

The Real Estate Transaction Handbook

By

Trey Davis



Version 1b

Written and Copyrighted November 2005
by Trey Davis. Revised October 2006

Designed by Julia Hua-Davis

Disclaimer – Trey Davis:

This booklet is not legal advice, nor should it be considered a substitute for legal advice. This information herein is a collection of my observations and opinions and is not intended to represent the ideas, laws, etc. of any governing agency, company, association, or individual.

Contents

INTRODUCTION

ONE	The Importance of Finding a Realtor
TWO	For the Buyer
THREE	For the Buyer and Seller
FOUR	For the Seller
FIVE	Steps to A Real Estate Transaction
SIX	Benefits of Owning a Home
SEVEN	How Real Estate Agents Are Paid
EIGHT	Buying Investment Property
NINE	Buying Land
TEN	Frequently Asked Questions
ELEVEN	Choices

GLOSSARY

BIOGRAPHY

Introduction

The first goal of any real estate agent should be to ensure a proper and smooth transaction for the client. The second goal should be to make certain that the other parties involved also experience a proper and smooth transaction.

Real estate transactions can be very frustrating. Residential property often has strong emotions attached to it. No other possession serves people like their house does. It provides shelter from the elements and comforts with smells and textures and the sight of familiar collections. It secures, provides warmth, and is often the only place one can call their own. In addition, the substantial monetary value of property causes concern for both buyers and sellers. Buyers don't want to overpay, and sellers don't want to undersell. The consequence of either action could result in the loss of thousands of dollars. Also, transactions and the work that accompanies them require a great deal of time and careful planning.

In an effort to inform you and make your experience with me as satisfying as possible, I have created this booklet as a tool for helping you understand the most important aspects of buying and selling real estate in today's marketplace.



Chapter One

The Importance of Finding a Realtor

Don't try to buy or sell without a Realtor®—even if you are buying a friend's house or you have experience selling homes. Why not? It comes down to three things: time, money, and liability. I could also add sanity, relationships, and much more.

If you are buying, consider that Realtors work for you for free. Traditionally, we are paid by Sellers who have agreed to pay a commission split by the Selling Office (the office representing the buyer) and the Listing Office. A buyer should never try to buy a house without representation. It's not allowed per Northwest Multiple Listing Service Rules, but even when the transaction involves a For-Sale-By-Owner listing, it isn't wise. See the "FSBO" section later on. We Realtors are professionals, trained and experienced in helping you buy property, and we are equally adept at helping you sell your home, too.

We are trained in researching and knowing values based on past and current market conditions. We know what will help you sell and what won't. We work to make sure you are getting a good deal and are informed about the best ways to negotiate the contract. We are there to answer the phone, to show up for appointments, and to explain the what-ifs. We are there to tell you not to worry, and to do the things that keep you from worrying. We are there to pull rabbits out of hats and keep the transaction from failing, as so many unrepresented transactions do.



Chapter Two

For the Buyer

A. Paying for a Property

People buy real estate for myriad reasons. The most common purchase is a home or “primary residence.” People also invest in real estate and timber property, buy places of businesses and vacation homes, and much more.

A person has to be not only ready and willing to buy, but able to buy as well. Unless you are fortunate enough to have cash on hand, you will have to borrow to pay for your purchase. Getting a loan for a real estate transaction is much like getting any other loan, except that mortgage lenders are far more careful about loaning the large sums of money necessary to buy real estate. Expect your lender to be enthusiastic but cautious.

Get qualified first

Before going any further, get qualified to buy. Your friendly loan officer should be able to “pre-qualify” you over the phone in a few minutes and give you a “full approval” in a few hours to a few days. A loan officer will look at three things to determine your eligibility: **credit score, income, and assets**. Response time will depend on how much documentation they require, the type of assets and employment you have, etc. The more complex your employment, asset situation, or credit issues, the longer the qualification process will take. If you are self-employed, for example, the lender may ask for more records. If your assets are not liquid or if they are difficult to calculate, the process may take some additional time. And, of course, the more problems you have with credit, the longer it will take to determine what kind of solutions will allow you to move forward. Do your best to be patient and follow the loan officer’s directions.

Where to get qualified?

Banks, credit unions, and mortgage brokerages are the most common lenders. Banks and credit unions have a reputation for having the most competitively priced loan packages, but are also reputed to be somewhat inflexible, and have salaried loan officers who are less likely to help you on your time.

If you have a glowing credit score and are doing a simple transaction, banks and credit unions will likely be your best bet. To the credit of these institutions, however, more banks are offering the “sub-prime” loans that mortgage brokers specialize in. At the same time, mortgage brokerages, such as in the case of Bay Mortgage or National City Mortgage, are offering bank loans and are themselves banks or bank affiliates. In the same regard banks such as Cowlitz Bank, have started their own mortgage company. Mortgage brokers charge a brokerage fee. They are a “middle man” getting paid to find and qualify someone for a loan package that is a close match for what they want and need.

With so many choices, it’s important to ask me or another experienced Realtor for advice on choosing a lender. I like lenders that are experienced, know the loan packages available and what to recommend, give good financial advice, and work hard on the transaction from beginning to end. A lender with any one of these traits missing is jeopardizing your transaction.

Credit score

Modern day credit scores are generated by three companies: Transunion, Equifax, and Meridian. A mortgage lender will use the mid-score of the three as your qualifying score. If your score is on the low end, you will have a very difficult time getting an approval for any real estate purchase.

Credit (“FICO”) scores can range from 300-900, but you’ll be hard pressed to find either extreme. A score below the mid-500s will make buying difficult or impossible. These scores are reserved for those with serious credit issues and/or lack of credit. Conversely, if you have average income and assets, but have an 800+ credit score, you may qualify for the best programs and possible breaks or discounts. The lender may also waive both your appraisal and verification of income. In other words, if you’re golden, the banks will throw money at you. If not, they usually won’t go out of their way to help, although there are some loan officers who will walk you through a credit-cleanup program until you do qualify. This may seem unfair, but it’s a reality none of us can avoid.

The following breakdown of a credit score was taken from howstuffworks.com:

35% of the score is based on your payment history. This makes sense because one of the primary reasons a lender wants to see the

score is to find out if (and how timely) you pay your bills. The score is affected by how many bills have been paid late, how many were sent out for collection, whether you've filed for bankruptcy, etc. The timing of these problems also comes into play. The more recently they occurred, the more damaging it will be to your overall score.

30% of the score is based on outstanding debt. *How much do you owe on car or home loans? How many credit cards do you have at their limits? The more cards you have maxed out, the lower your score will be. The rule of thumb is to keep your card balances at 25 percent or less of their limits.*

15% of the score is based on the length of time you've had credit. *The longer you've had established credit, the better it is for your overall score. Why? Because more information about your past payment history provides a more accurate prediction of your future financial actions.*

10% of the score is based on the number of inquiries on your report. *If you've applied for a lot of credit cards or loans, you will have numerous inquiries into your credit history. These lower your score because they indicate that you may be in some kind of financial trouble or may be taking on a lot of debt (even if you haven't used the cards or gotten the loans). The more recent these inquiries are, the worse for your credit score because they indicate potential instability. FICO scores only count inquiries from the past year.*

10% of the score is based on the types of credit you currently have. *The number of loans and available credit from credit cards you have makes a difference. There is no magic number or combination of types of accounts that you shouldn't have. These actually play more of a role if there isn't as much other credit information on which to base your score. <http://money.howstuffworks.com/credit-score2.htm>*

Howstuffworks.com has posted an article on credit scores that I recommend. It can be viewed at <http://money.howstuffworks.com/credit-score.htm>.

One reason mortgage companies, or "lenders," have determined that credit scores are the biggest factor in loan qualification is that they say the most about us, whether we realize it or not. Any loan, credit line, insurance policy, rental contract, or job that we've gotten or even applied for has likely influenced decisions made by creditors, employers, landlords, insurance companies, etc. Lenders know this, which is why they use your credit as a snapshot in determining whether you will be a responsible borrower.

As you may have learned the hard way, it is easy to create credit problems but difficult to solve them. A late bill, a stop-off at the used car lot (where they may run your credit eight times while you are kicking a few tires), a new credit card application, a credit card consolidation, and other factors could hurt your credit and take months or years to overcome. Oddly, not using your credit card enough can also hurt you. In order to have “established” credit, you must use your card from time to time. Not using your credit at all factors into the FICO algorithm as being a negative against your credit. I recommend using it regularly for several things such as purchasing gas and groceries. Just make sure to pay off all or most of it at the end of the month.

How many of us have had someone else’s credit information tied to ours? I once had a bankruptcy listed on my credit despite never having gone bankrupt! Disputing a mistake takes time and energy and can be very frustrating.

Guard your credit carefully! Don’t pay bills late—especially your mortgage—and be careful with your private information.

What can you do if your score is just slightly out of the acceptable range? Sometimes a loan officer can help you clear up a few problems on your credit report and then perform a “rapid re-score,” hoping to add 1-10 points that will push you into the range of qualification. Disputing something against your credit, paying off a collection, and paying credit balances below 50% are common ways to perk up credit quickly.

