



# **What Every First Time Home Buyer Should Know**

**Be a Better Buyer**

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## Be a Better Buyer

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If you're reading this you're likely about to start a new chapter. The sounds and smells of home - clinking dishes, laundry detergent, the smell of your favorite meal in the kitchen, friends and family over for thanksgiving, getting ready for a big day at work or coming home from a long day at work. This is more than basic shelter. It's privacy, security, safety. It's home. I've helped people through this life-changing process as a broker and as a volunteer in several countries around the world. Having someone help get you home is important whether it's a 250sf Habitat for Humanity home or a multimillion dollar dream home. It's usually the biggest personal purchase we can make, not only financially but emotionally. The excitement and relief is the same.

Today's market is incredibly challenging for buyers in particular. However, the guide I've written here focuses on the fundamentals of purchasing a home. I use the term "mechanically sound" because regardless of the market, the mechanics of putting terms on paper as an offer that's appealing to a seller are still tried and true. Understanding the risks as you make an offer more appealing in a competitive situation are critical. Getting you into a home that's the right one, while more challenging in this intense seller's market requires some consideration prior to making the offer.



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## Have a mission, have a team to support you, and have a plan.

The experience of buying your home is a stressful time. Have a mission, have a team to support you, have a plan.

I was told by a mentor once - if you aim for nothing you'll hit it with amazing accuracy. So take some time while your head is clear and write the mission. It's not graded and it doesn't have to be complete sentences. Just make it something that is accurate and the you can reread to make sure you're on track when things get crazy. So, what do you want in this process? What's the end game? What's non-negotiable? What's unacceptable? What's important about the timing? What's important about the financial outcome? What are you willing to let go of? Describe the town, style, size and features of the house you want. This is your moment to envision the next chapter and then take aim at making it happen.

The right team can help you build a plan to meet the mission. They can help you know the budget, and the timing and help you put your best effort forward as well as be there to support you when things get tough.

With these questions in mind I've written this guide as a scaffolding. These are the fundamentals that can be a reference point in any market. The way you use them can change based on market conditions.

Of course, I recommend that you interview and hire an agent to make sure you've got the best shot at a smooth purchase. A good agent will:

- A. Help you understand the brokerage/agency and your relationship to it. They'll help you with what to know, who's on your side and how the timing works. They'll also be able to connect you with general

inspectors, the trades and services along the way, as well as a title and closing company

- B. They'll explain the buyer agency agreement, brokerage relationship, and supporting documents
- C. Guide the process of finding the house. The search - what's in the MLS (Multiple Listing Service) and what's not
- D. Define price range, budget, and buying costs
- E. Write the offer. Give you some strategies for sanity. Help you be competitive while understanding the risks, and outline the seller size-up.
- F. They'll guide the contract and the due diligence. General inspection, deeper inspection and put team members in place along the way including the lender, the appraiser, the closing.
- G. The "What if" list, including low appraisals, bad inspections, etc.
- H. Happily ever after and the support you'll need.



# The Agent and The Agency - Representing You

As you start the process of buying a home, typically, the first service provider you'll consider is a real estate agent and there are a zillion choices. You'll want to have someone who understands your needs so it's important to reflect on the mission. Remember, you'll be working with whomever you choose throughout the process of purchasing your home so they'll need to know what's important to you and you'll need to trust that they're protecting your interests. Buyer representation means the agent will be helping you make plans, digging up critical information, referring and lining up services, negotiating contract terms on your behalf, keeping you competitive but sane, and scheduling benchmarks throughout the transaction. As an exclusive buyer agent they'll be obligated ethically and legally to keep confidentiality about your motivation for buying, your bargaining position and the ultimate terms for which you'd buy a specific property including timing and price. That's a big job.



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### Pro-Tip

A recent addition to the agent tool kit is the Escalation Addendum. It's a great way to set a starting price but move to the top of the heap in a competitive offer situation. It's not without risks! Consider that it may take you above an appraisable price and reveals your highest offer position. Talk with your agent about these before you use one.

