

SHIFT Tactic 12: Bulletproofing Transactions

Linda Warren

>Making It All the Way to the Closing<



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The Issue

Question

What do we mean by bulletproofing the transaction?

Answer

It's about keeping your transactions together in the critical time between signing the sales contract and signing documents at the closing table.

In today's competitive market, it is becoming more common for real estate transactions to fall apart after a contract is signed. Why is that? As Martin Bouma, an agent who has increased his business in Ann Arbor's tough buyers' market says, it's due to the tension created when owners feel like they are selling too low and buyers feel like they are paying too much.

When buyers and sellers have doubts (e.g., the price is not what they wanted), they are less likely to be agreeable in future negotiations. After all, each party feels as if they have already made a concession and now it's time for the other guy to give up something of value. As we all know, agreeing to a sales price is only the first negotiation. There are many other issues to negotiate in the contract-to-close period. It's a sensitive time that requires you to be on the ball and use your best negotiation skills.

When a deal falls apart, nobody wins.

How serious is the problem? Bruce Hardie, a top-producing agent in Spokane, Washington, reports that 24 percent of all transactions in his market fall apart after the contract is signed. That's one out of every four transactions. Can you afford to lose one-fourth of your business?

The Challenge

What makes this market particularly tough is that it seems that buyers are willing to walk away at any point in the sale. Gary Keller, cofounder and chairman of the board of Keller Williams Realty Inc., describes the challenge in a buyers' market. "Some buyers believe every step in the transaction is an opportunity to renegotiate without ethical, moral, or legal risk." Fueled with the knowledge that there are plenty of other homes available, buyers aren't too concerned about hanging onto the one they thought they would buy.

As a savvy real estate agent, you have to understand that in this market a "yes" is more like a "maybe." A "yes" on a contract in a buyers' market is not as solid as a "yes" in another market. A signature on the contract can mean "yes for now, however, I might change my mind when the inspection or appraisal is done."

The Solution

What can you do to minimize the number of transactions that fall apart?

Bulletproofing your transactions begins with fully understanding where things can go wrong. You have to not only be a real estate agent; you have to be a real estate "salesperson" too. A good real estate salesperson is prepared for all of the possible "deal busters" that can happen. You have to keep your head up and prepare yourself as if everything that could go wrong will do just that.

- Be aware of the most common problems.
- Have good solutions and scripts.
- Avoid problems by proactively gathering information and addressing common concerns before they arise.
- Maintain good and frequent communication with all parties so you become aware of problems as early as possible (when there is time to address them).

There are six major issues to keep focused on to ensure you deal closes.

"Keeping transactions together is about managing everyone's expectations and being a person who does not throw gas on the fire."

*MARTIN BOUMA
ANN ARBOR, MICHIGAN*

Six Major Issues—Contract to Close

The following chart identifies six primary issues in getting from contract to close. There are many issues to keep your eye on, but the good news is that by being proactive and keeping a close watch on each of the steps to closing, your chances of getting to close are greatly increased.

Issues	How Things Go Wrong	Solutions
1. Inspections and Repairs	Unexpected findings Report complexity Costs and who pays Timetable for repairs Doubt about worthiness	Seller gets preinspection Attend with buyer and/or seller Prenegotiation limits Select and supervise vendors Prepare and reassure buyer
2. Appraisals	Won't support the price Won't support the loan Doesn't match the CMA	Provide appraiser with research Find additional buyer funds Appeal the appraisal
3. Loan Approval and Funding	Application delays Documentation problems Buyer credit issues Lender failure to approve Lender failure to fund Buyer credit changes	Select originator—get preapproval Assist buyer with paperwork Get credit counseling for buyer Reapply with corrections Parallel applications Give preclosing credit warning
4. Other Contingencies	Sale of the buyers' home Third-party approvals Estate, relo, short-sale approvals Clouded title	Take backup offers Know who and communicate Know who, how, and timetable Preliminary title search
5. Co-op Agent	Bad advise or communications Inattention to details Poor vendor selection	Clarify the messages and intentions Own the process and communicate Provide selection list and back up
6. Deadlines	Inspections and repairs Closing date Occupancy Approvals/Documentation	Confirm appointments and progress Build in buyer and seller flexibility Preset dates, limits, and penalties Manage the closing checklist

“It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.”

CHARLES DARWIN

Notes

I. Inspections and Repairs

In any real estate deal, inspection and repair negotiations should be expected. Both buyers and sellers need to be prepared for the inspection-and-repair process. Buyers view it as a time to get some money back. After all, they are concerned about paying too much when prices are falling. They also view it as a time to back out of the deal if they aren't sure this is the home for them.

“I’m finding that we’re getting big laundry lists from people wanting everything done to the house and if you don’t do just about all of it, they’ll walk.”

*SHARON HAMILTON
SANTA ROSA, CALIFORNIA*

The buyer's acceptance of a contract is often dependent on the outcome of the inspection and, in a buyers' market, getting almost all of the repairs done. The time frame for the inspection and repairs should be short.

Whether you are working with the buyer or the seller, you need to acknowledge how they feel and help them understand the other point of view. Your goal is to keep the deal alive.

Conversations with Customers

Sellers ---

“In this market we have to educate sellers a lot more and help them understand what could be coming at them.”

*BRAD MCKISSACK
DENTON, TEXAS*



“Mr./Ms. Seller, here’s something I just want us to be ready for. We know there were some issues people saw when they went through the house.”

Mention specific things.

“The inspector is going to pick those things up and it’s possible that a buyer is going to come back and ask us to take care of some of that stuff. Here’s what I want you to keep in mind. It could be \$1,000. It could be \$2,000 and I know that you’re in no mood to give in any further. I know that. And I absolutely understand you have brought the price down. This is a great deal. You’ve done all of the right things. And here’s the one thing that I want you to keep in mind, that’s likely to happen and you’ll have to decide. If you walk away from the deal over a few hundred or a few thousand dollars, essentially what you’re doing is buying the property back at the price you had sold it for, hoping to make a little more money. Will you buy the house back over \$1,000? That’s the question we have to ask. Are you willing to buy it back, hoping you can get more in a short enough period of time that it’s worth doing, or do you want to make sure this deal stays together?”

This situation is similar to flipping a house. You could say, “Would you have bought this property on the open market to flip it for \$500 more, or \$1,000 more, or \$5,000 more?” The logical answer is “no.” People would not go through the purchase of a house if they could only make a few thousand dollars for their effort. You have to put the situation in perspective for them.

