

# 10

## steps to buying property

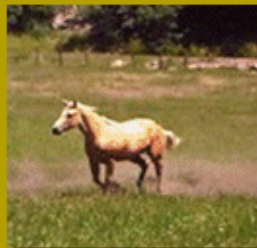
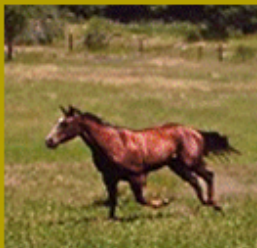


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**e-mail me now!**



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## 10 Steps to Buying Property

### 1. Establish your criteria

As with most things in life it's best to start with the end in mind. We can all visualize our ideal property so the first step is to put it in writing. In order to start your buying process you will want to prepare a couple of lists.

One list will include the "must haves". This could be from number of bedrooms and bathrooms to minimum number of acres or distance from Durango, Bayfield, etc.

The next list should be a "wish list". These will not be your "must have" criteria but elements you would like to have if possible. Examples could be waterfront, paved access, shop area, etc.

The final list should include "absolutely do not want". You might include things like no mobile or modular homes, no gas wells, no covenants, etc.

Also, be sure to keep in mind special needs. For instance large pieces of furniture (i.e. grand piano), need a formal dining room for heirloom dining room suite, room for RV parking and the likes.

There is also the option of building. Your search may include looking for vacant land. You will want to consider this option very carefully as it raises many questions that differ from those of purchasing a property with existing improvements.

Since you are considering property in our area it is important for you to be aware that only about 25% of the land in La Plata County is privately owned. The remainder is public land. This affects you as a buyer since it automatically establishes a defined supply and demand relationship. We have less listing inventory which can make it challenging to fulfill your "must have" criteria. I strongly recommend that you prioritize both your "must have" and "wish list" criteria. When looking for property you may find it necessary to compromise on your original lists.

### 2. Establish your Budget

Establishing your budget is as important as developing your criteria lists. And frequently one has a direct impact on the other especially if you are moving into our area from a part of the country where you have a lower median price. Your budget is very personal, you may be downsizing, upsizing or everything in between however it is also quantifiable. This is where the importance of pre-qualification or pre-approval comes into play. Either of these can help you determine your budget but choosing the pre-approval option, although more time consuming, will establish you as a credible buyer when it comes to writing an offer and negotiating a contract.



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Applying for a loan and obtaining approval before looking at properties can be a distinct advantage. Completing a loan application is necessary eventually unless you are planning to pay cash for the property.

Pre-qualification is a procedure where you get an opinion from a lender as to the payments and price you qualify for. In the process, any obvious difficulties that may cause problems can be discovered. This process is always recommended but it doesn't have the advantages of a pre-approval.

Pre-approval requires a complete application with credit reports and verifications. The lender will issue a commitment subject to a specific interest rate and points and a satisfactory appraisal when the property is identified.

Time limits are typically placed on pre-approval commitments. It is recommended you are ready to look at homes and make a decision after you receive your pre-approval commitment.

The advantages of being pre-approved are:

- Looking at the right-priced homes.
- Avoiding disappointment in deciding on a home that you can't afford.
- Saving money with a seller who is confident about taking their home off the market with buyers who have a definite loan commitment.
- One less contingency that the seller will be concerned with to get their home sold.
- Closing more quickly by eliminating the lengthiest contingency of mortgage approval. Also, the appraisal can be done relatively quickly.
- Minimizing the anxiety of not knowing whether or not you qualify.

*Note: Do not make any significant purchases or changes in your financial status during this period as it could jeopardize your ability to receive final loan approval.*

Again, if you are considering the purchase of vacant land in order to build, keep in mind lenders typically require a 25-30% down payment based on the purchase price of the land. As a rule the interest rates are higher and have either a balloon payment or a shorter amortization schedule.

### **3. Area and Market Research**

Now that you have your list of criteria and your budget the next step is to research the areas of the county and neighborhoods that interest you. With the help of the internet you can do quite a bit of research from your computer. You will be able to view the active properties on the market in your price range. This is an excellent way to get a "feel" for the market. This also allows you to have a good sense of market pricing even before you begin to look at properties. We can help with additional information by supplying recent sales and statistical history.



