



Incentives.

Both buyers and sellers can take advantage of transaction incentives.

Interest rates are rising, more homes are on the market and median prices remain stable at near-record highs. What options are left if you are a first-time buyer or are trading up? Or, if you are selling your home, are you having a difficult time making your home more financially attractive than the competition? If you are a buyer or seller, there are a handful of transaction incentives that can help you buy or sell your home.

Don't fool yourself to think that a well-priced home that is effectively marketed isn't important. Properties that are perceived to be well-priced are selling quickly. Pricing and marketing is what your Realtor[®] does for you among many other important things (negotiating, disclosures, staging, etc.). When you are buying, your agent can advise you when a property is truly a good deal. So, other than price, what can you offer or negotiate that will be a benefit for you as a buyer or seller?

One is to have the seller pay for all or a portion of the closing costs. Generally there are three kinds of closing costs: non-recurring closing costs, such as escrow fees, title insurance, appraisal, etc.; pre-paid items such as interest paid on new loans, prorated property taxes, insurance, etc.; and points or temporary buy-downs.

Non-Recurring Closing Costs (NRCCs) are typically not deductible as an expense in the year that one purchases their primary residence (check with your tax advisor for your



specific situation). In the greater Bay Area these costs can easily range from \$5,000 to \$10,000 or more. Buyers are often using a significant portion of their capital to buy a property. The trade-off of not negotiating on price, but on the cost of the transaction, is a better end-result for a buyer. As a buyer, it would be more financially attractive to receive a credit of \$10,000 from the seller toward my closing costs than a \$10,000 reduction in price. Lenders will typically allow the seller to contribute toward NRCCs, pre-paid closing costs and points or temporary buy-downs

Points are a fee paid at the establishment of the loan and are a percentage of the loan amount. For example, one point equals 1% of the loan amount, or \$5,000 on a \$500,000 loan. The relationship between points and interest rate is that your interest rate will be lower if you pay points. There are two general advantages of paying points. If you have the property and loan long enough to recoup the upfront cost of the points, you will pay less in interest for the remainder of the loan. The general problem is that buyers often are using most of their cash for a down payment and other closing costs which means they may not have the cash available to pay for points. Additionally, the typical advantage in paying points when purchasing a principal residence is that they can be a deduction for income tax purposes, along with interest and property tax payments, in the year they are paid. Depending on how long someone plans to be in a property, and certainly in a rising interest rate environment, a seller paying points to lower the buyer's interest rate is a great incentive.

Temporary buy-downs are similar to points but are for a shorter period of time. That is, paying points on a 30-year fixed loan will lower the interest rate for the entire 30 years. By paying the same dollar amount as you would for points, you can purchase a



temporary buy-down that will significantly lower the rate and payment for the first two years of the loan. Thereafter the interest rate and payment will increase to the original interest rate. Today, a temporary buy-down is an excellent tool to help buyers qualify for loans. It is important to have your mortgage advisor help you in evaluating the best solution for your specific financial situation in comparing temporary buy-downs and points.

The moral of the story? Whether you are buying or selling, there can be financial benefits to offer or request other than price. And the value to the buyer can be greater than the cost to the seller. It's a lot of money. Be wise.