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At the outset, an obvious distinction in the marketplace is size of the brokerage. However, there's more to the story. Even the bigger red and blue brands have some common practices that are not discussed with their clients. Almost always, REALTORS® operate as independent contractors. Meaning, they essentially run their own independent business under the affiliation or brand where they hang their license. Most agents spend a big portion of their time generating new connections and growing their business which goes hand in hand with serving their clients. The bigger brands offer some additional horsepower when it comes to networking and mentoring but this is often focused on recruiting more agents and brokers or touting their own volume in the marketplace and growing the brand. Though they sound great, these aren't necessarily value-adds for their individual clients.

Some topics to discuss with any agent you're considering are their experience with the market area, their commission structure, search strategy and materials, and any other particular situational needs you may have. It's also a good idea to find out if they're a member of the local and national board of REALTORS®. You'll want them to explain agency in

depth. In Maine, they'll use the Brokerage Relationship Form. With certain distinctions in the different types of agency relationships including buyer agent, seller agent, dual agent, and appointed agent this form as a guide to differentiate each context and it's provision and discussion is a legal requirement for anyone holding a license in Maine.

The most likely contractual agreement for you as a buyer is the Exclusive Buyer Agency Agreement. Included in this agreement are the terms by which the agency or brokerage receives compensation. Each brokerage has different policies and procedures for the "magic formula", and each agent can only discuss their brokerage's rates and policies. However, understanding how the buyer agent receives their commission sets the stage early in the relationship and reduces the chance that any surprises arise later in the transaction. Often, all or some of the buyer's agent commission is paid from the proceeds of the seller's side of the closing statement but there are some additional possibilities including an initial payment to the buyer agent, compensation with a For Sale By Owner property or some bank owned or short sale properties. Each transaction is different and each relationship is different. Spend some time with your agent and ask how they operate and review the agreement carefully. A few good conversation starters are; 1. Does your entire commission come from the seller's side of the closing statement?; 2. If not, does the buyer make up the difference?; 3. What other ways are available for compensating the buyer agent?; 4. What if there's no commission offered from the seller's side, like a FSBO listing?

If your agent is a REALTOR, all of this documentation is provided by the Maine Association of Realtors and should be available for electronic signature and you'll receive an email copy. It's easy to just tap through these on a phone or computer so make sure to understand them at some



point. Once you're done signing keep these in a safe place and add them to the whole file when you've purchased a property.

Ultimately, your choice of agent or broker and the service they provide boils down to finding the provider who's going to understand your mission and use their experience to help you meet it with personal service. An experienced agent, or even a newer agent who's well supported has many of the same resources available for the bigger brands and can offer great service regardless of their brokerage or brand affiliation. They'll be able to customize their service to keep you informed, safe and happy as you navigate the purchasing process. They'll also refer you to the right players along the way to help you understand exactly what you're buying. We'll dig a little deeper into this topic when we cover the due diligence period later in this book.

There are cases when the concept of Disclosed Dual Agency comes into play. This should be covered during the brokerage relationship conversation. It can happen when an agent or brokerage represents both the buyer and seller in a single transaction. Both buyer and seller **MUST** agree to this type of representation. It can be accomplished but it takes some skill to serve both buyer and seller sides equally without compromising either bargaining position or motivation -- more specifically, without revealing either side's most aggressive terms. Know these relationships up front in the event that the agency relationship needs to be adjusted during the agreement timeframe.

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### Pro-Tip

Don't be swayed by competitive rankings of an agent or the "humble brag" about their volume of business or market ranking. Find the one that's paying attention to their clients' needs and ask for examples.

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A major factor to consider regarding your buyer agent is how they'll be searching for your new home. When it comes down to it, the main way people find houses today is online using the MLS, Zillow.com, Realtor.com and a host of other sites. While the modern distribution of data has leveled the field for service providers everywhere it's important to know that a much more robust version of these tools are available for whichever REALTOR® you choose. The MLS, which we'll discuss more later, has search capabilities and other resources built into the REALTOR's interface that allow the agent or broker to access vast information on specific homes as well as the market area.