Here is a trick to increase your credit score that I learned from my friend Dave. Take out a secured line of credit at your bank for \$1000.00. Then, for safe keeping and maintaining your relationship with the bank, put the \$1000.00 you borrow into a Certificate of Deposit (C.D.) at the same bank.

Income

Income is typically second to credit in determining loan eligibility. Wages, salaries, dividends, rental income, annuities, shareholder contributions, and so on qualify as income. An analysis of your regular, verifiable income is by far the easiest way for lenders to assess your qualifications. This is because all of the monies are broken down on your pay stubs. The pay is regular and essentially guaranteed, as opposed to the income you would get from something like playing slot machines.

Other types of income, especially those related to self-employment, are more difficult to predict because they rely on the ups and downs of markets and are more difficult to prove. Lenders are

ultimately looking at how much you make and how steady the income is. Someone making a steady but modest wage may be more qualified than someone who is self-employed and making twice as much. Sometimes self-employed people don't qualify for loans, no matter what their income. Their situation is further complicated by the fact that they are taxed at a higher rate and usually try to hide—by legal means, we would hope—their income in business expenses, etc. While saving them money, this also takes away from the income they can report, thus lowering their appeal to lenders.

Assets

Assets, the last item to be considered by a lender, vary in complexity and the level of help they can provide. Typically, the amount is the most important factor, followed by “liquidity,” how easy it is to turn the assets into cash. Property, stocks, bonds, retirement funds, medical savings, motor vehicles, valuable collections, life insurance policies, and, of course, cold, hard cash can all be counted as assets. Cash or equivalent funds are the best asset for qualifying, while something like a car, which is constantly depreciating and potentially difficult to liquidate, would be considered last. Real estate investors commonly use their properties as “leverage” to acquire more properties.

Tip: invest in something that will make you money, such as a rental house. The house will appreciate, gives you tax break, and serves as something you can borrow money against. On the other hand, a new car or boat will cost you a lot in interest, lose value rapidly, and be difficult to leverage.

If any one of these three qualifying factor—credit, income, or assets—is extremely good, you may qualify on that alone. But for most of us, a lender is going to use a combination of all three to determine eligibility.

What if you can't get qualified? Consult with me. I will refer you to someone else for a second or third opinion. I have had clients who were told they wouldn't qualify, or that they would have to pay extremely high closing costs or a ridiculous interest rate. Later, someone I recommended determined they would qualify without having to sell their organs on the black market.

If it turns out to be hopeless for now, work on a plan to *get* qualified. I will be glad to help. Taking action now is much better than throwing money away on rent forever. (See the section later in this booklet that describes the fiscal benefits of owning a home.)

B. Finding a Home or Property

Sometimes buyers will have selected a specific home that they want to purchase. Most, however, just have a particular type of home in mind. While getting in your car and driving through neighborhoods is one method of finding a home and surfing the Web another, the best method is to hook up with a local Realtor—someone who is hard-working, knows the market, and can help you.

Today, many buyers use the Internet to find property. There are many good websites that you can use to browse for property. Realtor.com is good, but can lag several days behind real time. In our area, www.nwrealestate.com is the public site for the Northwest Multiple Listing Service, where real estate companies get the majority of the information they host on their sites. Most company websites will allow you to browse *all* listed property. Try www.cbflaskerud.com to get a feel for what online sources can provide.

I get updated constantly with all of the changes in status of Cowlitz County properties on the powerful MLS member database. This helps me and other Realtors stay on top of the changes in the housing inventory and market conditions.

The first step in working with a Realtor who can help you find a property is to sit down together and make a list of exactly what you're looking for. Hopefully, you've already been qualified, so that the Realtor has a price range within which to work. Don't seriously begin your search for homes until you get qualified for financing. It can lead to unrealistic expectations and disappointment—not to mention a colossal waste of time.

Ideally, your Realtor will provide you with a list of properties that fit what you're looking for, go over key information about the particular homes, provide you with a packet including a map and other important tools (such as this booklet), and perhaps even give you a brief Comparative Market Analysis, or C.M.A., of the properties. During this time you will discover whether what you want is too broadly or too narrowly defined, out of your price range, or whether you're specifying too many features.

If your list is long, you should drive by all of the properties and narrow to 3-5 before you ask your Realtor to accompany you. Otherwise, have him set up a series of showings so that you can take a look.

Despite the best efforts of your Realtor, you probably aren't going to find the "perfect home." This doesn't mean you should lower your standards, but you should be realistic. You will likely have to compromise on one, or perhaps many, of the features, the condi-

tion, the location, etc., until you find a home with which you can be happy. If you locate the perfect home, let me know. I want to write an offer, too!

Making an offer:

Ask yourself, your immediate family, and your Realtor the following questions about the home:

- What is it worth in dollars?
- What is it worth in comfort, convenience, usability, features, and maintenance?
- What does it say to you on an emotional level?
Unless you're an investor, it's not all about the value.

Although, you certainly do not want to squander your money or pay more than your budget will allow, consider this: at the time I wrote this, \$1,000 was only about \$6 per month difference in payment; if this is the home of your dreams, and you and the other party are having a difficult time reaching a common ground on price, compromise is the solution. Don't make negotiating a game of one-upmanship. Instead, stay cool and think about the home, not the agitated seller.

Chapter Three

For the Buyer *and* Seller

Market Conditions:

Take a moment to consider the market. Is it a “seller’s market” or “buyer’s market?” In 2006, when I wrote this booklet, Cowlitz County had been in a seller’s market for almost two years. Compared to Seattle, for example, where bidding wars are common, we weren’t noticeably in a seller’s market, but it was unprecedented for Cowlitz County. Homes were selling at close to full price and occasionally more than full price. Multiple offers were occurring more often than not, and sellers were usually unwilling to budge from their price, even if their home was priced above what appeared like a good asking offer.

Negotiations:

This is my favorite part of a real estate transaction for several reasons. First, it is the most important and most exciting part. Second, it is the place where I really get to put my skills to work.

Negotiations will be influenced by numerous external factors, such as the financial situation of the buyer and seller, the time the property has been on the market, the existence of another offer or potential offer, showing activity, uniqueness of the property, the buyer’s need for such a property, and so on. Emotional and relational factors will also influence negotiations. Life situations, current mood, or past experience can all affect how buyer and seller communicate.

Sometimes it’s obvious that buyer and seller can haggle back and forth repeatedly without consequence, but negotiations often tend to sour with each exchange. A good Realtor can read people well, understand when to push and when to back off, know the right words for each situation, and have the ability to advise his client(s) wisely on a course of action. Professional Realtors won’t turn the negotiation process into a battle. I’ve seen many deals crash because of the poor work of an agent, the pride of a seller or buyer, or even simple miscommunication. That’s the last thing the parties involved want to happen.

Negotiating Price:

There are many parts to a purchase and sale agreement. De-

pending on your existing knowledge and your desire to know, your Realtor can explain things you when he writes your offer. .

Obviously, price is the biggest ticket item in a purchase and sale agreement. I'm confident that if a buyer and seller can come to terms on this, then any other bumps in the rest of the negotiation process can usually be smoothed out. Just as pricing a home to sell is not an exact science, pricing a home to buy isn't either. No two homes are alike.

How can one know exactly what a home is worth down to the penny? It isn't possible. Yet many transactions fall apart when buyer and seller squabble over one percent of the price.

The main point is, whether you are the buyer or the seller, *be reasonable*. Countless buyers walk away from a home and later wish they would have paid that extra \$2,000. Likewise, many sellers find that offer that was \$2,000 less than they'd insisted on doesn't look so bad now that they're staring at one for \$10,000 less.

I can see the wheels turning in their heads: That's a new T.V., a new sofa, a few days closer to retirement. I've come to the conclusion that buyers and sellers are as diverse as the homes they buy and sell. In some cases, a buyer really can't afford that extra \$2,000, and the seller would be taking a loss at \$2,000 less than the asking price. In other cases, buyers and sellers refuse to settle for anything less than what they see as the perfect deal.

Fortunately, in most situations, good Realtors can assist their clients in reaching an agreement that is satisfactory to both parties.

Inspections/Negotiating on Repairs:

Buyers have the right to ask for an inspection period. Ten days is the "boilerplate" timeline. In almost every case, any and all inspections a buyer requests are paid for by the buyer. A buyer may hire someone to do the inspection(s) or may conduct the inspection(s) himself.

The most common type of inspection is a complete home inspection, during which a licensed inspector spends several hours in, on, and under the house checking most parts of it. The inspector then provides the client and Realtor with a report itemizing and describing any problems found. A complete home inspection includes a "pest and dry rot" report, as well. However, this inspection can be purchased separately and may be required by the lender in some cases.

In the case of land purchases, a "feasibility" study is most common, and this can include any number of inspections, e.g. a "perc test," engineering tests of various sorts, a survey, soil samples, and water samples, as well as having a builder, excavator, septic installer,

well driller, etc. look over the property. These studies usually take much longer due to their complexity.