Prevent Unexpected Repairs with a Preinspection

A proactive approach to repairs is to have an inspection done before the house is put on the market. The seller will have a better idea of what the repair issues are and can make some of the repairs prior to putting the house on the market, or, at a minimum, can prepare for issues that will likely surface from the buyer.

**Script!**

“*Mr./Ms. Seller*, an option you can consider to give us an advantage is to have your home inspected yourself—before listing it. Worst case, you will know what you absolutely must address before you list. Best case, you’ll have a document that shows buyers what great condition your property is in. Even if you have to do repairs, you can document what you’ve done and add them to the inspector’s report as addenda and include the documents in the home information book when you go on the market.”

Buyers

You need to prepare buyers for the inspection-and-repair process. A great service you provide is giving names of outstanding inspectors. A knowledgeable and professional inspector generates trust and can help your buyers make good decisions.

Keep buyers in the know about where you are in the home purchase process and what comes next. As Bruce Hardie says, letting customers know what comes next sets expectations and reduces fear.

It’s essential to have good rapport and your customers need to trust you so they’ll take your advice. It’s especially important to support first-time home buyers. They have no prior experience with inspection reports. Let them know inspectors are paid to look at and document EVERYTHING they see, even the small stuff. The report is long. The purpose of the report is not to nitpick over every door that creaks. The most important reason to have an inspection is to uncover any major problems that are not apparent to buyers as they walk through the house. The inspection provides information so buyers know what they are buying. If foundation repairs are required or the roof needs to be replaced, buyers know what they need to negotiate once they have the inspection report in hand.

Sellers

The seller should place limits on the cost of repairs and it should be listed in the contract. To do that the seller needs information. The preinspection will prepare the seller with a list of the needed repairs.

Before negotiating for repairs, it's a good idea to find out how much the repairs will cost. It's easier to agree to something when you know what the price tag is. Lynda Dimond, a top agent in Walnut Creek, California, says, "Sometimes buyers and sellers think a repair is a real big issue—it might be an electrical item, and then you get an electrician out there. They say it's going to be \$175. All of a sudden, it's not such a big deal."

Sellers often need help getting vendors to do the work needed. You can be a resource for them. You should have vendors that are ready to act, that you trust to get the jobs done quickly, correctly, and with an appropriate cost. Having the right vendor can make for a smooth process that moves along more quickly.



"Okay, *Mr./Ms. Buyer*, we're going to go do the inspection. The inspection will undoubtedly uncover minor things—they always do. They'll be things that are true of any house that's a few years old, like this one. The thing to remain focused on is, are there any major or substantive issues that we did not notice ourselves? I always encourage customers up front to keep focused on the big, functional, or value-driven items; not leaky faucets, a gutter that needs replacement, or a small amount of easily repaired dry rot."

"Here's the thing we both need to understand: they are way below what they intended to sell the home for. You know how reluctant they were to agree to the price we offered. And we looked around the market, and this is a great price. The question we just have to ask ourselves, and I'm not telling you not to do it, but if we go back with any kind of request for substantial repairs, my question is, 'Are you willing to lose the home for that \$500, or \$1,000, or \$2,000?'"

Attend Inspections

Whether you are representing the seller or the buyer, you should attend the inspection along with your client, if possible. You will all have the opportunity to ask questions of the inspector, and get a clear understanding of what the repair issues are directly from the inspector. The best real estate agents learn about construction techniques to increase their knowledge base and improve the service they provide to their clients when it comes to discussing inspection issues. Top agents, who understand the issues, add value when they help weigh the significance of each comment on the report.

You have several goals at the end of the inspection:

- Buyers and sellers understand any issues with the property. They have all of their questions answered directly from the inspector
- Know what's on your customers' mind
- Keep things in perspective—small issues small
- Provide information on vendor referrals for repairs (when appropriate)
- Guide your client through the next steps

To put things in perspective, buyers who get picky about little repairs should be reminded that every house has minor flaws and any house they buy will develop problems that don't exist on the day they purchase the house. When they're the seller, they won't want to deal with every little problem their buyer finds.

Don't let the inspection become a reason to back out of the contract.

Negotiation—Get the Facts First

“Negotiation is one of the things we get paid for.”

*BRUCE HARDIE
SPOKANE, WASHINGTON*

When you represent the buyer, it’s a good idea to talk with the listing agent about what your buyers think they want to do before you make an official request for repairs. The listing agent wants the transaction to close as much as you do. Take the position that you and the listing agent are a team with the common goal of coming up with an agreeable solution. Agents can share the responsibility for negotiating repairs their buyers and sellers can live with.

Good, up-front communication about inspections can lead to a solid solution without the agony and wasted time and paperwork spent countering back and forth. Your attitude, while representing your customer’s interest, should always be, “Let’s make a deal!”

If you reach a point where buyers and sellers are digging their heels in, stop the adversarial positioning as soon as possible. If YOU want the deal to close, be the first person to make a conciliatory offer.



“I’ll pick up one-third of that.”

“Let me help with the cost of that repair.”

Prepare and Reassure the Buyer

In a buyers' market the buyer has more leverage in the transaction. However, buyers should be warned not to ask for too much in the negotiations on the contract. Even though it may be a buyers' market, if the seller has already made repairs, and other concessions, they may not be willing to do more.

Home Warranty

Home warranties are a great way to alleviate buyers' worries. Many top agents tell their sellers to expect to pick up that expense. If the seller won't pay for it, the buyer can, or as a last option, an agent can pick up the cost. A home warranty gives the buyer piece of mind knowing that if something goes wrong with a covered appliance or system, it will be replaced within the first year of ownership. Make sure you help your buyers understand what is covered and what's not so they can assess the true value of the warranty.

“We provide home warranties on every listing we take. It's a selling feature and a way of alleviating issues that come up down the road.”

*BRUCE HARDIE
SPOKANE, WASHINGTON*

Inspection-and-Repair Summary

Issue: Unexpected Findings from Inspection

Solutions

- Advise your seller get a preinspection so you both understand the repairs needed prior to listing the property. The seller has the opportunity to correct any issues. At a minimum, the seller has a better idea of the issues that will be brought up when the buyer has an inspection done.

Issue: Report Complexity

Solutions

- Attend the inspection with your client (buyer or seller) so they understand exactly what repairs are needed and have their questions answered by the inspector. This will help your client understand a complex inspection report and make it easier for you to answer questions.

