

## 8 ways to sweeten the deal on your home

**Offering freebies with your house is almost a requirement in today's market. But forget the Final Four tickets. Buyers want you to help reduce the initial hit to their wallet should they buy your house.**

By Karen Aho



Your house has been on the market for months. The for-sale sign, spattered with mud, has tilted over in surrender. As you go to straighten it, you trip over the morning newspaper, and, presumably, your answer: Inside is a story about a home that sold quickly after owners tossed in Hannah Montana concert tickets.

So, do you race inside to see what snazzy perks you can get hold of? A friend with ballgame tickets? A relative with a time share? Your old Harley? Is the age-old marketing ploy -- the incentive -- a home seller's sure-fire solution in this dismal buyer's market? The answer is yes ... and no.

Incentives help. Some say they're even necessary these days. But not all incentives boost the prospects for a sale, and the options for which ones actually do have shrunk. The free balloon ride? That's probably out. Six months of heating oil and half the closing costs? Those are in.

To understand what works and why, first consider what's happening in the housing market now.

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**1. There are more homes for sale than there are people buying.** Home sales declined 23.4% from January 2007 to January 2008, according to the [National Association of Realtors](#). Sales slowed most in the Western region, with a decline of 28.5%.

The slide has continued month-over-month this year, even as prices continue to fall, and [The National Association of Home Builders](#) reports a 10-month supply of new homes on the market, compared with a 4.5 month supply in 2005. Turn on any news show and the pundits are summing it up: Home buyers remain wary.

**2. Sellers are turning to incentives.** In February, 55% of builders surveyed by the NAHB said they were adding optional items at no charge, compared with 37% in 2002. And 43% said in February that they were paying all or some of the buyers' closing costs.

Jessie Beaudoin, a mortgage broker with [American Financial Network](#), says that he can't track incentives precisely but that in California he sees 60% to 70% of sellers now paying some of the buyer's costs. "The lenders and the real-estate community are encouraging this," he says. "Nobody right now expects to pay full price for any property."

Most bank foreclosure homes and corporate relocation houses are also offering financial incentives, says Ron Phipps, a Rhode Island broker.

**3. Buyers need to put cash down.** Lenders have reined in those fully financed loans that helped trigger the mortgage collapse. Banks now demand not only better evidence that buyers can make the monthly payments but also that they have a financial stake in the property from the outset through bigger down payments.

In 1989, the median down payment was 20%, says the NAR, and mortgage brokers have reported that institutions are inching back toward such heftier requirements.

Even buyers who qualify for a low 3% down payment with an FHA loan still need to come up with closing costs, which add another 3% to 6% of the home's price.

4. **Many home buyers are first-time buyers.** Without home equity to tap into, first-time buyers often have difficulty securing a large amount of cash. "First-time buyers can handle the monthly payments; it's coming up with the down payment and closing costs that's hard," says Walter Molony of the NAR.

First-time buyers comprise nearly 40% of the market, he says. Of those, 22% receive a gift from a friend or relative to cover some or all of those costs, and 7% use a personal loan.

### **Forget the gimmicks**

Add these four factors, say the experts, and you get a strong case for offering prospective buyers financial incentives. But forget about the Final Four tickets. Instead, help soften the financial blow associated with a new home.

"That's the time when (buyers) have the least amount of money in their pockets," says Stephen Melman, director of the NAHB's economic services. "They're buying. They're going to closing. They might have moving costs. They're going to have to buy furniture. Anything that helps their cash flow is going to be great."

It's more true now than in recent years, say brokers.

Phipps, a broker with [Phipps Realty](#) in Rhode Island, has been offering creative incentives for years. Goods or services associated with the house – a trip to wine country to stock the new cellar, for instance – have always piqued interest. But today's buyers are savvy, he says. They're analyzing price data and aren't distracted "by things that seem like gimmicks."

"Awhile ago (the incentives) were fun, but the nature of the real estate market is more serious now," Phipps says. "Buyers react to those incentives or encouragements that impact their bottom line."

Here are some ways to offer financial incentives:

### **Pay closing costs**

Closing costs include title, application and attorneys fees, and points paid toward the loan's interest rate. They typically range from 3% to 5% of a home's cost. The median price of a home sold in the United States in January was \$201,100, according to the NAR. That means typical closing costs start at \$6,000.

On a conforming loan, sellers can pay up to that 3%, and up to 6% if the buyer is using FHA financing, says Beaudoin. He says it is the most popular incentive today.

"There's definitely a trend for sellers to pay all or most of the closing costs for the buyers," he says. "It has a much bigger impact than dropping the price."

Why? Because the home price will be spread out over the life of the loan. Closing costs are due now.

"It's much easier to pay \$30 dollars a month than it is to save \$6,000," he says. (If you save \$30 a month it would take 16.6 years, excluding interest, to amass \$6,000.)

Home builders rate closing-cost assistance as more effective than adding optional items or reducing the sales price, says the NAHB.

### **Buy down the mortgage interest rate**

Instead of knocking down the price, a seller can give money to the lender to go toward the buyer's interest payments for a certain amount of time, usually one to three years.

Here is a rough example from one of Phipps' clients:

Rather than taking \$5,000 off the price, the seller gave it to the buyer's bank, where the buyer had a \$200,000 loan. The bank used the \$5,000 to buy 2 percentage points of the interest payments for the first 12 months and 1 percentage point the second 12 months.