One thing to keep in mind: the shorter a timeline is for an inspection, financing, closing, or anything else, the more inconvenient it may be for the buyer. Conversely, short timelines are usually cleaner and more convenient for the seller.

Here's the bottom line: if you are confident you can take care of inspections in 5 days, ask for 5 days, not 10. The person who wrote a competing offer might have asked for 10, and now that you've only asked for 5, you have a more likely chance at getting your offer accepted. Check with the schedule of everyone involved, though, to make sure you aren't making the timeline dangerously short.

Negotiating on Closing Date:

In the "old days," it wasn't uncommon for "closing dates" and "possession dates" to be days, even weeks apart. This is still true in some parts of the country. A flexible possession or closing date can allow the buyer and/or seller to have more time to pack and move, allow the seller to profit by collecting rent,

reduce security risks by minimizing the time the residence is left unoccupied, or enable a buyer to get in sooner and avoid intermit- tent living (a.k.a. Motel 6).

Today, Realtors strive to give buyers possession on closing— no sooner, no later. There are several reasons. First, it can be a very big, and possibly catastrophic, insurance problem. There have been several cases in our state where the party insuring the house wasn't the party living in it when it burned, and neither party's insurance com- pany would pay the claim. Second, it often creates squabbling. Hav- ing a buyer moving in early can be unpleasant for the seller because the buyer may discover problems they didn't see initially. When this occurs, the buyer sometimes asks the seller to fix these problems if the transaction hasn't closed. On the flipside, let's say a seller remains behind after the sale closes. If, after the buyer finally moves in, she notices something damaged, whose fault is it?

It is indeed stressful and difficult for the buyer and seller to move in/move out simultaneously, but it is virtually always the best way to proceed. Also, keep in mind that the move is the culmination of stress in the transaction for both the buyer and the seller, so both parties need to do their best to be respectful and kind to each other. Furthermore, by the time the transaction nears its end, everyone is involved: the mortgage company and title company are involved, both Realtors are working diligently, and the buyer and seller are tak-

ing care of the last-minute preparations. With all of these people playing a role, things can get rushed, forgotten, misplaced, and delayed. Be prepared for a short extension of the purchase and sale agreement, a sudden request for a closing two days in advance, or any number of things. Just expect bumps in the road to come along. They're part of most transactions, so try not to get stressed about it.

Earnest Money:

Purchase and sale agreements used to be called "earnest money agreements" because earnest money was such an important part of a real estate transaction. It was hardly ever refundable. If you didn't buy, you were probably going to forfeit your money to the seller. Today, earnest money, while still required by law, is far less critical to a transaction. A buyer has many ways to get 100 percent of it back. Depending on the circumstances and the wording in a particular agreement, earnest money could be returned as the result of loan disapproval, inability to secure reasonable insurance, dissatisfaction with an inspection, failure to approve a Seller's Disclosure, or any other item the seller allows the buyer to stipulate and/or is boilerplate in the agreement.

To buyers: stay abreast of contingency timelines that influence the status of your earnest money, but don't stress about losing it. Despite the weakness of earnest money, the amount does make a difference. The more you put up, the more it looks like you are committed to buying the house, and the more it indicates that you have ample funding, which can make you appear more qualified to the seller.

To sellers: stay abreast of the timelines as well. Although you could receive earnest money if a buyer fails to purchase your property, don't automatically assume that this is the case.

Lastly, earnest money can't be released without both parties' consent. And one final word to the wise: the purchase and sale agreement created by the Northwest Multiple Listing Service that we use stipulates that any losing party in a lawsuit will pay the other party's legal fees.

Chapter Four

For the Seller

Deciding to sell is a big step. Sometimes people are forced to sell because of a job transfer or because of something unfortunate, such as a job loss, medical problem, or family crisis. At other times, the decision to sell is part of a move to downsize into retirement or upsize for a growing family. Folks may choose to move to be closer to family, ensure more privacy, or be closer to their job. Sometimes they need a more affordable neighborhood. Each seller has their own reason for moving and their own special needs that accompany their situation.

Let me know what your needs are, and guarantee that I will do my best to meet take care of them.

Pricing a Home

When it comes to pricing a home, Realtors use several criteria: What are homes selling for, what does the seller want (timeline, bottom line price, etc.), and what are the perceived trends? Ultimately, the seller sets the price.

Sometimes the seller doesn't agree with the agent. Although agents should always know more about pricing than their clients, this isn't always the case. Make sure you have an agent that really understands the value of your home. Sometimes "reaching" for a price is okay, especially if your home is in high demand and short supply, but reaching too high may lead to receiving no offers, attracting low-ball offers, getting few showings, and even receiving a low appraisal after someone agrees to pay your price.

Depending on your situation, you will probably want to do everything possible to squeeze out every last dollar. You will want to err on the high side and be willing to wait a long time to sell. Depending on market conditions, a "long time" may vary in length. Luck and good fortune play their role as well. There is also a risk of a high-priced property losing appeal after sitting for so long and ultimately selling for less than it would have in the first place.

If you aren't rushed, but also don't want to sit on your property for a long time and don't want to deal with the dynamics associated with under-pricing and over-pricing, then you will want to price your home just right. "Just right" means that your home isn't priced at the top of

the market, but rather in the middle.

Your price for area and location may be higher than sold properties, but comparable to many of the listed properties. Keep in mind that a lack of comparable properties always makes pricing more of a challenge.

If you are in a hurry to sell, you will want to price aggressively. Market conditions define what “aggressive” means. In a hot market, you will rarely need to put a price tag on your home that is lower than market value in order to get it to sell quickly. But in a depressed market, you may have to be willing to sell for a lower price to assure a quick sale.

Generally, I give clients a range of prices and explain what I think will happen at different price points. Other agents have their own techniques. Just as pricing is subjective, so is the means of explaining pricing.

No matter what your motivation to sell, you always want to be aware of your target buyers, with a goal of attracting a well-qualified, well-represented buyer who is willing to purchase your home for list price.

Preparing Your Home For Sale

Dressing your home or property right is second only to pricing it right. A clean, well-dressed home will almost always sell for more than market value. Land that has unobstructed views, cleared building sites, mowed grass, or park-like forests will usually generate more interest and a better price. I work with several investors who buy, sell, and own dozens, even hundreds of properties, and while they live by the numbers, they still make their final decision on intuition, based largely on the “feeling” they get from a property.

It might seem strange, but good smells are very important. If your home has no smell, that’s all right, but if it smells like fresh bread, cinnamon, fresh linen—any good scent that reminds one of domestic bliss—you will attract more buyers.

Vacant homes are sometimes easy to sell because the rooms look cleaner and bigger, so buyers can mentally dress the home with their own furnishings. However, a well appointed home dressed up with beautiful furniture, pictures, and classic or updated furnishings will always sell for top dollar. If your home looks better than the buyer’s home in any way, they will see your home as a paradise—a utopia they tell themselves they too can attain.

Landscaping is a must. Talk to your local gardener about what can be done cheaply to improve the outside appearance of your home. Depending on the season, your options will vary. In the sum-

mer and spring plants and lawns are much easier to grow, but in the winter perennials won't last and grass won't grow. However, you can still clean up, trim landscaping and install curbing, bark dust, etc. Talk to your gardener about winter planting.

Showings

Be flexible with showings. Once you've listed with a Realtor expect to receive phone calls from the office requesting showings. Do your best to be out of the home during a showing—your presence makes buyers nervous and doesn't allow them time to discuss private matters with their agents. They also have difficulty tuning in to the subtle, imaginative thoughts about what it would be like to live in your home. Occasionally, a showing will be scheduled on short notice, or an agent might even show up unannounced at your doorstep. Keeping your home as clean as possible is a good goal. Sometimes that rude agent will bring the anxious buyers who might just be the ones who give you the best offer.

If you have special needs, Realtors should be expected to schedule appointments that fit your schedule.

Marketing

Lastly, marketing is key to your success in selling your home. Part of the reason you listed with a Realtor was to get your property exposed to as many people as possible as quickly as possible. Many agents offer multiple plans, although most use only what their office provides.

Going beyond this rely-on-the-office-alone plan is costly in both time and money, but it brings results for you, the client. Some offices market well. Some don't. I'm proud that my office has the best (and, for us, the most expensive) marketing plan for properties being marketed in our county.

Furthermore, our team goes beyond the "rely-on-the-office-alone" strategy and spends thousands of dollars and a great deal of time marketing on our own. We use flyers, postcards, newsletters, emails, open houses, broker's opens (open houses for agent's only) and widely distributed print advertising. In an effort to attract out-of-town agents and buyers, we also use two multiple listing services that the vast majority of Cowlitz County agents.

Together with the powerful and proven advertising of Coldwell Banker Flaskerud, we get your property out in front of more potential buyers than anyone else.

