and the counteroffers

until purchase agreement is signed and all contingencies are satisfied or waived;

5. Disclose to Buyer all adverse material facts actually known by broker/agent and advise Buyer to obtain expert advice as to material matters known by broker/agent but the specifics of which are beyond the broker/agent's expertise.

◆ **Qualifications:**

- **Good Personality Fit - Someone You Like**

Personality alone is obviously not adequate. What I am suggesting is that the chemistry between you and your agent is very important. Someone you respect and like working with should be a *must have* quality.

- **A Good Listener**

It doesn't matter whether I like the house you select. My job is to help you pick a house that suits your needs. No way I can do that unless I keep quiet and listen to you. To match your needs with an inventory of homes on the market, I need to be listening not just to what you are saying but engage in active listening which requires me to probe what I hear you saying until I am confident that I know what you want. Although never described as a good listener, former president Lyndon Johnson could not have been the master of the Senate unless he knew what the members wanted. When he was a Senator, he had a plaque on his office wall that read, "**You ain't learning nothing when you're talking.**"

When your mother said, Look at me when I'm talking to you, she was not just asking for respect. She was asking you to watch her and observe the non verbal signs that she was very serious about what she was telling you.

When we are touring a home my job is to listen for clues to how you feel about the house we are touring. And by watching your body language I can gain greater insight into the nuances of how you feel about a house. I had a client who seemed to find something positive about every house we visited. Yet I learned to distinguish between her desire not to be perceived as negative and how she really was feeling about a house. I prefer to look and listen rather than talk while I am watching a client tour a home.

- **Experienced**

I'm not talking about longevity. Experience is what prevents us from making the same mistakes over and over. Every situation is different in some respects. An agent who treats every transaction as if it were a clone of the last one is not learning anything. Your agent may not have the answer to every situation but you have a right to expect an agent to know what they don't know and to know where to go to obtain an answer.

More important than how long an agent has held a license is how much has an agent learned from experience. What courses have they taken recently?

- **Member of the National Association of REALTORS®**

It is important that your agent be connected to the network² of professional colleagues around the country and learn from the collective experiences of the profession. To be a member of the NAR, an agent must be committed to the Code of Ethics and Standards of Practice by which the profession is governed. This your guarantee that your agent is committed to the highest standards of ethical behavior and practice whether it is in the REALTOR'S® best interest or not.

- **An Accredited Buyer Representative (ABR)**

The ABR certification is awarded by the Real Estate Buyer's Agent Council which is an affiliate of the National Association of REALTORS®. It is the only Certification of agents who have engaged in specialized training and have experience representing clients as Buyer's Agents.

As an alternative to ABR, the GRI designation, granted by the Graduate REALTOR® Institute recognizes real estate professionals who have completed a required curriculum including specialized courses designed to equip them to provide services to both buyers and sellers.

- **Uses Appropriate Technology to support buyers and sellers**

Real Estate practice in the twenty-first century is in the process of a radical transformation using the tools of the Information Age. Computer literacy is no longer optional for any real estate professional who is committed to providing the highest level of service to buyers and sellers.

Appropriate Technology is not a matter of replacing the human touch. Rather it is using technology to enhance and expand the range of services that an agent can offer.

- Technology enhances the search for property and enables an agent to not only find available property but to tour available properties virtually before arranging a physical tour.
- Technology makes information and people accessible 24-7 and assures that no Buyer ever

need be uninformed about the status of their search for a home.

- Technology makes it possible for an agent to create a dedicated website for each Buyer permitting them “look” at all homes under consideration at any time convenient to them.
- Technology makes it possible to prepare all contract documents online and immediately accessible to all parties, and
- Technology makes it possible (though not all states make it legal) for documents to be signed electronically and thus make the entire process more efficient.

- **Available when needed**

The right agent is likely going to be a busy agent, an agent in demand due to the quality of service they provide. One of the services is availability/accessibility. This is a matter of organization and personal style. It is also knowing how to use technology to achieve asynchronous communication rather than engage in telephone tag. For example, text messaging is a form of asynchronous communication but it can almost seem like real time communication if both parties use it wisely and effectively.

Availability also involves the skill of multitasking while maintaining quality in all of the tasks addressed. My philosophy is that it is better to spend 20 or 30 minutes of uninterrupted time with a client than to juggle 2 or 3 clients at the same time for two hours. If you know that when I am meeting with you I will not take a call from another client you will be more likely to

understand if I do take your call when I am meeting with another client.

I have found that most people would rather be told, I cannot speak with you at this time but I will return your call in 30 minutes. I can only give my undivided attention to one client at a time. However if I promise to call you back in 30 minutes I am obligated to keep that promise.