While online searching in today's market is certainly central to the work of finding a home there are some other important tactics to consider. Some additional services include networking with other agents and sending postcards or mailers to specific neighborhoods. Some agents will actually walk around target neighborhoods to find a home for their client, particularly if the inventory is low. Each agent or brokerage may have their own formula for finding off market or "shadow inventory" homes. Ask your agent how they approach finding a home outside of simply searching the MLS.

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### Pro-Tip

The data in the MLS is almost always the source of information for the mega websites like Zillow.com, Realtor.com and most other real estate listing websites. A REALTOR®'s access to the MLS feeds these sites the same data regardless of the size of the brokerage.

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Typically the official beginning of the client/brokerage relationship is the signing of the Exclusive Buyer Agency Agreement. While there are other options for brokerage services available, this document is the most common and consummates the obligations of both buyer and brokerage including and especially the confidentiality and care of the agent and brokerage. Along with the Exclusive Buyer Agency Agreement you'll see several other documents and disclosures. The most important additional items in this list are: The Maine Real Estate Commission's Brokerage Relationship Disclosure, and, the Maine Residential Transaction Booklet. There will be more once you choose to make an offer for a specific property but these are the critical first documents. You should have a clear understanding of these documents and the relationships they represent by the time you're ready to sign on with an agent and their brokerage.

## The Search, The Market, The Right House



As discussed earlier, the most active and up-to-date information on the real estate market is MLS or the Multiple Listing Service. Almost every other public facing real estate information service, including [zillow.com](https://www.zillow.com) and [realtor.com](https://www.realtor.com) use information from

different local markets all around the country. It is undoubtedly the central tool for you and your agent while looking for a home. The additional resources available for your agent's deeper access to the local or regional MLS will add some substantial power to your search as well. Your agent will be able to research a property of interest by pulling the seller's property disclosure, the deed, tax card, zoning information and more. These are often all in one place and access is limited to licensed agents for a variety of reasons, primarily, privacy. Additionally, your agent can do some sleuthing with this available data to find some comparable sales, understand trends like average days on market or list to close price ratios. These can be helpful signposts on the way to making some good decisions and ultimately, writing an offer. On a side note, appraisers use the same data when doing their work once the house is under contract and the bank is doing their work to get you to the closing. They'll produce a much more extensive study on the market value of the property. However, an appraiser's orientation is towards market history, where an agent's is towards the future.

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### **Pro-Tip**

A balanced market is usually defined as an average of 180 days (6mo) on market. A buyer's market is longer, vs. seller's market, which is shorter.

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Let's take a little deeper look at Closing Costs - These are fees for the services and expenses required to finalize a mortgage. These may include title insurance, escrow fees, lender charges, transfer taxes, recording fees, and the lender's origination fee for loan processing, underwriting and funding. Closing costs are typically about 2%-5% of the loan amount. Digging into these can be a great way to get a close look at your finances if you're on a tight budget. Your agent and/or lender can walk you through these and make a difference in the overall closing cost. A little known or advertised fact is that some loans are more expensive than others. In the Maine Association of REALTORS Purchase and Sale, you may be able to request some or all of these back as "Buyer Prepaid". This strategy works if you're not in a competitive offer situation but it should be one of the first things to go if a buyer is getting serious.

Another target to know about is the payoff amount to your lender. The title company will contact your lender to find out the amount left to pay off your mortgage. You may have some money in the escrow account that accrues for property taxes and insurance. It rarely gets lost in the shuffle but it's not nothing if it gets misplaced.

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### **Pro-Tip**

Using the title and closing company that insured the title when you bought the home can be a benefit for the seller or buyer depending on who's paying. Let the buyer know who to contact at your past title company to ask for a possible discount.

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## Getting Into Houses - Be Ready

Now that you've got your mission and your agent, and you're starting the process of going into homes for showings and open houses you should have some clear expectations about the process.



Remember, your buyer agent represents you and they're going to be protective of you. You'll be sending listings back and forth, they'll be sending deeper information on prospective properties and they'll be setting up showings. Agent's roles vary but in the Maine market it's very common for the buyer's agent to be the only agent at each showing. It allows you to see the houses with less pressure and once you're comfortable with your buyer agent it's usually really fun. That said, there are some homes and situations where the seller agent will be at the house as well. Ask your agent if there is anything you need to be paying attention to in your conversations while the seller agent is there.