Issue: Costs and Who Pays

Solutions

- If representing the seller, in the contract you should include prenegotiation limits on the cost of repairs or you can make an allowance as a concession for the cost of repairs.

Issue: Timetable for Repairs

Solutions

- You should recommend dependable vendors that you know and have worked with before so the repairs are done quickly and at a reasonable cost.
- Supervise vendors to ensure the work is being done correctly, on time while keeping costs at a minimum.

Issue: Doubt about Worthiness

Solutions

- Prepare and reassure your buyer and explain the Home Warranty to alleviate their concerns about repairs.



Negotiating Inspection and Repair Issues

How do you deal with conflicts that arise around the inspection?

What are your best practices for resolving inspection issues?

Notes

2. Appraisals

Appraisers represent the best interest of their lenders. When prices are falling in the market, the lender's primary concern is that a property is worth the full amount of the mortgage. Appraisers are under pressure to make sure their lenders are not putting themselves at risk. Terry Moerler, an experienced and top-producing agent in Westlake Village, California, says appraisal forms in their area have space for appraisers to check whether property values in the neighborhood are stable, increasing, or decreasing. A neighborhood with declining values has a red flag for lenders, making it more difficult to get a loan. Appraisers are more likely to come in with a low home evaluation when they see a red flag.

Low Appraisal—Sellers

In a market with declining home prices, low appraisals can be a common problem. Agents need to have strategies to deal with the challenge.

First, you need to find out who the appraiser is. If you are dealing with a mortgage company you know, you probably know who they use for appraisals. If you don't know, ask. Say to the lender, "By the way, who is going to be doing the appraisal?"

Question

What can the real estate agent do to make sure the buyer gets an adequate loan to make the purchase?

Answer

In a very professional way, you provide the appraiser with all of your market data and your analysis supporting why your customer's offer is an acceptable price. You also need to answer any questions the appraiser has.

It's a best practice to develop good relationships with appraisers. As Bruce Hardie says, "All that work I've done for ten years helping appraisers do their job is serving me very well right now. They trust me. They know my data and they know I've helped them when I didn't have to."

When you represent the seller, there are things you can do to make sure a house will appraise. You should always do a thorough CMA to set an appropriate price. When there are no comps (e.g., custom home or no recent sales), have an appraisal done before you list the price.

What to Give an Appraiser

1. Comparative Market Analysis (CMA)
2. Information about the property (to call attention to important features that could be overlooked)
3. List of things you did to determine a fair offer
4. Any other information the appraiser needs

Low Appraisal—Buyers

What can you do as the buyer's agent when an appraisal comes in low and the mortgage company refuses to give a loan for more than the appraised value?

You should anticipate such a problem when the down payment is less than 20 percent. Advise your buyers in advance and let them know what might happen if the appraisal value is low. Ask whether or not they'll be able to come up with additional funds for a down payment, if necessary. A low appraisal directs you to go back to the seller and try to negotiate a lower sales price. If that doesn't work, discuss with your buyers the need for additional down payment funds.

In some states the appraisal is a contingency which, if not met, gives the buyer a chance to get out of the contract. If the buyer does not opt out within the specified period of time after receiving a low appraisal, the buyer is required to make up the dollar difference and close as contracted. For example: A buyer is putting 10 percent down. The house appraises 15 percent under what the buyer has offered. That leaves a 5 percent gap. To get the loan, the buyer has to come up with a bigger down payment to get the mortgage approved.

Explore viable funding options:

- Additional money from the buyer for the down payment
- Financial gift from parents/family for additional money down
- Second mortgage
- Seller-assisted options



For information on financing options in a challenging market, see *An SHIFT Tactic 10: Financing Solutions* from Keller Williams University.

Appraisal Doesn't Match the CMA

In cases where the appraisal doesn't match the CMA, you should appeal the appraisal. Be careful regarding this type of action, however. The appraiser is a very important component of the contract-to-close process and you don't want to insult them or alienate them. You never know when you will be working with them again on future deals.

If your CMA information was not provided to the appraiser, talk with them and provide your research data. If they are open to talking, discuss with them your findings.

Appraisals Summary

Issue: House doesn't appraise for offer price

Solutions

- Be an expert on pricing in the areas you serve.
- Be in touch with the lender to make sure a good appraiser is used.
- Meet the appraiser at the property and provide additional information regarding the property that may be overlooked.
- As the seller's representative, share the CMA data you researched to help set the price for the property.

Issue: House doesn't appraise for offer price

Solutions

- As the buyer's representative share with the appraiser the CMA data you researched before your customer made the offer.
- Negotiate with seller on the price.
- Find out if buyers will have additional funds for a down payment.
- Locate additional funds.
- Educate yourself about creative, yet viable, funding options.

Issue: Appraisal doesn't match the CMA

Solutions

- Give the appraiser the CMA research data and property information before the appraisal is conducted.



Dealing with Appraisals

What appraisal problems have you encountered or heard about in your area?

How can such problems be avoided?

3. Loan Approval and Funding

You need to manage the contract-to-close as a project manager. To protect your deal, watching every step in the entire process is critical. You need to pay close attention to everything that happens in each step along the way, starting with averting any application delays.

Application Delays

Delays with the mortgage company can easily cause a deal to sour quickly. What is the biggest disaster that can happen after you invest significant time and effort into the sale or purchase of a home? The biggest disaster might be funding that doesn't come through at the last minute. This problem can manifest itself in a variety of ways:

- The mortgage product is no longer available.
- The mortgage company goes out of business.
- The buyer no longer qualifies for the loan.

What's the number one key to avoiding funding problems? Make sure the buyer uses a reputable, trustworthy lender. There are things you can do to avoid funding disasters when you represent the buyer and things you can do when you represent the seller.

Buyer Side—Help Select an Originator

Help your buyer select an originator. Direct them to a loan company that you know and have worked with before; one that you are confident will get the loan processed as quickly as possible.

Your buyers should always be preapproved for a mortgage before you take them out to look at houses. Don't waste your time with buyers who are only prequalified. You don't know what they can really afford. After they've signed a contract, you don't want to find out they can't afford the house they've selected.

