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THE BOCA BEACH REPORT

A Good Negotiation Can Result In A Good Transaction

The buyer has signed a written offer to purchase a home. This is a serious and motivated buyer who wants the home. The seller said "no," to the price or the terms of the offer so now what happens?

This is a situation where the guidance of an experienced real estate agent is necessary. A serious buyer for any real estate is often difficult to get. Once an offer is made, negotiation between buyer and seller must continue. If negotiation continues, usually a satisfactory sale will happen. Both buyer and seller must sometimes give a little on terms. The brokers will help keep the negotiation going.

If the buyer and seller were not represented by real estate agents, a "for sale by owner" the refusal might end the possible sale. The "buyer" looks for another home. He is not encouraged to make another offer.

Stay In The Game

In this example, what could have been done differently to produce a better result? Let's review the bargaining process.

The seller is under no obligation to accept an offer if it is different than the asking price and terms. An "offer" is an "offer" — it's not a "contract". Sellers are free to look at, and accept, any other offers.

This buyer may be a hard negotiator and the first offer may be low in price or terms– with the intention of "seeing if the price is firm". If it is, he expects a counter-offer to narrow the difference. If the seller just says, "no" it puts a crimp in negotiations.

No matter how far from the asking price and terms the original offer might be, the seller should make a counter-offer to keep the negotiation going. If he/she is very firm on the price, maybe a small change in the terms would help, like taking part of the price in a note. ➧

May 2006

Privileged information about your real estate

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In This Issue

Please Clip and Mail or Call Me for More Information

As your real estate professional, I am available to assist you in your planning. Simply complete and return the following request for information or contact me today for immediate assistance.

- ❑ Purchasing a home or second home
- ❑ Selling a home or second home
- ❑ Purchasing or selling Investment Property
- ❑ Checking on currrent value of my property
- ❑ Long distance Relocation
- ❑ Other________________________________
- ❑ Please contact me between these hours ____________

Name____

Address____

City____________________ State________ Zip__________ Phone____________________

E-mail:______________________________________

If your property is now listed with a broker, please disregard this offer. We will cooperate with other brokers.

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Remember, when any change is made in the original offer, it negates that offer. A "counter-offer" is really a new offer, this time from the seller to the buyer. Even though the buyer and seller might agree to some or even most of the terms of a purchase/sale offer, any change effectively creates a counter-offer. In other words, all previous bets are off and the parties are back to square one in the negotiation process. The buyer can walk away.

Think about terms in advance when selling. What are you willing to give on? Here are some strategies.

What Is The Seller's Bottom Line?

Here is a hypothetical case. First, as the seller, the price (all cash) is the most important, (although you may have a bottom line price that is lower than the asking price). Second, you want a quick sale and closing. Third, you want the buyer to pay most of the closing costs. If you got one of the three items would that be enough? Two of three? Must you get all three? If you got your price, usually the top priority, but not the other two items, would you go ahead with the sale?

The choice here is to determine what is important, what's a "must" and what isn't.

Let Your Agent Know

Explain your position to your agent. The broker can then look at current market conditions and suggest the best approach to take on the basis of price, terms and negotiating tactics.

While counter-offers are designed to let the other party know you're still in the negotiating game, they represent some risk to both buyer and seller. A counter-offer is a new offer, and a new offer may not interest an owner or a buyer. Sensing what to ask, and when to back off, are both part of the bargaining process.

Home Equity Consolidation Can Slash Your Debt

Credit is very easy to get. We are a nation of debtors. In the past two years, the official household savings rate fell to the lowest level since the Great Depression. But at the same time, households gained very much real estate equity. Using that equity, you can manage that debt.

When debts are consolidated, there might be a single payment. If there is a low interest rate, you can pay off your indebtedness in less time for less money.

If you have a large equity, you have two options:

Home Equity Loans

Debt consolidation accounts for more than one third of all home equity loans.

- Make sure you can handle the payments. Practice living on a lower income before you apply for the loan. Save the difference. While the equity loan is outstanding don't take on additional debts.
- Keep the payment period as short as you can handle. Even with a low interest rate a 10 to 15 year home equity loan can be expensive.

(Continued)

Prepay your loan as soon as you can. The savings can be incredible. If you transfer a $15,000 balance of just one 18 percent credit card to a 8 percent home equity loan and pay it off in five years, you'll save more than $30,000.

- Some lenders used to advertise 125% of home's value loans. Never do that. Not only you cannot deduct all the interest but you'll also put your home at unnecessary risk for a costly loan.
- Be prudent. Shop for the lowest rate.
- Avoid high closing costs, low introductory or "teaser" rates and credit cards tied to home equity lines of credit. They all undercut your reason for consolidating — to get out of debt and save money.

Refinanced Mortgages

If you have a low first mortgage compared to the home's value or if you are paying an interest rate higher than prevailing rates, you might consider refinancing the existing mortgage.

If you refinance the mortgage, you may keep about the same monthly payment, and pay off more expensive debts.

- Don't pay for more of a refinance than you can afford. Don't take out a 15-year refinance if the payments will hurt. It is better to refinance for 30 years, then pay more monthly on the principal if you can. Adding that money to your monthly refinanced mortgage can save you thousands.
- Negotiate with the lender. Points and fees are negotiable. Check rates, points and fees with at least three to five lenders before signing on the dotted line.
- Pay closing costs up front. If you have the cash, paying closing costs will save you on financed interest charges over the life of the loan.

How To Help Your Children Get A Home Loan

Your kids are all grown up and are ready to take a big step, buying a home. And they need your help. There are two basic ways to help your kids: Give them money or co-sign their mortgage. Let's look at these options.

When you make a financial gift, it demands just a little due diligence on everyone's part. The typical requirements are that the gift comes from a family member, and not an outsider. This is because a family member is more likely to "give" funds while strangers give what usually turns out to be a "loan". A loan is a debt that must be reported to lenders and something which must be eventually repaid. A loan with monthly payments can affect the borrower's debt ratios and ability to repay the mortgage on time.

Another qualification is that the borrowers need to have money saved up from their own accounts. This is usually anywhere from 3- to 5-percent of the purchase price. When the price of the new home is $100,000 the borrowers will need to document that they have $3,000 to $5,000 saved up in an account that they've had for a while. This money can be used for the down payment or closing costs, but they'll still need to be verified for most conventional and government loans. However, if the gift represents 20 percent of the sales price, the borrowers typically need to have nothing at all in terms of money in the bank.

When giving the funds, be upfront with the lender. The lender would like to see a signed Gift Affidavit. This form is signed by the family member giving the money stating that they have the ability to give such funds and they are giving the money with no expectation of getting it back. In other words, it's not a loan.

Perhaps more often, parents help by co-signing the mortgage. This way, you agree that if the home buyers default on their mortgage you will make the payments on time. When you do this, there are a couple of things you need to know.

So even though you co-sign on the mortgage to help others qualify, the buyer must still qualify for the monthly payments. Their debt ratios must be within certain parameters. Even though a lender will use your income to help children qualify, the lender also wants to see a reasonable debt load for the primary home buyer.

Also, remember that when you co-sign the mortgage it will appear on your credit report, and may be counted against you when you apply for future credit of your own.

Some lenders, but not all, will waive a co-signed debt when considering a loan application, but only if you can provide canceled checks from the primary borrowers from the twelve months.

There are ways to provide children with up to $10,000 from retirement funds. The rules here, and with other big gifts, can be tricky, so speak with a tax adviser before making a withdrawal.

So when the kids call for help you can say "yes", but before you, do make sure you're aware of all the implications.