Open houses are still an important part of the process. It's a great idea to go to them with or without your agent. You'll get to know the market and see plenty of houses but be aware that the agent who's hosting an open house represents the seller. Make sure you don't tell them anything you wouldn't tell the seller directly. Keep your conversation short and don't

reveal how much you love the house, how much you would ultimately pay for it, how soon you need to be in a new house or how much you've got to put down. These are all items that a seller could use to negotiate a tougher position for you. Before you go to open houses, discuss it with your agent for some tips and tricks. Again, it can be empowering to see the market and understand what different price points feel like without having to be joined at the hip with your agent.

In a market with limited inventory there may be situations where you're seeing other buyers on the property as you're coming or going. You'll need to be respectful of their reserved times and your agent can help navigate these situations if there's some overlap with private showing appointments. Also, in a market where multiple buyers are making offers on the same property you may have limited time in the house so make the most of your showings. Again, the mission here is to avoid surprises. A resource to have on hand is the Seller's Property Disclosure given to you by your agent. Have a hard copy and pen or pencil in hand to use as a list of things to confirm. This property disclosure has been developed and tweaked by the Maine Association of Realtors over the years and though it doesn't cover everything it is pretty comprehensive. If the house looks like a contender take pictures of the kitchen, laundry, electrical, heating and the mechanicals. It's easy to forget which house had what when you see several on a given day.

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### Pro-Tip

Today's homes are full of cameras, microphone, motion detectors and various smart devices. Make sure not to discuss sensitive information inside home as the owner could very likely be listening in.

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## Get the Terms on Paper

So, you've found a home that's a good prospect. It's time to work through the terms of an offer. The form you'll be using here is the Purchase and Sale Agreement – also called the P&S. While price is a big factor in the conversation



there's more to the offer terms. In a market where buyers are competing for the few houses listed on the market it can be easy to get swept up and over commit to make sure you're beating out the other buyers.

A good agent is going to contact the seller's agent to find out if there are any factors that a buyer should know that may help develop favorable terms. Some things to consider are timing, price, concern regarding a physical part of the house, or seller's general concerns about the process. If the seller's agent can provide any information that may help write a good offer now's the time to consider adding it to the offer.

A few common ideas:

1. If the seller needs to find a new place to live you may consider a leaseback in the offer.
2. If the seller is concerned about the condition of the house you may consider a condensed due diligence period.
3. If the seller is in a hurry you may consider ways to let them know you'll close as quickly as possible.



4. If there are multiple offers you may consider an escalation addendum or a non-refundable earnest money payment.

These are just a couple of ideas and your agent may have more to offer. Make sure that anything you add to the offer is well considered and you weigh the risks. You don't want to commit to something in the heat of an offer that you'll later regret.

Some additional tools to use with your agent to make you more competitive are leaseback terms if the seller needs more time to move after closing, non-refundable EMD (earnest money deposit), or an escalation addendum.

This isn't an exhaustive list but some of the common items that show up in the P&S are fuel pro-rations, buyer prepaid reimbursements, a points or rate buy-down for the mortgage, HOA prorations, transfer tax reimbursement, closing and recording fees, title insurance and more. This can be a challenge in a fast moving market but it's worth setting aside some quiet time to understand these variables. A skilled agent can help you by pointing out the different aspects of the Purchase and Sale (P&S) to identify any "holes in the boat". Time spent here can help keep a contract process on the rails and make your offer stand out in a crowd of other offers.

One of the areas that can cause some tension during the contract process is a misunderstanding based on what's included with the house. When you're reviewing the offer make sure to be specific about what's included and what's not. Call out items like microwave ovens, big screen TVs, Washer and Dryer sets, plug-in heating units or dehumidifiers. Maine law says anything affixed to the house is included with the sale. This includes drapes, light fixtures, and some appliances etc. but it's a good idea to

address it early, it should be spelled out in the P&S to make sure there's no mistake what's included and what's not.