Prequalified vs. Preapproved

<p>Prequalification</p>	<p>A buyer calls a lender and answers a few questions. If the buyer knows their credit score, and it fits their financing needs, the lender may base the prequalification on the buyer's word. Prequalification means that if everything the buyer says is true, then the person can receive a loan for a certain amount.</p>
<p>Preapproval</p>	<p>The applicant must complete a formal loan application and provide copies of tax returns, W-2s, pay stubs, bank statements, and other applicable information. The lender will pull a credit report rather than rely on a credit score given by the loan applicant. Initial approval comes through an automated system. If the applicant looks good (steady job, good debt-to-income ratio, clear indication of down payment funds), the lender will let the real estate agent know that the buyer is preapproved. Subsequently, an underwriter needs to fully approve a loan subject to finding a property.</p>

Sometimes a lender may have slight reservations about your buyers, especially young, first-time buyers. Getting parents to cosign a loan can make a difference in getting the funding.

Once your preapproved buyers have a contract on a house, let the lender know right away. Follow up with weekly phone calls and find out where they are in the approval process. Maintain consistent communication between you and the lender.

Give your buyers the “Seven Don'ts of Mortgage Funding” list to make sure they don't do anything to jeopardize their mortgage application.

SEVEN DON'TS OF MORTGAGE FUNDING

1. Don't change your employment status.
2. Don't make any major purchases (cars, furniture, home theater vacations, etc.).
3. Don't increase your credit card debt or miss any payments.
4. Don't change bank accounts or make undisclosed large deposits.
5. Don't apply for a credit card, cosign a loan, or make a credit inquiry.
6. Don't spend money you have set aside for closing—not any, not ever.
7. Don't delay in providing all paperwork asked for by the mortgage company.



For information on the ways funding can fall apart, see *SHIFT Tactic 10: Financing Solutions* from Keller Williams University.

Parallel Applications

If you are working with the buyer, explain the advantages of working with your suggested lender. If they insist on using another mortgage company, get their agreement for a parallel application if their lender won't approve the loan. It won't cost them anything and will ensure funding for the deal.

Parallel applications help avert the deal from crumbling if a lender won't fund the deal. You have already built in a backup plan to save the deal.

Imagine this scenario: You represent buyers who plan to get a loan from their friend in the mortgage business. It's a company you haven't heard of. You know the respected mortgage companies in your area and this isn't one of them.

Script!

“Just to protect ourselves, and to be sure that we don't get to that closing table and find out we can't deliver on our responsibilities on the contract, and the negative repercussions that would come from that; let's get backup funding with a parallel application at a mortgage company that I absolutely know will deliver for us. We can use your friend's company, but my mortgage specialist is willing to do a parallel application for you at no cost to you unless you use them.* They'll take an application all the way through to approval with no fees, no anything, unless it's used. That's going to be a great reassurance, isn't it?”

* *The best mortgage officers will do this for agents who regularly send them business.*

Documentation Problems

Sometimes buyers have trouble submitting all the required paperwork to the lender. Keep tabs on what has been requested and what has been provided. Help the buyer complete the paperwork, if necessary. First-time buyers may feel overwhelmed and need some assistance.

Lender Doesn't Approve

If the lender doesn't approve the loan, you should determine why the application was denied. If there are errors, work with your buyer to reapply with the errors corrected. Stay in close contact with the lender to understand issues as they come up and get them rectified as soon as possible.

Buyer Credit Issues

Some buyers will have issues on their credit report that makes the lender hesitant to approve the loan. Get your buyer into credit counseling if necessary to help clear up the credit issues.

Seller Side

Question

Why should a seller's agent be concerned about buyer financing?

Answer

The most vulnerable person in the whole deal is the seller.

If you represent the seller, you want certainty that the chosen lender can and will perform. You can insist on a preapproval letter or that they apply for a mortgage with a lender you approve. Parallel applications in this case protect the seller, and again don't cost the buyer anything.

Bruce Hardie has introduced a good practice for hard times. When his sellers counteroffer, Bruce stipulates that the buyers must get prequalified by his lender. As Bruce says, the cool part about that is it gives his lender the opportunity to get the business and Bruce has piece of mind knowing that financing will come through. Other agents representing sellers go even further and do a concurrent or parallel application for a mortgage with their preferred lender.

These days, some top agents are asking about loan terms. They want to avoid buyers seeking 100 percent loans due to the risk of the loan not getting approved. Other agents are unconcerned about loan terms as long as their trusted lender does a backup approval.

Your Goal: Get buyers approved with a lender you trust.



For information on many financing options in a challenging market, see *SHIFT Tactic 10: Financing Solutions* from Keller Williams University.

Loan Approval and Funding Summary

Issue: Application Delays

Solutions

- Make sure your customers use a reputable lender, preferably someone you recommend.

Issue: Documentation Problems

Solutions

- Assist your buyer if they need assistance with paperwork. First-time buyers especially may feel overwhelmed with the application process and may need help.

Issue: Buyer Credit Issues

Solutions

- Suggest credit counseling to get errors on their credit report corrected.

Issue: Buyers don't get approved or funded

Solutions

- Make sure buyers are preapproved for a mortgage before you start showing houses.
- Suggest getting parents or family to cosign the mortgage.

Issue: Funds are not available at closing

Solutions

- Counsel your buyers to avoid doing anything that will have a negative impact on their credit, income, or assets. Give them the “Seven Don'ts of Mortgage Funding.”
- Have parallel applications running so your buyers get preapproved by two lenders. If the first loan falls through, they'll have a backup.
- Contact the lender weekly for a progress report and determine if there are any problems. Take action to correct the issues as soon as possible.



Anticipating and Avoiding Funding Problems

What mortgage problems have you encountered?

What do you do to avoid funding problems?

What else can you do?

Notes

4. Other Contingencies

There are other contingencies to stay on top of as you guard your deal and make sure it goes through closing without a hitch.

Sale of Buyer's House

Your buyer's agent may have written a contingency into the contract so that the deal is dependent on the closing of the buyer's current home. This contingency is common in real estate deals, but it is not without its problems. The seller is taking a big risk by accepting this contingency and taking their home off the market, especially in a slow market scenario. To help mitigate the risk, you should take backup offers on your listing so if something goes wrong with the first offer; you have other buyers lined up. When a backup offer is accepted, you should communicate with the buyer to inform them that their contingency needs to be removed in a limited amount of time. This places pressure on the buyer.

In many cases a buyer will not have the down payment funds available until their current house is sold. Also, even if the down payment is not a problem, most lenders will not approve a loan for a buyer unless the loan on their previous home is satisfied.

