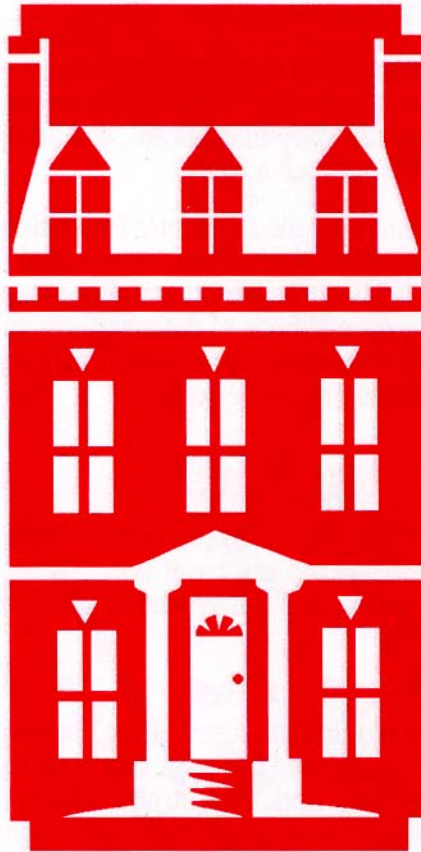


Buying A Home:



What Buyers and Sellers Need to Know About Real Estate Agents



American Association of Retired Persons &
Consumer Federation of America

Nearly all home buyers and sellers use the services of real estate agents. Each year they pay these agents more than \$20 billion in commissions.

But research shows that most consumers understand little about whom their agents represent, how negotiable commissions are, and alternative ways to buy and sell a house.

A recent study by the Consumer Federation of America revealed that if home buyers and sellers knew more about the services of real estate agents, they could save billions of dollars a year and obtain better value for these services. This pamphlet explains how to do both.

Real Estate Agents

To obtain higher quality services from real estate agents at a lower price, it is essential to understand the system in which they work.

Whom They Represent:

State laws require that agents treat both buyers and sellers fairly and honestly. But most agents, even those who work with buyers, legally represent the interests of sellers only. In the typical home sale there are two agents. The one working with the seller is called the listing agent (or broker), and the one working with the buyer is called the selling agent (or broker). But both agents often are paid by sellers and are legally obligated to represent their interests. This is because many selling brokers work as sub-agents for listing brokers.

While many agents represent only the interests of sellers, a small but growing number represent only buyers. These agents are called buyer brokers.

Because many agents who work with buyers have been criticized for representing the interests of sellers, some of these agents have begun calling themselves dual agents. They claim to represent the interests of both the buyer and the seller.

What They Charge:

In all home sales, sellers agree to pay a listing broker a commission. In most areas, this commission is usually 6% to 7% of the sale price of the home. It is shared with sub-agents and sometimes even with buyer brokers. The typical commission split is 50-50.

Even though the seller appears to pay the entire commission, it is typically incorporated in the sale price of the home, so in reality is paid at least in part by the buyer.

Although most listing agents seek commissions of 6-7%, sellers can employ two strategies to pay less. They can negotiate a lower commission (see below). Or they can employ a discount broker who will charge them a lower commission, perhaps 4% or 5%, but may require them to assist in the sale of a house and may not list the home on a multiple listing service. (An alternative strategy is to try to sell their house themselves.)

How They Sell:

Most homes that are sold are listed on a multiple listing service (or MLS). The MLS is simply a database, listing and describing houses for sale, that is available to most agents. In most areas, there is only one MLS, and it is controlled by a local affiliate of the National Association of Realtors, the trade association for most agents.

The MLS listing includes not only a description of the house, but also a commission (usually 3-3½%) that listing brokers will pay cooperating brokers. Agents working with a prospective buyer scan the listings to find houses that the buyer may be interested in purchasing. They then make arrangements with listing brokers to show the buyer the homes.

If the buyer wishes to purchase a house, the agent with whom they are working submits an offer through the listing broker. If a price is agreed upon, a contract is signed that is usually contingent on the ability of the buyer to obtain financing.

What Sellers Must Know

Home sellers should try to find a competent agent who will work for a reasonable commission. If they want to pay a very low commission, and are under no time pressure to sell their home, they should consider working with a discount broker. Since many of these brokers do not list houses on the MLS or otherwise expose the property to other brokers, they often take longer to find buyers than do brokers who list homes on the MLS.

Sellers who wish to list their home on an MLS usually must work with listing brokers charging higher commissions. But these sellers can negotiate a commission level that is lower than the typical 6-7%. They should look for a broker who is willing to cut the commission by 1-1½ percentage points, and absorb this reduction him/herself. Many listing brokers are willing to do this because, compared to the selling brokers, they often have much less to do — help the seller price the house, list it on the MLS, set up a “lockbox” to allow other agents to show the house, receive purchase offers, and close the sale.