Chapter Five

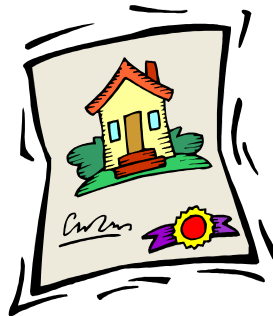
Steps to a Real Estate Transaction

1. Buyer decides to buy (may or may not have a property in mind)
2. Buyer contacts me, unless they have their own Realtor.
3. I (Realtor) refer the buyer to a lender if no lender has been selected.
4. Buyer gets partial or full loan approval, which usually involves the lender checking both the buyer's credit. Depending on the lender's policies, this may be done once more just before closing, or may take place several times during the transaction. The lender also verifies buyer's employment or, in the case of a partial approval, may wait until the transaction is pending.
5. Buyer returns to the Realtor with knowledge of maximum price based on budget and needs.
6. Realtor records inform the buyer whether adjustments will need to be made to secure the desired property within the stated budget parameters.
7. Realtor provides the buyer with an information packet that includes printouts of matching homes and many other useful handouts such as maps, brochures, or this booklet, for example. Buyer may or may not first drive by all of the homes, depending on the number of homes, the buyer's familiarity with the area, timeframe, etc.
8. Buyer narrows to 3 to 5 homes.
9. Agent schedules showings and checks availability/status of homes.
10. Buyer decides on a home.
11. Buyer and agent immediately meet to write an offer.
12. Realtor provides required disclosures and pamphlets, as well as any and all information about the home he can gather at that time.
13. Realtor walks the client through the offer, providing counsel and answering questions in the process. Offer is signed and delivered ASAP to a listing agent, with accompanying cover letter if necessary.

14. Earnest money is collected and held for deposit by either the Realtor's office or by the closing agent (a.k.a. title company).
15. Realtor stays in close contact with the listing agent over the coming hours/days. Information is exchanged verbally to inform each party of the other party's standing, perspective, timeline, etc.
16. Offer is either accepted, rejected, or countered. If rejected, the offer is dead (for the time being, at least); if accepted, the buyer moves on to inspection(s), or the transaction goes "Pending" and documents are sent to the title company. Earnest money is deposited within two days of acceptance, even if there is an inspection contingency. If countered, then Buyer may accept the counter offer and move on, let the offer die and walk away, or issue another counteroffer to the Seller.
17. Assuming an inspection, the buyer typically gets 10 days to have an inspection done. Based on the findings, the buyer may elect to move on and waive inspection (go to pending), rescind the offer and receive a refund of the earnest money, or ask for repairs and/or modifications.
18. If the latter option is chosen, the buyer will ask for something—e.g. that the price be reduced or that specific repairs be made.
19. If the seller decides to reduce the price or make the requested modifications, the transaction goes to pending. If the seller declines, the buyer must decide whether to accept or counter again. Let's assume they settle and the transaction moves forward.
20. Once the transaction is pending, the title company and the lender move to center stage. The title company receives an order from the lender or one of the Realtors to "open escrow."
21. The lender orders an appraisal of the property (with the permission and at the expense of the buyer) to determine the value of the property. (Actually, it's more literally meant to work along with the buyer's qualifications to determine loan risk to the lender, rather than to give the buyer a value. Just as each Realtor has a different value, so does each appraiser).
22. Once the title company receives their order, they conduct a "Title Search" and issue a "Title Report," which determines eligibility of both the party and the property

for “Title Insurance”—something required on all transactions with a lender involved—and shows everyone involved in the transaction what kind of conditions may affect the title.

23. Buyer and seller arrange to have their items moved into or out of the residence.
24. Any liens, encumbrances, etc. that affect title are dealt with (pending something insurmountable) and the title insurance policy is ordered.
25. Lender, Realtors, and title company check to make sure that all conditions of the purchase and sale agreement have been met. Any last minute paperwork, corrections, extensions, modifications, etc. take place at this time.
26. Lender sends off the loan for final approval to underwriter(s).
27. Lender forwards completed and approved loan documents to an escrow officer at the title company for review and preparation.
28. Escrow officer prorates any rents or taxes, calculates mortgage payoffs, gathers any other closing bills, and prepares final statement and documents.
29. Buyer and seller set a date to sign at the title company. Documents are gathered and mailed to the lender for funding. As soon as the escrow officer receives confirmation of funding the title company sends a representative to the Hall of Justice (in our case) to officially record the deed.
30. Keys are handed over to the buyer. (Technically, the seller has until 9 p.m. on the night of closing to hand over the keys.)
31. Realtor remains in touch with the buyer through the coming months and years



Chapter Six

Benefits of Owning A Home

Benefits	Renting	Owning
Appreciation will be earned	No	Yes
Interest (majority of payment) can be written off	No	Yes
Repairs and improvements can be written off (income property only)	No	Yes
Major modifications can be made to house (some which may add value as well as comfort)	No	Yes
Equity can be tapped to buy more property, pay off debt, buy personal property, etc.	No	Yes
Credit line and credit score will increase.	No	Yes



Chapter Seven

How Real Estate Agents Are Paid

Pay varies from state to state, office to office, and agent to agent.

My pay is determined as follows:

First, my company, not me, collects a commission at closing, typically 6 percent on a residential transaction. Approximately half of it, (customarily 3 percent is sent to the selling office, and the remainder goes to the listing office. Sometimes these offices are the same, just as the agent can be the same, in which case it's called "dual agency." (See the Agency Disclosure Pamphlet for more details on agency and dual agency). Let's assume that on a \$150,000.00 sale, commission is 3 percent, or exactly half of the total commission, after the split with the other office. \$4500.00 goes to Coldwell Banker Flaskerud. Next, Coldwell Banker Corporation takes 6 percent, leaving 2.82 percent, or \$4230.00. Then the local office takes a percentage of the commission, with the total dependent on several factors including performance. This ranges from 50 percent to as much 80 percent in rare cases. If it's 60 percent, the commission is now at 1.62 percent (\$2538.00) before it goes to the agent. Business and Occupation Taxes are paid to the tune of approximately 1.7 percent, then the office makes deductions for advertising, internet service, Errors and Omissions insurance, special assessments, etc.

At that point, the agent receives the check at 1.5 percent or less. Then after paying for an administrative assistant, lots of extra advertising costs, office supplies, transportation and communication expenses, MLS dues, licensing, continuing education, membership fees, electronic gizmos, and professional attire, the gross commission is whittled down to approximately 1 percent, or \$1500.00. Finally, because Realtors are self-employed, we are subject to 15 percent self-employment tax, 15 percent social security tax, and regular federal income tax. All this is in addition to the fact that neither I, nor any Realtor I know, has medical insurance, retirement, vacation pay, bonuses, 401k, etc. paid for by a company. But to answer the burning

question, yes, a hard working Realtor can make a nice living, though not to the tune that people might assume. In fact, the average Realtor makes approximately \$22,000 per year working on average 60 hours per week, and 70 percent quit within the first year. I personally count on half my income coming from my own investments which helps to also cover my retirement plan.



Chapter Eight

Buying Investment Property

Investing 099

There are many ways to go about investing. If you're like most people, including me, you work a regular job during the day to earn a paycheck. You have to pay the bills, save some money, have a little fun, and invest the rest at the end of the month—if there is anything left!

When most people think of investing, they think of retiring with enough money to enjoy the “golden years.” Although that is one reason to invest, others include making enough to retire early, pay for a child's higher education, buy an expensive toy, or give more money to charities.

Whatever your reasons for investing may be, make sure you do it wisely. The first step to wise investing is to set realistic goals for what future income or payoff you want to receive and when you want to receive it. Many people have no idea what they are investing for. They may be able to tell you that it is for retirement, but they don't know what they will do with it once they cash it in or when the payments start flowing. If you don't know what your budget is going to be in 10, 20, 30, 40 years, then how can you invest the right amount? How do you know what your priorities will be at that time in your life? These are things you need to start thinking about now, regardless of your age.

If you are nearing retirement age, you may have already thought this out, but if you're young, you may not have a clue what you will be doing in the future. In 30 or 40 years, I may be a missionary in China or a rich business tycoon, or I may be teaching guitar out of my home studio. Who knows? For now, the only solid plan is to invest as much as comfortably possible.

Real Estate as an Investment: My Story

Let's look at why real estate is the best investment vehicle available. Early in 2005, on the advice of my accountant, I strolled into a local investment company. While waiting in the lobby, I had an opportunity to read several informative brochures on IRAs—the vehicle in which I was advised to invest in order to get a break on the current year's taxes.

Soon a well-dressed, middle-aged man approached me, shook my hand, and invited me into his office. Everything from the design of his office to his necktie said he was experienced, educated, and sophisticated. After all, he was the primary consultant at this well-known, successful company and he was brought in weekly from out of town no less. As soon as introductions were out of the way, he proceeded to dazzle me with charts, stories, industry “secrets,” and sage advice.

Throughout this process, I was getting excited about purchasing an investment portfolio. I imagined logging onto the company’s spiffy website each week and watching one fund dip while another soared. I was prepared to settle for the expected 10 percent gain he all but promised. Of course, it could be more or less, but it was worth the risk in the long run, he explained.