- **Former Clients Would Use Again**

The highest compliment my clients pay me is to refer their friends and family to me. Ask a prospective buyer's agent for the names and contact information for at least 3 Buyer-clients with whom they have worked during the past 12 months. If they cannot do that, it is either a sign that they are not actively working with buyers or that they are not sure what their former clients might say about their service.

- **A Good Teacher**

A significant portion of your Agent's time will be spent educating you about the home buying process. If they frequently use jargon without explaining what they are talking about, make you feel stupid when you ask a question which is important to you even though it may be routine to them, or simply expect you to take their word for things rather than explaining why it is important to be pre-approved for a loan before you start visiting homes or what to look for when you receive the Seller's Disclosure, this may not be the agent for you.

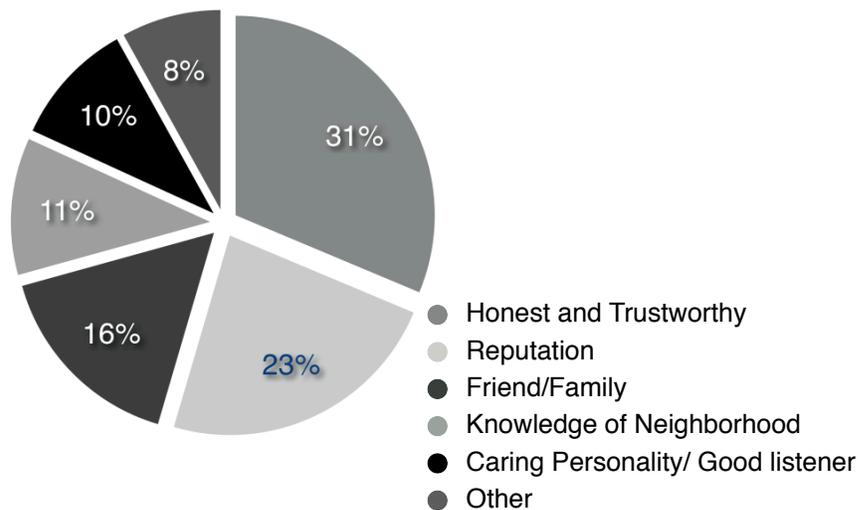
- **Knows The Territory**

No matter how resourceful an agent may be or how motivated they are, the more familiar an agent is with the neighborhood/community, the greater your chances are of finding the perfect home. An agent who works in a particular neighborhood frequently will already know which homes are on

the market, will probably have previewed many of them, and will know the status of homes that may not yet be on the market but will be soon.

Ask prospective agents which neighborhoods they cover the most. Also ask them what tools they use to search for a home. This will give you some insight into how familiar they are with the area.

Most Important Factors When Choosing An Agent



The National Association of REALTORS® asked buyers to identify the most important factors that influenced their decision to choose the agent they used in their home search.³ Over half of the buyers chose their agent based on their Reputation, 16% relied on Friendship or Family Ties, 11% chose an agent who they perceived to be a Neighborhood Specialist, and 10% were impressed by the Personality and Listening Skills of the agent. No doubt regardless of which of these factors a Buyer selected as

number one, several of the other factors played a prominent role in their selection.

◆ *Choosing The Right Agent*

As a Buyer's Agent, my responsibility is to help you, a prospective Buyer, even before you make the decision to buy a home. Some of my most important work is done with a prospective buyer who is trying to determine whether this is the right time to buy a home. I could pass the buck to the bank to decide whether they will finance your loan and concentrate on helping you find a suitable home. I also know that if I decline to work with you because of my concern for your long-term financial health, there are other agents who will fill the void. Of course no one can predict the future and I don't presume to know what's best for every prospective home Buyer. I do believe however that I owe it to my clients to help them put the decision to buy a house in proper perspective and proceed with a reasonable amount of prudence.

In order for a buyer's agent to fill the role I believe to be appropriate, it is best if you contact a buyer's agent when you first begin considering the purchase of a home. If you wait until you find a home you want to inquire about, you have already missed out on some of the most valuable services a buyer's agent has to offer – service that comes at no additional cost.

I enjoy working with people and representing Sellers as well as Buyers but my observation is that Buyers are sometimes ill served by agents whose primary role is as a Seller's Agent. An excellent book, published in 2007 by the NATIONAL ASSOCIATION of REALTORS®, includes a list of reasons to hire a real estate licensee to help you find a home and negotiate your transaction to a successful closing.⁴

- Real estate professionals are market specialists.

- Real estate professionals are neighborhood experts.
- Real estate professionals have more information about homes than you do.
- Real estate professionals save you time.
- Real estate professionals can work with you the way you want to work.
- Real estate professionals share your risk.
- Real estate professionals know how to close a deal.