The best way to handle this issue is to stay in constant communication with the buyer and their agent who is selling their previous home to ensure that the sale closes.

In cases where additional funding is being provided by family gifts or cosigning, be sure to meet with the gift givers/cosigners, if possible to be sure of their commitment and assure their attendance at closing.

Attorneys are required for real estate transactions in some states. Make sure the questions from either attorney (buyer or seller) are answered quickly.

Additional Approvals

Additional approvals may be required to close the deal. A lender, company, institution, or trustee will need to approve the sale in some situations. Determine who needs to approve and communicate with them as early in the process as possible. Contact them directly and determine the specific approvals required and the time line needed to get those approvals prior to closing. Once you know who is involved and when the approvals are due, you should follow up on your calendar to call your contacts and ensure that all approvals are received so the deal can close.



For information on short sales, see *SHIFT Tactic 11: Short Sales, Foreclosures, and REOs* from Keller Williams University.

Clouded Title

In the contract-to-close process you could find liens on the title. In sales where there is a divorce or death, you may be surprised to find additional owners. You'll need to be in touch with these other people.

This is another situation that must be addressed early in the process. There may need to be lawyers involved and court decisions made to clear the title so it can be transferred at closing. That can take time.

Early in the contract-to-close process you should request the title search. Get the results as soon as possible, so, if the title is clouded for any reason, action can be taken quickly.

Tip!

Bruce Hardie says he does a preliminary title search when he lists a property. That way he becomes aware of problems early in the sales process and has time to resolve issues.

Other Contingencies Summary

Issue: Sale of Buyer's Home

Solutions

- Take backup contracts from other interested buyers. When you get a backup contract, let the buyer know that you have a backup and that their contingency needs to be cleared within a certain time.

Issue: Third Party and Other Approvals

Solutions

- In any “other approval required” scenario, determine who the required approvers are, what information they need, and their contact information.
- Keep in close contact with the approvers to ensure they have what they need and the deal is approved for closing.

Issue: Clouded Title

Solutions

- As a buyer's representative, early in the contract-to-close process, have a title search done. This will give you time to clear any issues on the title before getting to the closing table.
- As a seller's representative suggest getting a title search at the listing.



Avoiding Contingencies

What other contingencies have you encountered?

What solutions have worked for you?

Notes

5. Co-oping and Communication

As real estate professionals, we interact with many key players to close a deal. We are in competition sometimes, but we must cooperate with each other to our mutual benefit. We end up co-oping with the key players as we communicate and handle issues along the way to closing.

By maintaining good communication between the key players, we make sure to be aware of and have an opportunity to deal with any problems as soon as they arise. You need to keep in touch with all key players throughout the contract-to-close process:

- Escrow officer
- Lender, including back-office people
- Appraiser
- Real estate lawyers
- Title company
- Other real estate agent
- Buyers
- Sellers

Buyer's Financial Situation

When you represent the buyer, stay in continual communication with them. Be sure that they are following the “Seven Don'ts of Mortgage Funding.” They need to keep their credit consistent until the approval process is over and the loan is funded.

Seller's Financial Situation

When representing buyers, Terry Moerler has recently come across seller's agents who are new in the business and don't ask enough questions of their sellers. Can you imagine making an offer on a house and later finding out the seller is upside down, can't pass the title, and needs lender approval to make a sale? That's a fast way for a deal to fall apart, especially if your buyer needs to move quickly.

“Never assume the seller's agent has asked all the right questions of the seller.”

*TERRY MOERLER
WESTLAKE VILLAGE, CALIFORNIA*

When Terry's buyer is interested in a house, Terry gets a property profile. The information she wants is available from the county recorder if she can't get it from the seller's agent.

Information to Gather on the Seller
1. When the property was purchased
2. Amount of the loan
3. How much the seller owes the lender
4. Whether there is a second mortgage

If the seller is upside down, Terry recommends calling the seller’s agent and asking about the agent’s communication with the lender. First, you need to confirm the lender will allow a short sale. Second, you need to know how to handle short sales or refer your customer to an agent who has experience. Short sales have a unique set of challenges and take longer than other transactions. You need to know what the issues are, what questions to ask, and make sure processes are moving ahead with the lender.

It should go without saying that if you represent the seller, you have asked all the appropriate questions and know your customer’s financial situation.



For information on short sales, see *SHIFT Tactic 11: Short Sales, Foreclosures, and REOs* from Keller Williams University.

Escrow Officer

Get in touch with the escrow officer as soon as you have a signed contract. Touch base regularly to find out if the escrow officer has all of the required information. Do the same with the lender. As a buyer's agent, you need to make sure the loan approval is moving forward.

Tip!

Chad Goldwasser, owner of one of the highest producing teams in Keller Williams Realty, says he keeps an eye on funding even when he is representing the seller. In a tough market, Chad says his agents operate on the assumption they have to do everything the buyer's agent *should* be doing.

Surveys and Vendors

Surveys occasionally reveal discrepancies. There could be a problem such as a fence being off the lot line. When problems arise, you need time to talk with any other pertinent parties and resolve the issue before closing.

Problems arise when people have misunderstandings or differing expectations. You can avoid these problems by never making assumptions. You may discover that you received bad advice, or that the details are not getting proper attention, or even that a vendor is not performing well. In any of those cases, communication is the answer.

- If you aren't clear on the message from a key player, clarify the message and determine clear intentions. Get it in writing.
- If details are going unattended, take the process in hand and handle them, whether it is traditionally your job or not.
- If a vendor is not performing as you need them to, contact them, supervise the work, and even offer an alternative vendor that you know and trust if necessary.

When in doubt, always ask. It's also a good idea to get things in writing. In addition, communicate clearly and often. This allows you to become aware of misunderstandings and rectify any problems.

Co-oping and Communication Summary

Issue: Key people have different expectations or understandings, or details are not being addressed.

Solutions

- Communicate clearly and frequently with all of the key players.
- Don't make assumptions. Get clarity of communications and intentions.
- Put everything in writing.

Issue: Poor vendor selections

Solutions

- Maintain frequent communication with all relevant key players, including the vendors. Supervise the work and offer alternate reliable vendors if work is not being completed satisfactorily.

Issue: Survey reveals problems

Solution

- Arrange to have the survey done early so there is time to address any problems.



Bulletproofing with Communication

What questions should you ask to avoid problems in the contract-to-close process?