Something happened, however, that changed everything for me, although I wouldn’t know it for a while. We started talking about “1031 tax-deferred exchanges,” in which a property owner sells a property, but instead of paying taxes on the profit from the sale, rolls the proceeds into the purchase of another similar income property. When we got onto this topic he lit up with excitement. He told me how his wife has been buying income property for years and recently had been able to purchase a large and expensive property. I don’t remember the details, but it was a good property—they owned many and were making a lot of income and appreciation from the rentals. He also alluded to the fact that the rental properties were his family’s main source of income. Then he asked if I knew of any large apartment complexes for sale in Cowlitz County.

About two months later I was in a position to buy a second rental property. In order to swing the down payment, I had to cash in a modest IRA I’d purchased the previous year and face the fact that I would not be able to contribute any money to an IRA this year I’m now faced with a 10 percent penalty plus taxes on the income, and I’ll have to pay higher taxes this year also because of putting little to no money into an IRA.

But I could care less, and I’ll tell you why.

Say I was to put \$10,000 into an aggressive mutual fund under an IRA this year and I was fortunate to make 15 percent next year. I would then have \$11,500 in my IRA account. Then again, I could lose 15 percent as well. To pull out the money would mean paying the taxes on those funds, plus a 10 percent penalty. In other words, if I liquidated the account, I’d be losing money.

Now let’s look at the house I bought. The price was just over \$100,000, but to keep it simple let’s go with \$100,000. I put

down 10 percent, roughly the same amount I would have put into an IRA. (Usually you would want to put down between 5-25 percent for reasons I will explain later). I also paid about \$2,500 in closing costs, \$1,500 of which was prepaid taxes and insurance. The house appraised for \$10,000 more than it cost, so instantly I had equity. This kind of luck is not the norm, but it isn't all that rare either.

In 2005 (summer to summer) the average home in Cowlitz County appreciated, 18-20 percent. March 2005 to March 2006 the number is closer to 30%. If we have slower growth for the rest of 2006, say, 10 percent, for example, my home will still be worth over \$120,000 within a year. Canceling my lucky appraisal dollars, we'll call it \$110,000. So, if it goes up \$10,000 in one year, what is my "ROI" (Return on Investment)? 100 percent! What if we only see 5 percent growth? That's a 50 percent return—still much better than the 15 percent stock portfolio or mutual fund. As you know, property values won't likely rise rapidly forever, but they almost never go down in value, whereas stocks can plummet all the way to zero and mutual funds can do almost as bad.

Other Benefits

What about other benefits of investing in property? One is tax breaks. Every dollar you pump into an income property is either a 100 percent tax deduction for that year or the investment can be "depreciated" over a span of 5, 10, 25, or 39 years, depending on the item and type of property. Another benefit is that

income property owners make money each month on rent collected. This money usually doesn't amount to much at first because maintenance costs are typically higher the first few years, but as rents go up over the years, cash flow will increase because the mortgage (assuming a fixed mortgage) never goes up.

What about the cost of selling? Expect to pay 7-9 percent of the total value of your property in commissions, taxes, escrow fees, title insurance, and other miscellaneous charges when you sell it. In a typical market of 5 percent annual appreciation, this cost will make selling early difficult. In our current market, it's possible to sell quickly and even make money, but usually an investor should plan on holding onto a property for 10 years. After 10 years the ROI isn't as great, though by this time the property has likely doubled in value.

Suppose my little \$100,000 house is worth \$175,000 in 2015. My initial investment was \$10,000, so I originally had \$10,000 in equity. By 2015, if I have a \$175,000 house, I will have \$85,000 in equity. If I hold onto the property for one more year, I will gain another \$8,750 in value at 5 percent appreciation. That is a 5 percent annual

gain on the house and an 87.5 percent return on my initial investment, but is now less than a 10 percent increase in my equity. So, the longer you hold on to a property, the lower the return on your equity.

For each year you own the house, your tax benefits will fall. This is because the interest being paid is going down, so you're losing more and more of that as a write-off, and rents are going up, which raises your profit and costs you more in taxes. These are the main reasons that investment properties are analyzed for a ten-year holding period.

Many people who buy rentals for investment purposes hold on to them for 15, 20, or even 30 years. This is great in the sense that they can refinance, get a lower payment, and watch while the rents rise and their cash flow increases. Wouldn't it be nice to own a little house that put \$500 a month profit in your pocket after taxes and maintenance? Unfortunately, this isn't putting your money to its best use. The best thing to do—if you want to keep making money exponentially is to sell the property, defer the taxes (15 percent), and use the money to buy another property.

Let's imagine that it's 2015. I just sold my house for \$175,000 and it cost me \$14,000 (8 percent) to do so. I now have \$71,000 cash that I will pay 15 percent capital gains tax on unless I do a 1031 Tax Deferred Exchange. So, I hire an exchange facilitator, and within my allotted 180 days find and close on three more houses at \$175,000 each at 10 percent down. My down payments, plus the typical 3 percent closing cost, total \$68,250. Lastly, I take the remaining \$1,750 and spend four days on the Oregon Coast celebrating my wise and exciting financial decision!

Why would you celebrate if you were in this situation? — Because you now own \$525,000 worth of property, rather than \$175,000 worth. With a modest 5 percent appreciation in 2016, you will make \$26,250. That is \$17,500 more than you would have made if you had held onto the original property.

As you can see, an initial investment of as little as \$10,000 in the real estate market has the potential for dynamic growth.



Chapter Nine

Buying Land

Raw dirt is a strange animal. It is the most mysterious and troublesome type of real estate. The reason is that there are so many unknowns. Demystifying the property can be difficult, time consuming, and costly. When a property exchange occurs and the transaction is recorded, the new owner rarely knows everything there is to know about the property. Below is a list of the most common “unknowns” about vacant residential property and what, in my opinion, are some good ways to go about doing research, making an offer, and closing the transaction:

Water availability:

City water:

Are there existing hookups? In other words, was there a previous dwelling on the property? If so, you may not need to pay a hookup fee, and the time to get the project up and running will be shorter. Hookup fees vary. Call your local city or county agencies for details. If the water is “in street” or “available,” you will need to find out how close it is to your property and to your building site. Trenching in water can be expensive, especially if you are dealing with bodies of water, paved roads, or long distances.

Well:

Many homes in rural Cowlitz County are on wells. Depth, flow rate, and purity of the water vary with each. If a vacant lot has a good well, it will be easier to sell and easier to buy. Sometimes flow rate is so good that the county will allow a well to be shared by two or more residences. Water availability is sometimes a requirement of subdividing land and could also be a requirement of a lender. Filters,

pumps, pump houses, and distance to house all influence the price of a well, but how deep one must drill accounts for most of the cost. A complete well package could range from \$4,000.00 to more than \$20,000.00. If there is no well on the property, a buyer may try one of the following strategies: request a well from the seller (not likely to happen), have a well drilled at buyer's expense, consult a well driller, and/or consult the Washington well log, which is online (see my website at treyandjulia.com). The well log will show neighboring well depths, ages, and flow rates.

Sewer availability:

Septic System Only Site with Septic Installed

If there is an existing system in place, you could be fortunate since a lot of work has been done for you. However, you need to ask a number of questions. How old is it? For how many bedrooms has it been approved? If it was from a previous dwelling, you may not be able to use it. Is it the right size for you project. Is it near enough to where you want to build? Check with county officials for maximum distances home can be from septic tank and drain field and other possible constraints. Has it been pumped and/or inspected recently? You will definitely want it checked by an expert. If it is a new system and has all the paperwork in order, you may waive an inspection to clean up your offer and speed the process along. Consult your Realtor, inspector, lender and even your attorney before waiving any inspections.

Septic System Required but Not Installed

Has a septic site "perc" (percolation) test and septic design been completed? If so, how old is it? Septic percs may only good for a limited time. A qualifying perc will tell you what kind of septic system you can build, where it will have to be located, and approximately what it will cost. Septic system prices range from \$3,200 to upwards of \$20,000. Note to sellers: if you are able to provide a perc report, you will be one step ahead in selling your property.

City Sewer Available

If city water is available, you may or may not want to connect to it, depending on whether the cost is more or less than a septic system. If the sewer is a long way from the building site or you must pump the sewage uphill, but the property qualifies for a septic system, you might want to consider having a septic installed. However, under

most circumstances, city sewer is easier, less expensive to connect, and less likely to be the cause of future problems. The governing body where you live may even require that you hook up to the sewer regardless. In Cowlitz County hooking up to sewer—or water for that matter—is just under \$2000 for each hookup. This is obviously quite inexpensive.

Zoning:

Zoning maps are available at the county and city departments of building and planning. Zoning determines what you can do with a parcel, and how dense it can be. Density as far as residential zoning goes, defines how many living units per acre can be built. It may also tell what the minimum lot size can be. Check the zoning of the parcel you are looking at to make sure you can do what you want to do.