The biggie - the offer price, is important, but consider your mission. In a market where multiple buyers are competing for a home and it's important enough for them to get into the house that they'll be much higher than the list price in an effort to get a house. In this position consider your motivation - higher price doesn't necessarily mean a buyer is paying more over the long haul if the interest rate is low enough to wait out the pay off. Consider which is more important after a real estate market correction? If you're "house poor" with a high monthly payment in a market with fairly reliable market appreciation you can sell and work your way out of it. However, if you're committed to a high monthly payment and the housing market corrects you'll have a much tougher time making the move financially. The term "upside down" is used to describe a situation where the owner owes more for the mortgage than the market value of the house. While this seems like a foreign concept to some these days it was very common in 2009 and in several housing market corrections prior.

On the other side, if you purchase a home and the cost of owning a home is well within your monthly and annual budget AND you're planning to stay in the home for a long time, it may be worthwhile to offer an extremely competitive (over asking) price. Ironically the market value of the home over time becomes somewhat irrelevant if you're where you want to be.

Consider this: A mortgage for \$250,000 at 4.5% for 30 years means you'd pay a total of \$206,016. Compare that to a \$300,000 mortgage for the same amount of time but at 3.5% and you'd only pay \$184,000 in interest by the end.

It's important to understand the big picture and consider your daily life after closing. Some of the costs associated with home ownership that are above the principal, interest, taxes and insurance payment each month to the bank are HOA fees, heating, electric, internet and repairs and maintenance. If you're buying your first home it's worthwhile to attend a first time home buyer class like Maine Housing program at Avesta in Portland.

## The Contract and Due Diligence

Once you've gotten under contract there'll be a flurry of activity. Within the contract are some very specific things you're committing to and a specific time frame to accomplish them. In fact, the contract is now the entire framework for the time, money and terms of the period between the effective date and the closing table.

Let's start with the effective date. You'll see the effective date on the top right of the first page of the P&S once you're under contract. The official effective date is when all parties, meaning buyer and seller, and/or their agent are notified that terms are agreed on the P&S. It starts the clock for the entire contract length.

Once the clock starts the buyer and their agent have some hustle ahead for the due diligence period. At this point you'll be submitting the EMD check, lining up a general inspector, making calls or visiting the town office to check permits and code compliance, applying for the loan with the mortgage company and possibly calling other service technicians to make sure you understand exactly what you're buying. The timeframe to do all this homework is defined in paragraph 12 of the MAR's P&S. It's a fairly comprehensive list but there may be odd details that are not included here for your particular situation. Remember, the days are defined here as part of the offer so as you've written the offer it's a possible variable for negotiation. Also, if you run out of time here there's a chance to release some of these contingencies. This can happen if you find something that needs deeper study.

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### Pro-Tip

In an extremely competitive buyer's market some offers will waive their due diligence period to be more competitive. While it's a risk, some have resources to accommodate any unknowns and are willing to take the chance. It may be worthwhile, even if you're waiving inspection contingency to include the ability to get the house inspected so you know what services to have on hand after closing.

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This first part of the contract period will require a ton of legwork and phone calls. Your agent should have a strong list of service providers and can coordinate most or all of these logistics for you. It's their job to make this process as quick and painless as possible while also getting the proper information. Again, we want to avoid any surprises here. Plan on spending some time with your calendar and agent to line up these services and pay a visit to the town hall to check the information at code enforcement office. The code enforcement files are public record and include building permits, septic plans, code violations and other relevant information. Sometimes the code enforcement officer or someone else in the office can give you some historic information that's not necessarily included in the files so make sure to ask some open questions.

## Title and Closing

The process of purchasing your property ends at the closing table. It's a specific moment in the series of events of home ownership where the legal ownership of a property changes hands and is recorded as a public record in the registry of deeds.



This is usually done at a title company or attorney's office. Their job is to pull together all the information from the buyer and seller in preparation for the closing. Both buyer and seller agents will be working with the title and closing company to coordinate the settlement. The title company is often chosen by the buyer or the buyer's lender. It's often the case that a buyer's lender has a relationship with a closing company. If you've got a preference here as the buyer, make it known early in the process.