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To help with your search we can enter your criteria into an automatic notification service. This program will immediately alert you, via e-mail, of any new properties that enter the market. If you do not live in the area this can be a particularly valuable tool to help you stay on top of the local market.

#### **4. Buyer Representation**

In the State of Colorado, buyers may be represented by real estate brokers in two different ways either as a Buyer's Agent or a Transaction-Broker. Transaction-Brokerage is the default form of representation if the buyer has not made a decision (click here for Brokerage Disclosure.)

We strongly recommend a Buyer Agency relationship as this enables your broker to act as your "advocate" during the sales process whereas a Transaction-Broker acts as a "facilitator" between the Buyer and Seller. Buyer Agency does require the buyer and the broker to enter into a contractual agreement (click here for Buyer Agency Agreement.)

#### **AS A PROSPECTIVE BUYER YOU SHOULD KNOW THAT:**

- Listing brokers are usually agents of the seller
- Their fiduciary duties of loyalty and faithfulness are owed to their client (the seller)
- Although not your agent, the listing agent is able to provide you with a variety of valuable market information
- A buyer and a broker may enter into an exclusive buyer-broker relationship, where the broker represents the buyer and has no relationship whatsoever with the seller or the seller's agent, and the buyer broker's commission can be paid from the seller's net proceeds from the sale

#### **5. Home Search**

We have a somewhat unique situation in La Plata County. With a population base of a little over 40,000 and only about 25% of the land privately owned (the balance is public land) we have a somewhat predetermined supply and demand curve. This affects you as a buyer by possibly limiting the number of properties available for your consideration. The keys to finding the right property are often your willingness to be flexible and prepared to make compromises.



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Now that you have your criteria list, pre-qualification letter, are armed with market research and have selected your broker representation it's time to actually look at properties. This is when we like to conduct a very thorough interview. Be prepared to discuss your "must haves, would like to have and don't wants". You may have a list of 10 "must haves" but, because we are a small market, it may be necessary to compromise on some of these and be happy if we find 4-6 out of the 10. Also don't be surprised if something completely unexpected pops up during our search and jumps to the top of the list (i.e. views, live water, etc.)

Our interview may be accomplished either in person, if you live in the Durango area, or over the phone if you. We will go over your list of criteria and ask detailed questions. As an example, if you mention that you want a large lot or small acreage, we will ask you what large means to you. Is it one acre or three acres. This helps us when we are helping you locate properties.

If you live out of town, we will develop a list of prospective properties for your consideration. We can forward these by e-mail or ground mail per your preference. Our goal is to begin compiling our short list of properties. Next we will coordinate our schedules for your trip to our area. It is best to have several days notice in order to schedule showings with sellers. We will continue to monitor the market in case anything new is listed that we might want to include. Also, we will want to know if this is a fact finding trip or a buying trip. If it is a buying trip, be sure to bring your checkbook as earnest money must accompany all offers.

If you live in the area, we can certainly communicate via e-mail, but initially it is a good idea to meet in our office. We can then enter your criteria into our MLS system and review the listings together. From there we will create our "short list" and decide when we want to look at properties. The benefit of being local is the ability to look at a new listing immediately once it enters the market.

## **6. Writing the Offer**

We have found the property you wish to purchase now it's time to write the offer (click here for purchase agreement.) We can help you with comparable information on recent sales and listings. Plus your experience of actually looking at properties will help guide you with your offer price.

In Colorado, we use contract forms approved by the Colorado Real Estate Commission. When the offer is accepted by the buyer and seller, it becomes a legal contract. The following is required when filling out the purchase agreement.

**Taking Title:** How your name will appear on the title to the property you decide to purchase. If you wish to take title as tenants in common, joint tenancy or something else.



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**The Amount of Earnest Money Deposit:** Earnest money is required in Colorado to make a binding contract. Generally, the amount is negotiable; however, the amount requested by the Seller will be listed in the MLS information. A personal check will be acceptable. The earnest money will not be deposited until both buyer and seller have accepted the offer.

**Your Offer Price:** Following the offering price are statements concerning your loan arrangements and your agreement to pay for an appraisal of the home.