A note on rezoning: Rezoning is usually difficult, and officials at the city, county, and perhaps even the state level will want you to have a good reason to do it, along with a clear plan. They may require signatures from cooperating neighbors, public forums, surveys, engineering, application fees, and their time and your money to do the own research. You may have to hire or partner with someone with experience in doing what you are trying to do. It will take months and possibly several years, not to mention tens to hundreds of thousands of dollars to rezone. And, of course, it might not happen. Large companies and savvy investors who have the skills and money are the most likely candidates for success. If you know what you are doing, however, it could result in a big paycheck.

CCRs:

Short for “covenants, conditions, and restrictions,” CCRs limit what someone living in a residence or owning a piece of property can do or have on that property. CCRs vary in strictness and application and may govern anything from the color of your home to the use of firearms. Some people want them, while others don't. They are more common in newer neighborhoods. Ask your Realtor to look for a copy of the CCRs for your prospective neighborhood. When you finally sign at the title company to close your transaction, you will also be required to sign off on the CCRs, verifying that you accept them. CCRs can be changed by a neighborhood vote.

Geotechnical issues:

Geological features such as slopes, soil types, and drainage combine to influence what can be developed on a property. Sometimes geotechnical challenges are obvious—a canyon wall, for example—while at other times expert research is required to determine the seriousness of a situation. The Department of Building and Planning at the county level has a record of active and inactive slide areas you can reference. Geotechnical engineers can—or in some cases, must—be hired to conduct research and issue a report stating what can and can't be done to the property.

Building sites:

Often a large piece of dirt has, or appears to have, several building sites. You may want to consult a builder, surveyor, geotechnical engineer, etc. in order to determine the most viable sites.

Financing:

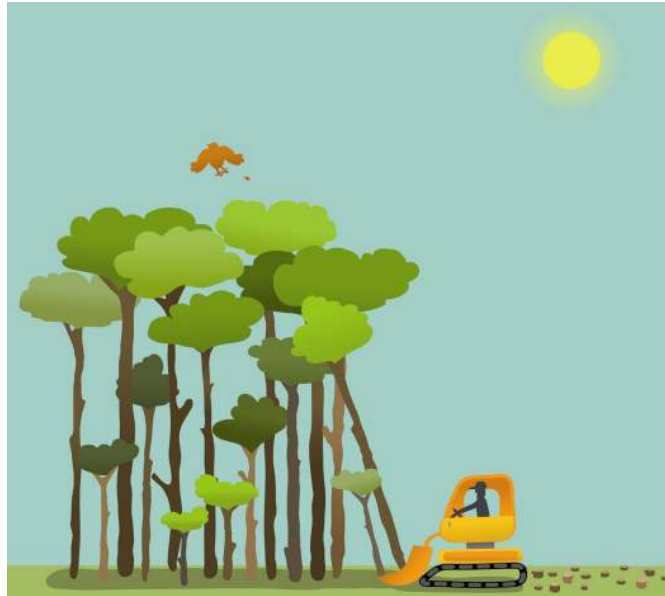
There are several options available for financing bare land. Although most people don't have large sums of money in the bank, many have equity in other property that can be tapped for cash. The most common source of cash is a "HE-LOC," a.k.a. home equity line of credit. Lenders will lend up to 100 percent of the equity in your home, and even your investment properties, depending on your finance portfolio (credit score, income, assets, and debt-to-income ratio).

Another common way to buy land is with the seller "carrying paper." In other words, the seller finances the lot one of several ways. Large down payments are often required because the seller will need to pay closing costs and likely also want a lump sum at the time the transaction closes. (For an explanation on "closing," see Section VI: 25-29). When real estate sales are hot, though, this kind of financing is less common because sellers are able to take advantage of more buyers shopping and shorter market time.

Credit unions and some banks offer "land loans." However, like seller contracts, land loans often require large down payments of 20-25 percent or more. Loan times are usually shorter than those for houses, ranging from 1-15 years, rather than 15-40 years. Also, these loans could be "interest only," meaning that after the loan period is up, the entire principal is still due.

Construction wraparound loans are another option. In this situation, a lender loans money on the land and a construction project simultaneously. This kind of financing requires an appraisal of the future value and bids from contractors to determine the cost of construction. The bids required may be only need to be general, or they

may need to be itemized and specific, depending on lender requirements. Zero down construction wrap loans are a great way to go, but they usually require better than average credit. With average credit, most people will still qualify for a construction wrap loan if they can put 10-20 percent down on the entire project. The down payment may be allowed to come from equity in a property as an already existing line of credit, a new line of credit, a bridge loan, or as a new mortgage placed on the property through a refinance.



Chapter Ten

Frequently Asked Questions

What if appraisal value is lower than selling price?

In this case, the buyer has the right to walk away and get a refund of the earnest money. The seller also has the right not to sell. The transaction is voidable. In an FHA transaction, the buyer may walk away even if the seller lowers the price to the appraised value. However, in a conventional transaction, the buyer is still bound to buy the property unless they want to forfeit their earnest money to the seller. See the purchase and sales agreement for further explanation.

How do I get qualified for a loan?

There are several “levels” of qualification with the highest being “full loan approval.” This is obtained by going through an application process with a loan officer. Loan qualification is determined by credit score, income, assets, the type of loan and the amount. (See Part II for details)

How much should I offer?

What to offer is always up to you as the buyer. At the time this booklet was written, homes in Cowlitz County selling at approximately 99 percent of full list price. In a slower market, however, this number would be lower. Your offer may vary depending on urgency, motivation to buy, the perceived motivation of the seller, the length of time the property has been on the market, the value of the property as perceived by an appraiser or Realtor, and your response to your agent’s counseling.

Why should I use a real estate agent?

Statistics show that real estate agents close a much higher percentage of transactions than FSBOs. Agents sell properties faster with less stress for higher prices. In 2005, FSBOs sold for 20% less than property listed with a real estate firm. We also take the guesswork and mystery out of real estate transactions. (See Part XII for details.)

What are my closing costs? Who pays them?

Buyer’s closing costs include any and all lender’s fees, impounds (prepaid taxes, insurance, interest), half the escrow fee, lender’s title

insurance policy, recording fee, possible courier fees, and any other miscellaneous fees. The seller pays excise tax, commissions, half the escrow fee, buyer's title insurance policy, recording fee, possible courier fees, and miscellaneous fees.

How much can I afford?

This must be determined by you and your lender. Your maximum loan amount will be based on your income, debt, and assets, as well as the lender's maximum allowable income-to-debt ratio. The allowable income to debt ratio will vary based on region, lender, and the particular loan package. Higher priced markets typically allow higher debt-to-income ratios. The same is true of FHA loans. Of course, your down payment will affect how much you can afford. The more you put down, the lower the loan amount and the lower the risk to the bank since the property they are holding as collateral has a lower loan to value ratio. Keep in mind that just because you qualify for a certain amount doesn't mean you want to spend up to that amount.

What's the difference between a mortgage lender/broker and a bank?

A mortgage broker typically "shops" loans through various lenders, banks, and, occasionally, private investors to find a program that specifically fits your needs. They are often more expensive than banks, but they can sometimes beat a bank rate and bank fees and are usually much more flexible. This allows mortgage brokers to accommodate a wider variety of borrowers. Banks that have a mortgage division usually have the most competitive pricing but don't offer many options and aren't as flexible. There are companies that function as both a mortgage broker and a bank offering their own loan packages. In all fairness, these descriptions are only generalizations and don't apply to all mortgage brokers and banks. Choosing a particular loan officer is just as important as the product and the company that is selling it. For that reason, you should do some comparative shopping before making a decision.

How much is the standard commission?

By law, commission is negotiable, and I've seen it vary from 3 percent to 12 percent. Residential commissions are typically 5 to 7 percent; new construction commissions 5 percent; and vacant land commissions 8 to 12 percent. Sometimes bonuses are paid to motivate the selling agent, listing agent, or both to work toward a quick sale or to close one with a lot of dollars at stake. Certain agents won't dip below a certain point, while others are flexible. Investors or builders who do

a great deal of repeat business may receive discounts on commissions.

What if I decide later that I don't like the house?

The key is *when* you decide you don't like it. Almost all Realtor assisted transactions have one or more "contingencies" in place to protect the buyer. Some of these contingencies allow the buyer to cancel the transaction and walk away with the earnest money, no questions asked. Once the contingency timeline expires, however, it will be too late to reclaim the earnest money. The most common "walk away" contingency is the inspection contingency. Be careful, however, because there are different inspection contingencies and some may not allow for the buyer to walk, no questions asked. Suffice it to say, buyers often have many outs in the first few weeks of a transaction.

What programs exist for first-time homebuyers?

First-time homebuyers have some wonderful opportunities. They may be able to withdraw certain retirement funds without a penalty. There are also many low-down or zero-down programs, such as FHA, Nehe-miah, and Ameridream. Lenders sometimes offer incentives like free buy-downs, educational classes, and reduced fees. Ask me to refer you to a first-time homebuyer lender.

How much earnest money should I put up?