I would add:

- Help buyer determine whether they are ready to buy a home,
- Help buyer determine how much they should plan to spend, and
- Help buyer clarify what they are looking for in a home.

Helping a wannabe Buyer answer these threshold questions is a function that sets Buyer Agents apart from other real estate agents who are qualified by their license to represent buyers but who have not developed a specialty in Buyer Agency.

The agent whose name and contact information you find on the sign in the yard already has a client – the Seller. Legally and ethically the Seller’s Agent has a loyalty to the Seller. They are bound by contract to be an advocate for the Seller; to get the best possible price and terms for the Seller and to do so in the shortest possible time. They are also bound by contract and professional ethics to treat all information about the Seller as privileged information and cannot disclose anything to a prospective Buyer unless legally required to do so.

As a Buyer you need an advocate who represents no one in this transaction but you, will be loyal to you and is committed to make the best possible deal for you, i.e., to obtain the lowest

price and best terms possible. A Buyer's Agent is usually paid by the Seller from the proceeds of the sale but is contractually obligated to be your exclusive advocate.

Too many buyers are unaware of the specialized role of a Buyer's Agent and wait to contact an agent until they find a house they want to see. If you simply call the real estate office and ask to speak with an agent, you will usually be referred to the agent on call for the day. Like all other agents I receive those calls and I work with you at the stage where you are in the process. Most agents will also ask if you are interested in knowing about other homes and offer to provide you with a list of possible homes to consider.

My experience is that many of the prospective buyers with whom I speak called about a particular house but they had no way of knowing about the types of services a full-service buyer's agent provides. Among the purposes of this book is to change the expectations of Buyers, especially the first-time Buyers regarding what to expect from a Buyer's Agent.

Knowing where to look for agents is half the battle.

- You can do it the old fashioned way and take names and phone numbers from yard signs but you have no way of knowing when you do that whether the agents have experience representing buyers.
- You can call a local real estate office and ask to speak to an agent but you are at the mercy of the calendar when you do that. Most offices have some type of rotating schedule and thus you might get an excellent buyer's agent one day but had you called the previous day you may have spoken with someone who rarely represents buyers.

- You can ask your friends or family members who have recently bought a home who they used and would they use the same agent again.

Technology has made possible a much more focused search for agents. The pool of possible agents is much greater as a result. Your first stop should be: <http://www.rebac.net/MembershipDirectorySearch.aspx>. This will bring you to a search screen where you can enter geographical indicators such as state, county, or zip code to obtain a list of agents who have earned designation by the Real Estate Buyers Agent Council. Keep in mind that agents cover more than a single zip code or even a single community. If your search area is too small you will not obtain a representative pool of qualified buyer's agents.

You can also Google the name of the geographic area combined with terms such as "buying a home," or "buyers agents." You will get a variety of responses including some sites that are simply aggregators and offer nothing of value for you. If you click on one of these it will take you to a search which is a thinly disguised effort to capture your name and contact information which will then be sold to agents as prospects. Don't go there if you want to find a high quality buyers agent familiar with the area where you are looking.

There is no guarantee that simply because an agent's website shows up in a search engine's top 10 list, the agent is one of the top 10 agents in the area. But I would advise you to go to these sites and explore how they propose to work with you. If they are serious about being a buyer's agent they will have information on their site about how they do business, the services they offer, etc.

If you get mainly a gallery of homes for sale you can be reasonably certain that their priority is selling their listings

rather than finding the perfect home for you. I know of no survey that suggests a correlation between whether an agent has a blog and their ability to perform well as a buyer's agent. However I do know that a blog is a good way to gain insight into an agent's mindset. In some areas an excellent search would be: "the area" plus "real estate blog." Check each of the blogsites and read the blogs by agents or at least have a look at the topics they address in their blogs.

Another way to search is to enter "the location" plus "ABR" or "GRI" and either "buyer's agent" or "real estate" or "home search." Keep changing your search words or phrases to various combinations until you find links that interest you. The ActiveRain network is another good place to search. Simply google Active Rain plus "Colorado" or "Denver" or "Colorado Springs" plus "buyer's agent." Combining that with ABR or GRI may give you a different set of sites to consider. If you don't feel you are getting quality results, send me an email⁵ and tell me where you are searching and something about the home you would like to find. I will be glad to access my contact networks to help you get the right buyer's agent.

◆ ***Don't Use The Seller's Agent***

If an agent attempts to convince you that they can represent both parties in a real estate transaction, look for another agent. The only agent who will try to convince you of this is one who is trying to sell you one of their own listings and want to keep both sides of the commission. They are not thinking of your welfare, they are thinking of theirs. Ask a prospective Buyer's Agent, If I should become interested in a property where you represent the Seller, how would you propose to handle the conflict of interest?