**Inclusions/Exclusions:** Items to be included with and/or excluded from the property.

**Title Insurance:** In Colorado, this item is normally paid for by the seller; although most lenders will require the Buyer to pay for the Title endorsement to protect the lender's security.

**Date for Closing:** If you will be using equity from the sale of your current home, the closing dates of each transaction can easily be set to coordinate with each other. In some states, equity is not always available at the time of closing, but follows by a few days. Check with your listing broker or attorney to determine when your equity will be available. Other factors affecting the closing date are the length of time the lender needs to approve your loan, and the date the seller agrees to give possession. Remember that Colorado is a table funding state which means that certified funds must be delivered and available on the day of closing.

**Date of Possession:** Although the possession date is a negotiable item between you and the seller, during the offer and acceptance stages of the contract it is customary for possession to be delivered on the day of closing, once funds have been delivered.

**Signatures:** In Colorado, an offer and acceptance must be signed by ALL parties.

Once an offer has been made, the seller has three options:

- Accept the offer as written
- Reject the offer outright
- Reject the offer and make a counter offer with different conditions, terms and amounts

Should the seller make a counter offer, the buyer then has the same three options.

When all parties agree on the terms of a contract, have initialed all changes, and have signed the agreement, the contract is then in full force and binding upon all parties to the agreement subject to any contingencies. Possible contingencies include loan approval, inspections, sale of another property, and delivery of pertinent documents. Specific time limits are set for each contingency in the contract. However, a Seller may negotiate with anyone at anytime until a contract is signed by both parties.

## 7. Earnest Money

So you will not be placed in an uncomfortable position when you purchase a home in the area, an understanding of the earnest money deposit is of the utmost importance.

At the time a written offer on the property is initiated, you will generally be required by the seller to include a personal check, cashier's check, or cash. The earnest money is not deposited until both parties have signed the contract. Once deposited it will be kept in a trust account of the real estate company handling the listing and not turned over to the seller. This money represents your sincerity in the attempt to purchase and is totally refundable if the offer is not accepted or if some condition in the contract is not satisfied (example: financing is not approved). The deposit applies in full toward the purchase price at closing if the offer is accepted and all conditions are satisfied. In the event of a buyer defaulting on the contract, it is the earnest money that is typically at jeopardy of being forfeited.

## 8. Inspections

The Colorado purchase agreement includes a standard paragraph for inspection contingencies. Under the inspection clause a buyer may notify the seller, on or before the Inspection Objection Deadline, that they either wish to terminate the contract or request the seller to make some corrections to the property.

Once the property is under contract you will want to schedule your inspections. This can range from a general home inspection to water well testing (both quantity and quality), septic inspection, radon, mold, etc. These inspections are paid by the buyer. When you receive the results of these tests you will then determine if there are any issues that you wish to address with the seller. All homes have minor defaults and it is best to ignore these and only address the major problems that the inspection has brought to light.

Should you wish the seller to address a major problem we will notify them in writing. They have the option of agreeing to, countering or rejecting your request. This can also open up other aspects of the contract for re-negotiation. The seller may not have the time, money or desire to correct the default and may instead reduce the purchase price accordingly. There are numerous alternatives for this situation.

## 9. Settlement Statement & Pre Closing

Several days prior to closing the Title Company will prepare a Settlement Statement itemizing all of the closing costs (excluding lender's closing costs.) This will include prorations for taxes, homeowner's association dues, title company closing cost, etc. It will also outline the amount of funds you must bring to closing over and above the loan amount. This payment must be made with "good funds". This means in the form of a cashier's check, certified funds, cash and wire transfers. A personal check is not an acceptable form of "good funds".



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You will also want to contact all service providers (utility companies, telephone, property insurance, etc.) to set up accounts in your name.

### **10. Closing**

This is the day we have all been working towards. It is not necessary for you to physically attend closing. But if you are not planning on being present advance notice and provisions must be made in order that all documents are signed and notarized in advance and have been received by the Title Company.

As the buyer, you will have a majority of the paper work to sign especially if you are financing the property. Sometimes your lender will be present to handle the loan closing or they may commission the Title Company to handle this. Be sure to bring your driver's license with you as they will require identification.

Congratulations on your new property!