These days earnest money—at least in the State of Washington—means very little. This is because of the many contingencies in the "boilerplate" of the purchase and sale agreement. The buyer has many "outs" throughout the transaction. Even if buyers lose an out, they can still contest the relinquishment of the earnest money and tie it up for a while and even possibly get it back. However, sellers still believe that the more earnest money buyers put up, the more serious and qualified they are. A large earnest money commitment is indicative of someone who has saved a nice bit of money and is willing to put it on the line (if only at a low risk) to follow through with the purchase of a property. Typical amounts we see in Cowlitz County are between \$500 and \$1,000. Occasionally, I see \$2,000-\$5,000, though I've dealt with more than \$150,000. I strongly urge a buyer to put as much as possible into an earnest money check to ensure a strong offer.

Why do I need earnest money?

Earnest money is required in the State of Washington to validate a purchase and sales agreement. Without it, a contract is void. Sellers don't want to tie up their property for a long period of time while a

buyer prepares to close a transaction without having collateral in place. Earnest money is given because property is expensive and because closing it takes such a long time, which keeps the owner from selling it to another qualified buyer.

Why is my credit score so important?

Of all the qualifiers a mortgage lender looks at, credit score is usually the most important. It is a snapshot of how you spend, borrow, and pay back. (See Part II for more information.)

What's the difference between a Realtor and a real estate agent?

Real estate agents are licensed by the state. A Realtor is a real estate agent, but not all real estate agents are Realtors. Realtors join and pay dues to a local board of Realtors and the National Association of Realtors. They are self-governing and can audit and discipline their members. Realtors are held to the Realtor's Code of Ethics by the board and other members. Realtor boards work to educate local Realtors, provide an avenue of help on ethical issues Realtors may face, and oversee the level of professionalism at which local Realtors are working.

How long does it take to close on a loan and move in?

A closing date is usually set when the purchase and sale agreement is finalized. If both the buyer and seller agree and all conditions are satisfied, the transaction may close before the specified date. Depending on the different contingencies in the agreement and their timelines, a transaction can take anywhere from 15-60 days to close on average, with 30-45 days being common. The loan process takes the longest because it includes application, appraisal, underwriting, and all of the lag time between these processes.

What is a home inspection?

Home inspections are commonly requested by a buyer and most often carried out by a licensed professional inspector, although this isn't a requirement. Ten days is the most common timeline for conducting an inspection, and until that time is up or the buyer waives their inspection, they can walk away from the transaction. The buyer then would receive a full refund of their earnest money unless other arrangements have been stipulated.

What steps do I take first to sell?

Begin by consulting a Realtor. Don't do any major work to your house unless it's necessary. A good Realtor will be able to give sug-

gestions that help your home sell more quickly and for more money.

What steps do I take first to buy?

Again, begin by consulting a Realtor. Buyers who shop without a Realtor are wasting their time. Without a Realtor's help a buyer, won't be exposed to the majority of property that is for sale. In addition, buyers do not have the skills necessary to make an accurate offer, negotiate, or carry the transaction on to closing.

What taxes do I have to pay when I buy or sell?

A buyer has to pay sales tax on the closing services (escrow, title policy, etc.) and the prorated property taxes for the year. Sellers have to pay tax on closing services, prorated property taxes, and excise tax, which was 1.53 percent in Cowlitz County in 2005.

How do I respond to a multiple offer situation?

Rejoice! You can reject or counter either or both, or you may accept one and reject the second one or counter it for back-up position.

How do I conduct a feasibility study?

In a perfect world, every piece of vacant land would come with a boundary survey, geotechnical survey, well, septic system, excavation and clearing done, timber valuation, and staked out home sites. Unfortunately, vacant land often has few or none of these. It is up to the buyer to determine if they are going to purchase the land based on their own research. Realtors are not supposed to get involved in such studies due to increased liability. Just as we don't give legal advice, we don't aid in research that is out of our area of expertise. (See Section IX for related information.)

How do I compare loan programs?

The best way to compare programs is to visit two or three lenders and ask what they offer. Also, your Realtor should have at least a general knowledge of different programs lenders are offering. You can ask any lender for a "good faith estimate." Ask them how consistent they can be at delivering on their good faith estimate. Keep in mind, however, that their good faith estimate is only as good as the accuracy and amount of information they have about you. Don't be shy about asking a lender to explain exactly how the fees in the loan are broken down and how they are individually paid.

Do you recommend online mortgage brokers?

I am not a fan of online companies that offer "loan shopping." They

are simply in the business of making money (by way of a referral fee) to put you in touch with someone who is usually inexperienced (legitimate loan officers don't answer the phone at calling centers). These companies are typically at the bottom of a huge, inefficient chain of command, and unless you fit exactly into their box, you won't get help. Despite some people's perceptions, online mortgage brokers are often more expensive than the local alternative. Furthermore, these companies have a difficult time actually closing transactions which is the only thing that really counts. Allow me to paraphrase: Statistical studies have proven that the further removed from you a person is, the less likely she is to be loyal and to follow through. It pays to get face to face with someone.



Chapter Eleven

Choices

Why choose Coldwell Banker Flaskerud Realty?

More homes sold than any other company in Cowlitz County 20 of the last 21 years, despite having 40% fewer agents than our biggest competitor

Most homes sold per agent each year

Currently one of the top 20 Coldwell Banker offices nationally with between 21-35 agents

Winner of national and local awards for excellence, including Coldwell Banker's Manager's Award (top 4 percent of agencies nationally)

Most experienced & educated broker in the county (over 30 years)

Most advertising dollars spent by office each year

Most advertising dollars spent collectively by individual agents each year

Most open houses conducted collectively by individual agents each year

Largest and most experienced office staff/support team

Longest weekly business hours (for office)

Unparalleled reputation in the community

Top producing agent at Coldwell Banker Flaskerud, 2005: President's Elite (top 3 percent nationally)

Unparalleled marketing plan

Efficient and organized system in place

Extreme flexibility in working with all types of clients and situations

3 licensed assistants on staff

Access to contractors and other related specialists we can refer you to or hire on your behalf.

Unsurpassed reputation for results, honesty, and integrity

The following is a list of steps that we take (not necessarily in this order) when listing your home or other property:

1. We take pictures including a virtual tour, working around obstacles such as weather and moving boxes stacked in the living room, etc.
2. Lock box and sign(s) installed
3. Flyers printed and delivered to flyer box and custom flyers ordered
4. Postcards sent to people in your area, notifying neighbors of your listing

5. Home is put on the RMLS and NWMLS databases that allow access to Realtors and also enable browsers of ours and other company websites to view your home.
6. Home is put on the Coldwell Banker site and featured on several other websites, including the *Daily News* (tdn.com), Realtor.com, therealestatebook.com, nwreal-estate.com, and rmls.com. Also shows up when you do a search on any competitor's website that links to the mls (windermere.com, jlscott.com, etc.)
7. Open house scheduled
8. Broker's open scheduled, if deemed necessary (similar to an open house, but for agents, not the general public)
9. Home is featured in one or more of the rotating ads in the *Daily News* real estate section
10. Home is featured in the monthly Coldwell Banker Flaskerud Realty home magazine
11. Home is featured in our custom full-page ad which runs monthly in the *Daily News* magazine of homes
12. With the incredible Coldwell Banker Flaskerud Realty support team (9 people), our licensed assistance, and Julia and myself to provide help, you can count on prompt responses to your questions and requests.

Glossary

1031 Exchange

Tax-deferred exchange. Property exchange that allows the seller of a property or properties to defer paying capital gains tax indefinitely, as long as certain rules are followed. The most important rule is that a like-kind property or properties are identified and purchased within a specified time frame, with the funds received from the sale. A special facilitator must be retained for a 1031 exchange.

Amortization

Structure of a mortgage payment as it pertains to the payoff of the interest and principal balance over a fixed period of time. Under standard amortization, regular payments of a fixed amount are made. Initially, a large portion of the payments goes toward interest owed, but gradually shifts to cover the principal balance until the payments are applied to the principal only.

Appraisal

Ordered by a lender on lender and buyer's behalf to determine market value of a property. Appraisers are usually independent and may be selected by the buyer. Despite their best efforts, two appraisers may not reach the same conclusion.

Appreciation

An increase in value over time that is affected by location, condition, and other outside factors, including the economy and employment.

ARM

Adjustable rate mortgage. Many different varieties exist. Most common are of 1-, 3-, 5- and 7-year duration. The general principle behind ARMs is that during the initial duration the interest rate will not increase. These loans are popular because the initial interest rate is often lower than traditional loan rates. This approach is often best suited to transferees who know they will be moving again in 5 years.

Asset

Something that has value. May vary in degree of liquidity.

Balloon payment

Payment due on a “balloon loan” to pay the loan off completely. Balloon loans usually last from 1 to 10 years and are most commonly associated with commercial loans. They may carry lower interest rates than 15-30 year loans.

Broker

Short for real estate broker or mortgage broker. To sell real estate or loans for a commission. Implies service beyond simply selling something.