Consider this situation:

The Seller's Agent knows that the Seller is running out of time to find a Buyer or they will lose the contingent contract they have to buy another home and thus would be willing to discount the price far below the listing price. They know this but cannot disclose it to you because the REALTOR® Code of Ethics makes that knowledge confidential and you cannot disclose it without violating the Code of Ethics.

If the same agent is representing you as the Buyer and you ask, How much should I offer for this house? the agent cannot advise you even though as your agent he/she is obligated to give you the benefit of their best judgment. All the protestations in the world cannot change the reality that either the agent represents only one party or neither party.

The Real Estate Buyer's Agent Council of the National Association of REALTORS® distinguishes between a Buyer-customer and a Buyer-client. Until you sign a Buyer's Agent Agreement with me, you are not my client, at most you are my customer. This distinction is not simply a play on words. It is a substantive difference that defines the difference in the type of service I can provide to you. The following table makes the distinction clear.⁶

Depending on the laws in your state, you may find yourself working with someone who is negotiating for the Seller, not you, the Buyer. The best way to be certain your interests are being considered and protected is to sign a Buyer agency agreement with a trained buyer's representative which clearly establishes client-level services and spells out what services you can depend on.⁷

My advice is to insist on signing an Agency Agreement as soon as you feel comfortable that an agent is a good fit for you. If you are not sure that this is the agent you want to work with,

<i>Are You A Buyer-Customer Or A Buyer-Client?</i>	
If you are a CUSTOMER (no agency relationship), an agent will:	If you are a CLIENT (agency relationship), your agent will:
Maintain loyalty to the seller's need	Pay full attention to your needs
Tell the seller all that they know about you	Tell you all that they know about the seller
Keep information about the seller confidential	Keep information about you confidential
Focus on the seller-client's property	Focus on choices that satisfy your needs
Provide just the material facts	Provide material facts as well as professional advice
Protect the seller	Protect and guide you
Negotiate on behalf of the seller	Negotiate on your behalf
Attempt to solve problems to the seller's advantage and satisfaction	Attempt to solve problems to your advantage and satisfaction

you can ask to sign a one-day agreement which will mean that any information you share with this agent will be covered by the rules of confidentiality whether you extend the agreement for the duration of your home search or not. You should not expect the agent to invest a lot of time with no assurance that you are a serious Buyer. Under normal commission arrangements, the only agent who is paid is the one who prepares and submits the contract.

◆ *Can I Sign An Agency Agreement With Two Or More Agents?*

No, or maybe yes under some conditions. If you are talking about two agreements signed for the same area covering the same period of time, the answer would be no. If you are talking about two agreements covering discreet geographical areas, you can probably do it but I would not recommend it. Not only is it unfair to both of the agents, it is not likely to produce positive outcomes for you the Buyer.

Remember that REALTORS® are independent contractors who pay their own expenses and receive no compensation other than commissions for completed transactions. Don't consider using them to develop a list of homes to visit and then ask a different agent to show you the homes or handle the presentation of an offer. Any agent who is truly professional will not be willing to interfere with your relationship with another agent. As a result you will likely miss seeing some properties that fall in the gray area between the territory called out in the agreements.

If you want to get the benefit of an agent's best efforts to assist you in planning your home search and implementing it to a successful conclusion, show them the respect and confidence of asking them to be your exclusive agent for as long as it takes to find the ideal home.

◆ *Your Agent's Job*

By way of summary, consider these suggestions regarding your agent's job. It is to:

- Help you determine if you are ready to buy a home and how much you can comfortably spend;
- Understand what your needs and wants are in a home by listening to you.

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- Keep you informed. Let your agent know how you would like to be informed and how frequently.
 - Negotiate effectively with the seller's agent to get the home you want at the best price and on the most favorable terms possible.
 - Guide you through the process of home inspections, mortgage applications, appraisals, and final walkthrough within the limits of a REALTORS® professional expertise and to recommend that you seek the advice of other professionals for any issues that are outside the scope of an agent's expertise.
 - Go with you to closing to make sure everything goes smoothly and answer any questions you may have about the process.

1 2009 Profile of Home Buyers and Sellers, NAR, Exhibit 4-8, p. 60.

2 Currently there are approximately 900,000 agents and brokers who are members of the NAR.

3 Ibid., p. 64

4 NAR. The National Association of Realtors® Guide to Home Buying, John Wiley & Sons, Inc., Hoboken, New Jersey, 2007, p 7.

5 JohnCleek@mac.com

6 REBAC, National Association of Realtors, Homebuyer Resources, Description of Agency: The Buyer Agency Agreement.

7 Ibid.

This book guides the home buyer through the process of selecting a buyer's agent, defining their needs, obtaining financing, finding the right home, negotiating a favorable contract, and closing the deal.

Seven Steps to Home Ownership

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