6. Deadlines

Missing deadlines is a surefire way to make a deal fall apart. Deadlines must be met to keep the deal viable and moving forward. You need to act as the overall project manager. Pay attention to all of the details, whether you represent the buyer or the seller. You cannot afford to let anything slip or the deal may fall apart.

Tip!

Michael Williamson, of Scottsdale, Arizona, says, “With so many agents not sure what to do in our current market, you will often need to handle both sides of the transaction, just to get the deal closed.”

You need to own the outcome of the process, not micromanage the other agent. They have a job to do, let them do it. However, keep in close touch with them to ensure that the details are being handled.

Keep a time line of events or a checklist and track progress toward closing. Make it as detailed as you need to, so nothing goes unattended.

Some special notes:

- Negotiate a closing date, based on the requirements of the key players and build in some flexibility for handling issues. See the Contract-to-Close checklist on the next page as a starting point.
- Negotiate occupancy by setting a date. Pay attention to limits required and penalties for not meeting the date.
- Confirm inspection and repairs appointments and determine progress.

Approvals/Documentation

Following is a Contract-to-Close checklist you can use as a model. Add additional items to track to meet the specific needs of your deal.

As you manage the closing process, checklists like this can give you a snapshot of the progress and help you remember when you need to contact one or more of the key players. Keep the checklist up to date and easily accessible. You might even share the checklist and progress with the key players along the path to successful closing.

Contract-to-Close Checklist

Client Name: _____ Closing Date: _____

Property Address: _____

	Date Expected	Date Completed
Contract and earnest money received	_____	_____
Earnest money receipted	_____	_____
File opened and Key Contact added	_____	_____
Introduction letter sent to clients	_____	_____
Payoff / Assumption statement ordered	_____	_____
Payoff statement received	_____	_____
Commitment sent to lender	_____	_____
Commitment sent to other agent	_____	_____
HOW Info / Resale certificate received	_____	_____
Survey ordered or existing survey verified	_____	_____
Termite inspection received	_____	_____
Full inspection received	_____	_____
Repairs Addendum signed and received	_____	_____
Repair completed and invoice received	_____	_____
Home Warranty ordered	_____	_____
Lender docs received and verified	_____	_____
Closing scheduled with all vendors	_____	_____
Closing scheduled / reminders sent to clients	_____	_____
Final Closing Package prepared	_____	_____
Other	_____	_____

Deadlines Summary

Issue: Inspections and Repair

Solutions

- Communicate and monitor inspections and repairs. Confirm appointments and supervise progress.

Issue: Closing Date and Occupancy

Solutions

- Build in flexibility for the buyer and the seller.
- Preset dates that are negotiated with both parties.

Issue: Approvals and Documentation

Solutions

- Keep your Contract-to-Close checklist up to date. Manage the list, making contact with the key players. Take action as needed to ensure the checklist is completed and the deal is ready to proceed at the closing table.



Meeting the Deadlines

How do you keep yourself organized and on track with respect to deadlines?

Notes

Bulletproofing Strategies

Closing a deal successfully is your ultimate goal and to make that happen, you need to keep the key players focused on the path to closing. Be proactive to keep the advantage of knowing the issues before or as they come up.

Emotions are often a part of the buying process, whether buying or selling. The emotions tend to be fear based, due to negative press, foreclosure reports, and less informed opinions of friends and family.

There are two strategies that the best professionals use to keep a deal on track.

1. Proactive Prevention—keeps everyone on a positive track toward the goal.
2. Early Response—keeps the key players focused on awareness and problem-solving.

I. Proactive Prevention

In a shifted market you will have to deal with buyer's remorse, seller reluctance, loan processing delays, tight appraisals, tough inspections, and anxiety at many levels.

Here are four specific areas to help prevent and overcome anxiety regarding closing the contract. All of these are achievable through effective communication:

- 1. Outcome Framing**
Keep focused on the goal. Ask the question, "What do we want to achieve?"
- 2. Set Expectations**
Prepare players for what is to come. Ask, "What do we realistically need to consider?"
- 3. Prepare Alternatives**
Prepare for all of the "what ifs." Ask, "What will we do if ...?"
- 4. Reassure**
Support the buyer or seller in their decision. Say, "We're on track, ahead of the game, and doing fine."

Handling the Reluctant Buyer

“Have a plan in place to deal with what you know is going to happen.”

DAVE JENKS

KELLER WILLIAMS REALTY INTERNATIONAL

Second-guessing the decision to buy a house is known by a number of names—buyer’s remorse, cold feet, butterflies in the stomach, the jitters, etc. The basic problem is that buyers wonder if they’ve made a good decision and they wonder if they should try to get out of the deal before it is too late.

When you think about it, this reaction shouldn’t be a surprise. Buying a house is one of the most expensive purchases people make. They don’t do it often and it’s natural to feel uncomfortable with a type of decision you make infrequently, especially when the stakes are high. In addition, who likes to part with their own money? People love the idea of owning their own home, but they aren’t so crazy about paying for it. One of the things you can do is help your buyers focus on how good they’ll feel when they are in the new home that is a reflection of their success in life and allows them to fulfill their dreams. Since you’ve gotten to know your buyers, you should have no problem reiterating how the home meets their desires.

Tip! Help your buyers focus on the home rather than the purchase.

Provide an Antidote for Buyer’s Remorse

Dave Jenks, vice president of research and development at KWRI, advocates taking a direct approach and has a script he shares with the agents he coaches.



“I’m going to help build up your immune system and give you an antidote for a common affliction at this point in the home-buying process—it’s called buyer’s remorse.”

Let your buyers know about things that will trigger buyer’s remorse:

- News reports that make them absolutely sure they have made the worst decision of their life
- Friends who tell them they are nuts for buying a home now
- Well-meaning family members or friends who say, “You paid THAT MUCH for your house?”

What You Do

Prior to making an offer, we have discussed the need for a CMA. Use this research to let your buyers know what the property will most likely sell for. Let them know that the CMA is considered an industry standard for determining fair market value. When your buyers have data to show they are paying a fair price, they won't have so many worries about paying too much. Mel Gentry, of The Gentry Group in Austin, Texas, reminds us to use recent data for the market analysis, especially when prices are shifting.

Once the offer is accepted, have a celebration with the buyers to anchor the decision. Dave Jenks refers to it as marking the moment of victory. Moments of victory are memorable. Once you've had a moment of victory, it is hard to reverse the decision. In this victorious celebration you confirm all of the reasons why purchasing this home now is a good decision.