Buyer’s market

Name given to the real estate market in a specific area when pending sales are down and listing volume is up. Implies that buyers have an advantage in negotiations, sellers have to wait longer to sell, and the price paid for a property is more likely to be less than the asking price.

Cap. Rate

Capitalization rate. A benchmark used by investors to measure the value of an income producing property. Defined as Net Operating Income divided by Purchase Price x 100.

Closing costs

Costs collected at the closing of a transaction that include loan fees, commission (if seller), excise tax (currently 1.53 percent in Cowlitz County), escrow fees, title insurance, and pre-pays (prepaid taxes, insurance, and interest) as required by the lender.

Closing documents

Documents prepared by the lender and title company for buyer and seller to sign after all contingencies have been satisfied, title has been researched, and loan has been fully approved.

Cloud

Something, such as a lien or encumbrance, that keeps title on a property from being clear. Title insurance may not be able to be issued and a property may not be sellable until the cloud is removed.

CMA

“Comparative Market Analysis.” A real estate professional’s analysis of a property value based on currently listed, pending, expired, and sold properties of a similar type.

Contingency

As it pertains to writing an offer, something that needs to be satisfied before a buyer can or will go forward with the purchase of a home. The most common contingencies are a home sale contingency, an inspection contingency, and a financing contingency. Contingencies weaken offers, but may be necessary for the buyer.

Co-signer

Person or persons in addition to primary borrower(s) taking responsibility for loan. Should primary borrower become unable to make payments, co-signer will become liable. Co-signers are often used by borrowers that would be unable to qualify on their own.

Credit Score

Also known as FICO score. A system that has evolved over the past several decades that helps lenders, landlords, employers, etc. determine their risk level in entrusting someone with their assets.

Down payment

A sum of money a buyer pays up front for a property that effectively lowers the amount of the loan. Depending on the buyer's credit and debt-to-loan ratio, among other factors, the lender may require a down payment. Although down payments can be any percentage of the purchase price, they are typically 3, 5, 10, 20, or 25 percent. The higher the percentage, the lower the mortgage payment. A higher down payment may also lower other upfront and/or ongoing fees, thus creating a double lowering effect.

Earnest money

Buyer's monetary commitment to seller that the offer is in earnest. Unlike times past, buyers now have, unless waived, one or more contingencies that allow them to back out of the deal and have their earnest money refunded.

Earnest money agreement

Also known as the purchase and sale agreement.

Encumbrance

Anything that affects the title of a property, such as a lien, easement, unpaid taxes, etc. It may or may not affect the transfer of title.

Escrow

Service of a title company where escrow officer gathers and processes all documents from a transaction, including lender documents, purchase and sale agreement, and title report. They produce a HUD statement that shows each party how funds are flowing, hold the signing of lender documents, and direct the release of funds and documents for recording the new deed.

FICO score

Also known as the credit score. The credit scoring system was originally developed by Fair, Isaacson and Company in the 1950s. Some people still refer to a credit score by this name.

First Position

A debtor's first lien position against a property. Position is dictated by date and time it was filed. When someone buys property with a mortgage, the lender always gets first position because the mortgage is recorded first. Any subsequent liens (e.g. 2nd mortgages, HELOCs, mechanic's liens) would be behind first position. In the event of foreclosure, lien holders would be entitled to collect proceeds from a forced sale only in the order their loan was recorded. If no money is left over after the first lien is paid off, then the second lien holder gets nothing.

FSBO

"For Sale by Owner". Also known as an unrepresented seller. One who attempts to market and sell a home without the professional assistance of a Realtor.

Full Approval

Granted after buyer's credit, income, and assets have been analyzed by an underwriter and deemed satisfactory. Full approval may still be conditional upon a satisfactory appraisal.

HUD statement

Shows flow of all funds in a real estate transaction, including but not limited to purchase price, lender fees, prorated taxes, commissions, prepaid interest, title insurance, and escrow fee.

Interest

A calculated and pre-determined percentage of money a lender charges on a loan. It is usually amortized over a year. For example, 10 percent interest on a \$100,000.00 loan would cost the borrower \$10,000.00 per year in addition to any other charges or principal payments made.

Lender

Institution or individual that provides a loan for the purchase of real estate.

Liability

Something with negative value. A debt, cost, or potential cost against a borrower. A liability may reduce income and even lower credit scores, which in turn makes loan qualification difficult or impossible to obtain. Having a liability isn't necessarily bad. From an investment standpoint, it may be generating appreciation and tax benefits for the owner. Consumer debt, mortgages, or a distressed property are all examples of liabilities.

Lien

A claim against a property that entitles the lien holder the right to use the property as collateral for compensation. It may be filed automatically, such as when a mortgage is taken out, or by judgment, such as an IRS tax lien or property tax lien.

Liquidity

Measure of how quickly an asset can be liquidated (turned into cash).

Loan Officer

Representative of a lending institution that works personally with the borrower, helping to answer questions, provide information and documentation, and handle the initial processing of the loan.

MLS

“Multiple Listing Service.” A union of real estate professionals and affiliates united by rules and shared methods for marketing and selling real estate. Their purpose is to expose as many properties to as many people as possible in a uniform manner. They have become more popular with the rise in Internet usage. They vary in size from several hundred to tens of thousands of members.

Mortgage

A loan specific to real estate. This loan creates a lien on the property the lender.

Mortgage Broker

Also known as a loan officer or mortgage company.

NOI

Net Operating Income. Income of an investment after all expenses are paid but before any mortgages are paid.

Personal Property

Also known as “personalty.” Anything that isn’t a fixture (bolted down, planted, etc.). Not uncommon for some to be included in the sale and subsequent financing of a real estate transaction.

Personalty

See Personal Property.

Plat map

Identifies parcel, often in relation to other parcels, as it was laid out by a surveyor. Is usually part of a larger subdivision, etc. It often has a parcel ID number and dimensions but typically lacks the details found on a survey, such as easements, building envelope, location of structures, etc.

Pre-qualify

To be deemed initially qualified for a mortgage based on a brief interview and review of a borrower’s credit report. Used to bolster an offer. Does not constitute full approval, however.

Primary residence

For tax purposes, a home that someone has lived in for 2 of the past 5 years. No capital gains or income tax will be collected upon selling. As far as lenders are concerned, a home that someone is living in now or moving into immediately. Lenders give better rates and programs on a home someone is living in because the risks of default and damage to the property are less.

Purchase and Sale Agreement

Also known as the earnest money agreement. An agreement between two parties to exchange real estate for monetary compensation, per-

sonal property, other real estate, or some combination thereof. Over time the purchase and sale agreement has become more detailed and lengthy.

Rapid Rescore

Process where a borrower takes action to clean up credit (pays off debts, collections, etc.) and the lender pulls credit shortly thereafter, hoping for a small increase in the borrower's credit score.

Real Estate

Also known as Realty. Land and anything that is attached to it.

Real Estate Agent

One whose job it is to list and sell real estate and who has a license issued by the state to do so. A real estate agent is not necessarily a Realtor.

Realtor

Incorrectly used synonymously with "real estate agent." A Realtor belongs to a local board of Realtors and the National Association of Realtors. Realtors are held to a higher standard of ethics and conduct than the state and local governments require. Realtor boards can reprimand and fine their members.

Realty

See Real Estate.

ROI

Return on Investment. The return, measured over a period of time, that an investment produces based on how much was initially invested. For example, \$10,000 down on a \$100,000 house that appreciates \$5,000 in the first 6 months would equal a 50 percent ROI after 6 months, or 100 percent over a year, assuming the market doesn't change.

Seller's Market

Name given to the real estate market in a specific area when pending sales are up and listing volume is down. Implies that sellers have an advantage in negotiations and can be more aggressive with pricing.

Tax Deferred Exchange

See 1031 exchange.

Title Insurance

Several kinds/levels of title insurance exist. Each provides a degree of protection to the buyer and lender against later discovered liens, encumbrances, and disputes regarding the insured property. The lender and buyer must purchase their own separate insurance. Cash transactions don't require title insurance.

Title Report

Generated by title company and provided to all parties of a transaction, a title report reveals any liens or encumbrances of the property, shows a plat map, legal description, and deed. It also includes a disclaimer and information about title insurance.

Unrepresented Seller

"For Sale by Owner."

Write-Off

A cost associated with a property that can be partially or completely deducted from the owner's income. Examples include repairs, upgrades, loan fees, and interest paid.

Biography

Julia and I were born in Longview, Washington, and continue to live there. We graduated from Robert A. Long High School in 1998 and 1996 respectively and Central Washington University in 2001. We've been selling real estate since early 2004. We both love music, our church, eating out, friends, family, and our cat, Butter.

We would appreciate receiving comments regarding the job we are doing, suggestions for improving our service, and questions to which you would like us to respond. For an additional copy of this booklet or for answers to any questions, please contact us.

Send comments or questions to:

Trey & Julia Davis
C/O Coldwell Banker
P.O. Box 1666
Longview, WA 98632

tdavis@flaskerud.com
Office: 360-425-3020
or 800-526-1506
Cell: 360-430-7624