There will be a host of documents leading up to this but let's look at the biggies. The deed, settlement statement, mortgage and title insurance policy(s).



The deed, which is part of the public record, is your legal entitlement to the property. It can show up in a few different ways, the most common being the Warranty, Quit Claim and Personal Representative. These deed designations are relevant in the process but typically don't change the way you can use the property after purchase. They can also be insured when you purchase your title policy which makes the deed secure. The type of deed will be listed in the MLS and passed along at closing.

The language is fairly formulaic and written by the attorney at the title company and describes what's being transferred, who's conveying and who's receiving. Despite the routine nature of the deed it can often be incomplete or incorrect. Make sure you read the deed prior to or at the closing. They're written by humans and in a fast moving market they can have errors which are recorded in a fast-moving market.

The Settlement Statement is the final accounting document. It is designed to show the specific financial details of the transaction and follows the terms of the purchase and sale and adds costs associated with the closing. Understanding this document ahead of time can give you some extra advantages when it comes to writing the offer in the first place. A few terms that are used to describe this document are ALTA, CD, Closing Disclosure, Settlement Statement or HUD-1. When you receive it, make sure to sit down with a calculator and understand each debit and credit.

As you look at the closing disclosure you'll see a two page list of credits and debits for both buyer and seller. These will include the contract price, prorations and adjustments for things like taxes and HOA dues. You'll see a section dedicated to the loan charges and things relevant to the lender and buyer and a section dedicated to title, escrow and closing costs. The

last sections will include the real estate commission, recording fees and payoffs for the seller's mortgage or other liens against the property.

This document, while it is intended to simplify the financial accounting of the transaction, can be complex. It's a great idea to call the closing coordinator or your agent and review it ahead of the closing appointment.

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### Pro-Tip

It's a legal requirement for the buyer to receive the closing disclosure, a financial accounting of the transaction, 3 days prior to the closing.

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The mortgage and promissory note - hand in hand, define the relationship between the bank and the borrower with the property as the collateral. It's usually a very long document because of the course of decades the legal implications of the relationship have gotten more complex. You should know the terms of these documents ahead of time but an important distinction between the two is that the mortgage deed is recorded along with the deed to the property and the promissory note, while an enforceable contract is not recorded in the public record. Your lender or mortgage broker should be able to explain in detail what's in this document set ahead of the closing.

The title policy is a critical piece of this process too. The owner's title insurance policy will cover trouble with items in the properties history that may have been missed.

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### Pro-Tip

When you see the title policy, often at closing, ask the title company to review the “Exceptions” page to you. This conversation will help you understand what’s covered and what’s not with the title insurance policy.

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Unless you, as the buyer, have agreed to pay for some of the seller’s closing costs as part of the transaction the buyer will likely be purchasing a title insurance policy for the lender and a policy to protect themselves. This policy covers a list of things that can cause problems for the title holder including undischarged or improperly discharged mortgages, workman’s liens, access to the property via rights of way or any unrecorded claims to the property. These issues, if not resolved, make the title incomplete which stops the sale until they’re resolved. They’re usually discovered as part of the title search process and cleared up prior to the closing but when they get in the way it’s a relief to have insurance to settle any encumbrances.

At the end of closing day the funds will have arrived from the bank and the buyer, the buyer and seller will have both signed their closing documents including the deed, closing disclosure, mortgage, promissory note, title insurance and a host of other documents. Then, the title company disburses all funds and records the deed in the public record.

## Conclusion

The challenges we're seeing in the market today are the exact reverse of the challenges we were seeing in 2009. However, it's important to keep in mind that every market has its challenges. The concept of buying and selling homes is uniquely emotional and financially challenging. In addition to these factors, the volume of information and availability of reduced rate services make a compelling case for going it alone to save a few dollars. However, it's incredibly important to have a sage advisor in your corner to get things started in the right direction and to keep them on track throughout the process. Having some qualified professionals around you who can be the calm voice in the storm and keep you on track throughout the process is now more important than ever.