It is important that sellers work with an agent who is competent not just at the paperwork of a home sale, but also at pricing houses. Sellers who need to sell their home quickly, for example, want this price to be reasonable enough to attract prospective buyers.

How does a seller find a competent, hardworking agent? Unfortunately, there is no way to guarantee that one's agent will be competent and highly motivated. But one can take several steps that will increase the chances of employing one who is capable.

Ask friends, relatives, and business associates who have recently bought or sold a home for recommendations. Interview several of these agents. Ask the following questions.

- 1) What experience have you had as an agent?
How many homes have you sold in the last year?

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- 2) Can you give me the names of several former clients?
- 3) Will you work exclusively with sub-agents, or will you also work with buyer brokers? If the latter, are you prepared to split your commission with them or, if they are being paid by the buyer, will you lower your commission accordingly?
- 4) Will you lower your share of a split commission by 1-1½ percentage points? If you find a buyer, will you lower the commission substantially?
- 5) What is the shortest period of time for an exclusive listing that you would require? (As a general rule, sellers should not agree to an exclusive listing of more than three months, though many agents will press for more.)

Many sellers believe that agents should frequently advertise their house and arrange open houses. Many experts believe, however, that ads and open houses rarely sell homes. They are used mainly by agents to find new buyer clients.

Once you have selected an agent, make certain that there is a written agreement that spells out everything that he/she has promised. Keep in mind that any standard form that the agent uses can be modified if he/she agrees to this change.

What Buyers Must Know

Home buyers must select their agents with just as much care as sellers do. The first decision they should make is whether to work with a buyer broker. Buyer brokers will better represent the interests of buyers than will sub-agents. They are more likely, for example, to negotiate a lower sale price on a house.

The one risk of working with a buyer broker is that they will be discriminated against by listing brokers who would rather work with sub-agents. In some areas, this discrimination is not a serious

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problem. But in other areas it is. Listing brokers may not make it easy for buyer brokers to show houses or may not split commissions with them.

Many agents who work with buyers are sub-agents who have full access to multiple listing services and are not discriminated against by listing brokers. But these sub-agents are legally obligated to represent the interests of the seller. This means that you should not disclose to them anything you would not want the seller to know, especially the price you are ultimately prepared to pay for a home. This also means that you will have to take responsibility for negotiating a low price.

Buyers should also remember that the first houses that agents who are not buyer brokers will usually show are those that they have listed. While it is unlikely that this relatively small number of houses will include the buyer's ideal house, there is one advantage in purchasing one of these homes. Since the agent will retain the entire commission, he/she may be more willing to persuade the seller to lower the sale price by offering to cut their commission.

It is especially important that agents who work with buyers be willing to work hard — most importantly, to search an MLS thoroughly for desirable houses and to make timely arrangements to show as many of these properties that buyers wish to see. It is also important that their decisions about which houses to show first not be influenced by the sub-agent commission on the listing. If they think you would like a house carrying a 2% commission better than one with a 4% commission, they must be willing to show you the lower commission house first.

To increase the chance of finding a capable, hard working, and honest agent, buyers should comparison shop. Ask friends, relatives, and business associates who have recently bought or sold a house for recommendations. Interview several of these agents. Make certain at least one is a buyer broker that works exclusively with buyers. Ask the following questions.

- 1) What experience have you had as an agent?
How many homes have you sold in the last year?
- 2) Can you give me the names of several former clients?
- 3) Do you have full access to the area MLS?
- 4) Will you represent my interests or those of the seller?
- 5) Will you inform me which houses you are showing are also listed by you? (Not applicable when interviewing a buyer broker who works exclusively with buyers.)
- 6) Will you make decisions about what homes to show me without any regard for the level of their sub-agent commissions listed on the MLS?
- 7) Will you show me the MLS listings of houses you think would interest me and, if permissible, give me copies of these listings?
- 8) How many homes are you prepared to show me?

When an agent has helped you find a house, he/she may refer you to a mortgage lender, an escrow company, or a title insurance company. Since the agent's firm may have business ties with these companies, compare the prices of their services with those of other lenders, escrow firms, and title insurers. Keep in mind that a mortgage rate that is half a percentage point lower usually can save you thousands of dollars in interest payments over the life of the mortgage.

Once you have selected an agent, make certain that there is a written agreement that spells out everything that he/she has promised. Keep in mind that any standard form that the agent uses can be modified if he/she agrees to this change.

A Final Word

The more knowledgeable you are, the better value you will receive from an agent. In fact, many agents will appreciate working with someone who knows something about their business. But even more important, being knowledgeable can save you thousands of dollars on the price of a home and thousands of dollars in agent commissions.



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