



Best Way to Buy Home That Needs Repairs

By Dian Hymer
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Recently buyers who were in contract to purchase a home in Oakland, Calif., asked the seller to credit them money in escrow. The money was to be applied toward repairs that were recommended in the course of the buyers' inspections.

The sellers were offended. They had agreed to sell for significantly less than their asking price. They weren't inclined to make any further concessions. So they turned down the buyers' request and told their agent to put the house back on the market. The buyers, realizing that they were buying the house at a fair price, removed their inspection contingency and the sale went through.

Most residential home purchase contracts include an inspection contingency for the buyers to inspect the property. It's not uncommon for items to surface during the inspections that were previously unknown to both the buyer and seller.

Depending on how the contract is written, the buyers may be able to simply withdraw from the contract without penalty if they no longer want to buy the property. But if the buyers want to pursue the sale even in light of the inspection findings, there are several options.

If the defects are minor, they might simply remove their inspection contingency without asking the sellers to repair or pay for the defects. Or they could ask for a price reduction and agree to purchase the property "as is" with respect to the defects. Or they could ask the sellers to repair the problems. Or they could ask for a monetary credit at closing to offset some or all of the repair costs.

There are pros and cons to the various options, depending on the situation. Before making a request of the sellers, it's wise to assess your chance of a success. For example, if there is a backup offer for more than the price you agreed to pay, the seller might be just as happy to see you move on to another house, which would free him up to sell at a higher price.

Sellers who are willing to negotiate on inspection issues might be more receptive to a price reduction or a credit at closing, rather than having to make repairs, particularly if they are moving out of the area.

HOUSE HUNTING TIP: From the buyers' perspective, it's usually better to ask for a lower price than a credit, especially if your property taxes will be based on the purchase price and if you have plenty of cash to pay for the repairs. A credit works well for buyers who are cash-strapped. The credit offsets some of the buyers' closing costs and thereby frees up cash for repairs.

Before you ask for either a price reduction or a credit -- particularly if the amount is large -- be sure to talk with your mortgage broker or loan agent. A large price reduction could be a red flag to a lender who might

want to see inspection reports. This could cause the terms of the transaction to be modified if the lender then required that work be done before closing. In this case, the close of escrow might have to be delayed, which could raise problems for both the buyer and seller.

Lenders also have limits on how much money a seller can credit a buyer at closing. On a mortgage for 100 percent of the purchase price, lenders usually limit the amount of a credit to 3 percent of the purchase price. On loans for 90 percent or less of the purchase price, the limit is often increased to 6 percent.

THE CLOSING: However, in either case, the amount of the credit cannot be more than the actual amount of the buyer's nonrecurring closing costs -- those costs paid by the buyer one time only at closing.

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