This reduced the buyer's monthly mortgage payments from about \$1,400 to \$1,100 the first year and to \$1,300 the second year. Given that the buyer had been paying \$1,200 in rent previously, it eased the transition into the higher mortgage payments.

"We are using the buy downs for the first-time homeowners more than anything," Phipps says.

### **Pay toward the down payment**

Lenders won't allow sellers to fund a down payment directly, but they do allow you to help via special down-payment assistance programs as long as those entities do not have a direct interest in the sale of the property. These include government programs, or nonprofit groups such as the [Nehemiah Corporation of America](#), the [Housing Action Resource Trust](#) and [Partners in Charity](#). (The U.S. Department of Housing and Urban Development maintains a list of down payment programs whose [nonprofit status has been revoked](#).)

Nehemiah, the largest of the charitable groups, has provided down-payment assistance to more than 250,000 home buyers nationally in the past decade. This is how it works: Nehemiah contributes up to 6% of a home's price for a qualified buyer's down payment. The seller later reimburses Nehemiah to replenish its account for other buyers. The buyer can get help from Nehemiah only if the seller agrees to repay the program, so the seller wins, the buyer wins and Nehemiah gains funds to help future home buyers.

For FHA loans, which require only a 3% down payment, a seller could essentially offer 100% financing by working with a program such as Nehemiah, Beaudoin says.

### **Buy a warranty**

This is a great incentive, say real-estate agents. It typically costs the seller just \$400 to \$500 and gives the buyer peace of mind that any mechanical or electrical repairs will be covered, minus a small deductible, in the first year. Sellers can add riders for other items, such as wells, spas or washer-dryers.

"Particularly for first-time home buyers, it really is a way for them to control or limit any unforeseen repairs," Phipps says.

Ask your real-estate agent what companies they like to work with. Also, the home warranties don't go into effect until after the sale, so you can prepare. A list of home-warranty companies by state is available [here](#).

### **Prepay some first-year expenses**

Buyers who might have exhausted their savings and entered into steep monthly payments may feel great relief knowing other costs have been prepaid for six months or a year. These could include:

- Homeowners association dues
- Taxes
- Utility payments
- Lawn maintenance costs
- Housekeeping payments.

### **Offer owner financing**

In this scenario, the seller essentially offers to act as a bank and can set the terms of payment. This is clearly for those sellers who don't need the cash immediately. It is risky, agents say. "The other incentives are one-time fees; this is a long-term relationship," Phipps says.

Sellers should not only check the buyer's credit risk, but also make sure the buyer is financially invested in the house from the outset, through a decent down payment.

"You want to make sure you have good professional advice from your Realtor and your lawyer as to what that means, and what the recourse is if the mortgage isn't paid," Phipps says. "And a pre-approval letter for financing doesn't necessarily mean that you don't want to do due diligence."

### **Reward your broker**

If you're in a hurry, you can always offer perks to your sales broker. This can include a higher commission or a gift. Human nature being what it is, this may work get the agent to move more buyers through the house. (Read more about people who chose to pay their agents extra.)

### **Nonfinancial incentives**

There's no cap to what you can offer. Just make sure you are upfront and disclose transactions to your lender. Incentives can work as a psychological draw, say experts. But keep them fun and related to the house, Phipps says. For instance, he knows a seller seeking a Smart Car, which is hard to find, to offer with a solar house.

Advertise that the incentive will be offered for a limited time, and if it doesn't work, try something else. Steer clear of politically incorrect items that might offend prospective buyers, such as fur coats or energy-hogging cars.

### **Be wary of paying for inspections or repairs**

It's possible to pay for these if need be, but it's not necessarily a good idea.

A home inspector should represent the buyer. If a buyer pays for the inspection, there's less chance someone could cry foul later. You don't want to be accused of being in cahoots with the inspector simply because you signed the check for his work, Phipps says.

Also, if the seller offers to pay for repairs as a condition of sale, the buyer's lender could require that the work be completed prior to funding, potentially stalling the sale.

"It creates a hiccup in the transaction," Beaudoin says. "Instead, what lenders will suggest is that the seller apply that money

toward the closing costs. You can proceed and no work needs to be completed before the close."

### Stay aboveboard

No matter what kind of incentive you ultimately offer, keep in mind that you'll need to be upfront about the details with all interested parties.

"Any kind of credit that the seller agrees to is ultimately subject to approval, or is limited, by the buyer's lender," says Kenneth Russo, a real-estate lawyer with LaPlante Sowa Goldman, in Rhode Island. Both parties must disclose any transactions made as part of the process.

Real-estate transactions are governed under the federal Real Estate Settlement Procedures Act. Violators can be subject to charges of felony fraud, says Russo.

Also, check with the state's business regulatory office to ensure that incentives are legal in your area. Spell out their value clearly, and have a lawyer review the agreement.

With those caveats in mind, offer incentives. They can send a strong message to buyers that you are willing to negotiate, says Gary Painter, an associate professor at the University of Southern California and research director of the Lusk Center for Real Estate.

"In some cases, buyers prefer incentives over lower prices," Painter says. Just calculate the exact value, "and make it clear."

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