Your celebration could be over a cup of coffee or it could be with a glass of champagne. Choose something that appeals to your buyers. There are a couple of things you can say right away to help "lock" the decision.


Script!

"You know, this is a great buy!"

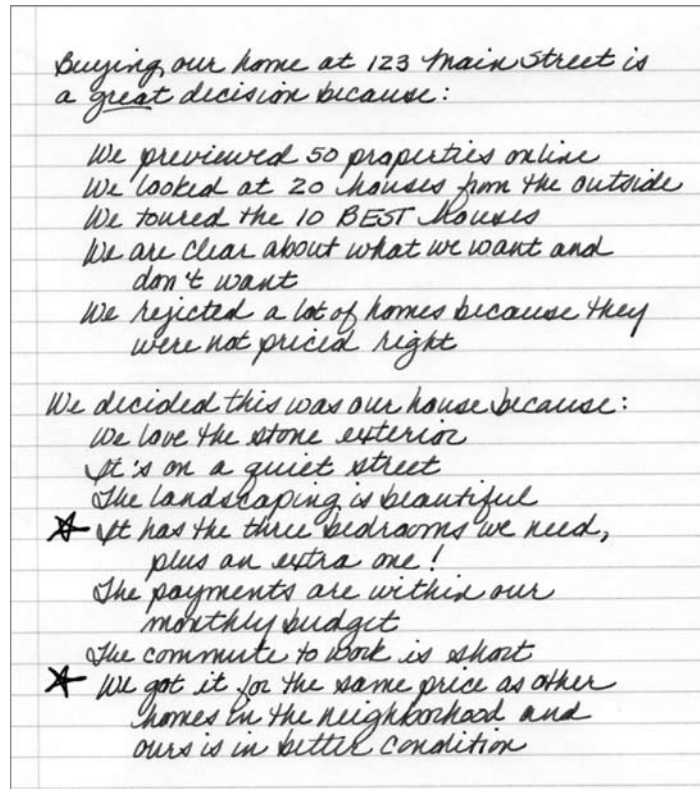
"Nice job. This is a great decision!"

Tip!

- Give this moment your full attention.
- Have good eye contact.
- A reassuring pat on the arm, handshake, hug, or high five can reinforce the moment, when done sincerely.

Next, document their great decision by writing it on paper. To control the interaction, you'll write everything down. First, document how thoroughly you considered everything on the market, and then record why this house is THE ONE. If your buyers don't come up with reasons right away, you can start things off. When they come up with a reason why it's a great buy, put a star next to it.

Here's an example of what you might write during your conversation.



Dave suggests having your buyers sign the paper and date it.



“Sign this. I want you to remember why this is such a great day for you, how much work you’ve done, and what a good decision you’ve made.”

Make copies for each person. Tell them to keep it with them and advise them on what to do if they hear any of those scary things that make them doubt their decision.



“I want you to keep this with you and read it daily. If you have any moments of doubt, take two aspirin or eat some chocolate, read it again, and call me in the morning.”

“You have to constantly resell buyers on their decision.”

MARTIN BOUMA
ANN ARBOR, MICHIGAN

Remind your buyers that thanks to the research you conducted together, they know more about their real estate market than their well-meaning family and friends (especially those in other markets). Reassure them that they made a good decision.

Seller's Remorse

Although we don't hear about it as much, sellers can change their minds too. A neighbor might say, "You sold your house for THAT LITTLE?" Similar to buyers, there are remorse remedies for sellers.

- Review the CMA you did to help price the house, or do a new one. Include houses that are pending, inventory in the same price range, and how long those houses have been on the market.
- Remind your sellers of whatever is motivating them to move (e.g., "Would you rather continue with your hour and a half commute to the office?").
- Remind them of the good things about their new destination (e.g., "Aren't you anxious to get into a new house with the additional bedrooms you need?").
- Discuss the risks, including time commitment and cost of starting over. You can bring up the cost of making payments on their house when the money could be going to the next property or some other investment (depending on their plans).

Martin Bouma knows that sellers in his tough Ann Arbor, Michigan, market are selling at bottom prices. Martin says he used to react to low offers, but has learned to sit back and listen to his sellers vent their frustrations. What Martin has learned is that venting is necessary and sellers won't listen to you until they've had time to express themselves.

Close as Soon as Possible

A final thing you can do to decrease the opportunity for buyers or sellers to change their minds is to encourage the earliest possible closing date, especially when prices are dropping. Buyers and sellers will have less time to second-guess themselves and listen to "advice" from others. Some agents have been known to offer cash incentives to anyone who closes early.

2. Early Response

Even though you have been proactive and you have communicated with all of the key players religiously, problems can happen along the path. Remember these four points to help keep on track when the deal gets into trouble.

1. Constant Communication

Keep your communication with the key players open and frequent. Ask, “What’s happening?” “How are you doing?”

2. Inspecting Expectations

Keep your eyes on the details to resolve issues. Ask, “Has it been done?” “What will you do now?”

3. Problem Solving

Find solutions for issues that provide a win-win outcome. Ask, “What do we need to do now?” “How can this get done?”

4. Contract-to-Close Tracking

Keep your Contract-to-Close checklist up to date. Follow up with key players to ensure that there is timely progress. Ask, “What is our progress?” “What’s next?”

Stay focused, keep in communication, problem solve, and track your progress to close. If you do, your deals have a much greater chance of closing.

Bulletproofing Strategies Summary

Issue: Buyers get cold feet

Solutions

- Warn your customers that some people get buyer's remorse. Reassure them that they made a good decision and help them list the reasons why they made the decision.
- Mark the decision to buy as a moment of victory and celebrate it.
- Create a document that the buyer signs that lists the research that was done and the reasons that this purchase is a good one.

Issue: Buyers change their minds after talking with family or friends

Solutions



Handling Buyer's Remorse

What works when your buyers change their minds about buying a house?

Notes

The Bottom Line

In a challenging market where there are fewer transactions, you need to spend more time with your customers, project managing the contract-to-close phase. Deals can fall apart there after you've invested your time and money in the customer.

In a challenging market you need to take action to keep deals together:

1. Communicate more frequently with all of the key players. Make sure communications are clear and expectations are set correctly.
2. Spend more time with your customers. Help them know what to expect as they move toward closing.
3. Handle or closely oversee the contract-to-close process. Stay in touch with all key players and communicate often. Use the Contract-to-Close checklist to ensure everything gets done on time.
4. Anticipate problems and take preventative action to avoid them. Have a preinspection completed and a title search done early in the contract-to-close process. You'll have more time to solve issues.
5. Understand the mindset of buyers and sellers. Know what they are likely feeling during the process and keep them on track with reassurance and proactive steps to avert problems.
6. Problem-solve and look for creative solutions.
7. Never give up.

With fewer transactions than you are accustomed to having, you can't afford to let them fall apart.

Productivity Boosters

◆ **Help Buyers Understand the Process**

The Buyer's Guide included in the ProManage Marketing Library and as part of TOP PRODUCER includes The Home Buying Process, a simple overview of the steps in purchasing a new home. (Page 13)

◆ **Don't Forget Closing Details**

The closing manager of ProManage/TOP PRODUCER includes a checklist of important items that reminds agents daily of important deadlines. Each closing file includes quick and easy access to the names and contact information of lenders, inspectors, and other professionals related to the closing. (Page 36)

◆ **Communicate with Your Customers**

ProManage/TOP PRODUCER includes a private customer website for each closing file that allows your buyer or seller to track activities that are completed during the closing period. Customers love the real time information and it saves time for the agent by not having to prepare additional written reports. (Page 39)

“Every single transaction is treated like a diamond.”

*MARTIN BOUMA
ANN ARBOR, MICHIGAN*

It's up to you to bulletproof the transaction!

Scripts

Buyer's Remorse

- AGENT:** I'm going to help build up your immune system and give you an antidote for a common affliction at this point in the home-buying process—it's called buyer's remorse.
- AGENT:** You know, this is a great buy!
- AGENT:** Nice job. This is a great decision!
- AGENT:** Sign this. I want you to remember why this is such a great day for you, how much work you've done, and what a good decision you've made.
- AGENT:** I want you to keep this with you and read it daily. If you have any moments of doubt, take two aspirin or eat some chocolate, read it again, and call me in the morning.

Inspection and Repair

- AGENT:** *Mr./Ms. Seller*, here's something I just want us to be ready for. We know there were some issues people saw when they went through the house.

Mention specific things.

The inspector is going to pick those things up and it's possible that a buyer is going to come back and ask us to take care of some of that stuff. Here's what I want you to keep in mind. It could be \$1,000. It could be \$2,000 and I know that you're in no mood to give in any further. I know that. And I absolutely understand you have brought the price down. This is a great deal. You've done all of the right things. And here's the one thing that I want you to keep in mind, that's likely to happen and you'll have to decide. If you walk away from the deal over a few hundred or a few thousand dollars, essentially what you're doing is buying the property back at the price you had sold it for, hoping to make a little more money. Will you buy the house back over \$1,000? That's the question we have to ask. Are you willing to buy it back, hoping you can get more in a short enough period of time that it's worth doing, or do you want to make sure this deal stays together?

Inspection and Repair (continued)

AGENT: *Mr./Ms. Seller*, an option you can consider to give us an advantage is to have your home inspected yourself—before listing it. Worst case, you will know what you absolutely must address before you list. Best case, you’ll have a document that shows buyers what great condition your property is in. Even if you have to do repairs, you can document what you’ve done and add them to the inspector’s report as addenda and include the documents in the home information book when you go on the market.

AGENT: Okay, *Mr./Ms. Buyer*, we’re going to go do the inspection. The inspection will undoubtedly uncover minor things—they always do. They’ll be things that are true of any house that’s a few years old, like this one. The thing to remain focused on is, are there any major or substantive issues that we did not notice ourselves? I always encourage customers up front to keep focused on the big, functional, or value-driven items; not leaky faucets, a gutter that needs replacement, or a small amount of easily repaired dry rot.

Here’s the thing we both need to understand: they are way below what they intended to sell the home for. You know how reluctant they were to agree to the price we offered. And we looked around the market, and this is a great price. The question we just have to ask ourselves, and I’m not telling you not to do it, but if we go back with any kind of request for substantial repairs, my question is, “Are you willing to lose the home for that \$500, or \$1,000, or \$2,000?”

AGENT: I’ll pick up one-third of that.

AGENT: Let me help with the cost of that repair.

Funding

AGENT: Just to protect ourselves, and to be sure that we don’t get to that closing table and find out we can’t deliver on our responsibilities on the contract, and the negative repercussions that would come from that; let’s get backup funding with a parallel application at a mortgage company that I absolutely know will deliver for us. We can use your friend’s company, but my mortgage specialist is willing to do a parallel application for you at no cost to you unless you use them. They’ll take an application all the way through to approval with no fees, no anything, unless it’s used. That’s going to be a great reassurance, isn’t it?

My Action Plan

Don't put away this training guide without developing a plan to put what you have learned into action!

Review the key "challenges" listed below and assess your current ability to meet each challenge on a scale of 1–5.

1 = "I have no experience with this."

2 = "I am not very good at this."

3 = "I am pretty good at this."

4 = "I am confident with this."

5 = "I am an expert at this."

For any rating of 3 or below, write down the action steps you will take to increase your understanding, build your skills, develop your confidence, see greater results, and take home more money!

Challenge	Rating	Action Steps
1. I mark the moment of victory when buyers sign a contract.		
2. I am effective at handling buyer's remorse.		
3. Very few of my deals fall through because of buyer's remorse.		
4. My sellers rarely back out of contracts.		
5. I am effective at helping first-time buyers understand the inspection process.		
6. I am effective at counseling buyers to be within the norm (for my market) when making repair requests.		
7. I work effectively with other agents to negotiate repairs.		

Challenge	Rating	Action Steps
8. I am effective at convincing my sellers to make appropriate repairs.		
9. I effectively educate my buyers and sellers about the inspection-and-repair process.		
10. I make sure my sellers have a home warranty.		
11. My buyers never do things to jeopardize their financial standing.		
12. I get a backup preapproval any time there is a question about the buyer's financing.		
13. I have weekly communication with the lender.		
14. My transactions do not fall apart due to financing.		
15. I am an expert at property values.		
16. My buyers' houses appraise.		
17. I have a good relationship with appraisers in my area.		
18. I maintain good and frequent communication with all pertinent parties.		
19. I always know early in the process if the seller is in a short sale situation.		
20. I stay on top of all the details in the contract-to-close process.		
21. Once a contract is signed, almost all of my transactions close.		