

Winning the Bidding War

by [Mike Cohen](#)



In today's housing market, an appropriately priced home in good condition will likely generate purchase offers from several potential buyers. As a result, many people find themselves losing out on a home that seemed like a perfect fit because their offer wasn't strong enough. If you are one of those people, there are tactics to discuss with your Realtor before making your next offer.

No Sure-Shot Strategy

Is there a "sure-shot", guaranteed strategy that will win every time? The short answer is no.

A cash offer significantly above asking price, with no contingencies, no inspection, no appraisal, and which allows the sellers to stay in the house for several weeks with no out of pocket expenses, is a pretty safe bet to win...for those who can afford to make such an offer. For the rest of us, it's a bit more challenging.

So, what can be done to improve the odds of winning when competing with multiple offers?

4 Typical Factors Considered by Sellers

Sellers, with guidance from their Realtor, try to determine which offer best meets their situation and goals. While each situation is different and there are many considerations that go into accepting, countering, or flat out rejecting an offer, sellers will almost always consider the following.

1. **Net Dollars Received:** Aside from unusual situations (e.g. selling to a child), it goes without saying that for otherwise equivalent offers, those which result in the seller walking away with the largest check will usually win. This does not always mean the highest priced offer wins. If an offer requires significant expenditures on the part of the seller as conditions of the sale, a lower priced offer without the conditions will likely be accepted first.
2. **Actual / Potential Pre-Sale Expenses:** Offers backed by different loan programs have the potential for different expenses because of required inspections and potential pre-closing repairs.
3. **Expected Time Frame Between “Offer” and “Close”:** Different loans “process” and “close” in different timeframes. Conventional loans tend to process most quickly. Additionally, different lenders are slower / faster than others. Experienced Realtors often have a sense of which lenders process quickly.
4. **Expected Seller’s Effort Between “Offer” and “Close”:** Different loan types and lenders require more / less paperwork and other effort on the part of both the buyer and the seller. While not often a tipping point in a decision, if the seller’s Realtor perceives one loan type to be more difficult than another, they may bring it up during their presentation of the offers.

The relative importance of these differ according to the sellers’ priorities, and to some extent the Realtors’ presentation of the various offers.



Loan Type “Pecking Order”

There are several types of mortgage loans available to non-cash buyers. The availability depends largely on the buyer’s financial situation and credit score. Most fall into 4 categories; “Conventional”, “FHA”, “VA”, and “USDA”. Each of these sends a different signal to the seller regarding a prospective buyer’s financial strength and the likelihood of the sale completing under the terms initially offered.

All other things being equal (offered price, size of deposit, etc.), offers backed by the following loan types are generally viewed as more to less desirable in the order noted below:

1. **Conventional** (Fannie Mae and Freddie Mac)
 - a. In general, offers backed by Conventional loans are harder for a buyer to qualify for and appraisers are less stringent relative to required repairs. As a result, these types of loans can process more quickly, with fewer unforeseen issues, than the others might.
2. **FHA** (Federal Housing Administration)
 - a. Offers backed by a FHA loan can be considered less desirable by sellers. Out dated and incorrect perceptions regarding who uses these programs can lead to sellers not accepting any offers backed by these programs. It is true the appraisers tend to note more items needing repair before the sale can complete under FHA guidelines than for conventional
3. **VA** (Veterans Administration)
 - a. Sellers who receive offers backed by the VA may prioritize them behind conventional loan offers. While VA buyers are financially strong, the perception is that these loans take longer to process and approve, and that the appraisers are more particular regarding the condition of the home. If the home is in certain counties within Michigan, there will be an additional expense for a pest / termite inspection. In Michigan, this expense can be covered by either the buyer or the seller. For additional information, https://www.benefits.va.gov/HOMELOANS/appraiser_cv_local_req.asp#tocM, offers a list of guidelines regarding VA inspections for various states.
4. **USDA** (U.S. Department of Agriculture)
 - a. These loans are limited to specific geographic locations, typically rural. The borrowers who use these loans have middle to lower incomes when compared to the area in which they live. As such, offers backed by these pre-approvals are less likely to be selected when in a competitive. Regardless, these offers can be strengthened using the many of actions below.

Why is the Seller Selling?

To increase the odds of “winning”, it helps to know why the seller put the home on the market and have insight into the seller’s current situation.

For example, if sellers have already closed on their new home and are facing the prospect of making 2 mortgage payments, offering immediate possession (most buyers will offer this) is better than offering 30 days occupancy. The reverse might be true if the seller is still in the process of buying or building their next home.

Here are a few items to consider when matching your offer to a seller’s priorities:

- Are the sellers downsizing or up sizing?
- Have they already closed on a new home of their own or are they still looking?

- Have they found a new home, but need to sell their current home to qualify?
- Are they in the process of building a new home?
- Are they an investor looking to flip a home for a profit?
- Are they an estate trustee for a home owned by a recently deceased relative?



Make Your Offer “Stronger”

There are several available options to make an offer stand out. The options chosen are based on a buyer’s level of desire for the house (“gotta have it”, “it’s nice...”, etc.), their willingness to accept a home potentially with issues, and an understanding of the seller’s motivation as well as current situation. The better this understanding, the better the result for the buyer.

Here are a few strategies currently in use:

- **Offer Above Asking Price**

This one is obvious. However, even these offers can lose out to a similar offer which includes an Appraisal Guarantee (described below). If a seller accepts an “above asking price offer” without an Appraisal Guarantee, they are at risk of having to renegotiate a lower price if the appraised value comes in lower than the accepted offer.

- **Provide a Pre-Approval Letter with Offer**

This is more a requirement than a differentiator. Most Realtors will not make or accept a non-cash offer without the buyer providing a pre-approval letter. This letter is signed by a lender pre-approving the buyer for a given purchase amount and listing potential “conditions” required for final approval. Sellers, and their Realtors consider the potential impact on the sale of these conditions when comparing similar offers.

- **Send a Personal Letter to the Seller**

Several Realtors interviewed for this article mentioned this option. Personal letters from a buyer, containing their background, plans for the home, and why they feel the home is the right one for them does impact a good portion of sellers.

An example provided by a veteran Realtor described a situation where the seller was a downsizing empty nester and the buyers were a young couple hoping to start a family. Their letter explaining what they thought of the house, the neighborhood and schools, and painting a picture of children playing (again) in the yard gave the seller reason to choose the couple's offer. It is said that buying decisions are made based on emotion and then justified with facts. To some extent, the same can be said of selling.

- **Offer a Large Deposit**

Many offers provide for a minimal down payment. A larger down payment can make the difference between getting an offer accepted or declined. Sellers and the Realtors understand that buyers risk losing their deposit, or a portion of it, if they walk away from a transaction without good reason. Those buyers who offer a large deposit are showing their financial strength as well as significant interest in purchasing the home.

To the seller, this is a strong indicator that the buyer will not walk away from the deal (without good cause) once the offer is accepted.

- **Include an Escalation Clause**

In many offers, buyers state the price they are willing to pay. They assume that there will be some back and forth negotiation with the seller to reach a final number. While this strategy is appropriate for a single offer, it will likely not work when there several competing offers. By including an escalation clause, the buyer is making an offer while also stating that if somebody else outbids them, they are willing to pay more. If a higher offer does not have the clause including it may be the deciding factor.

The clause will include the amount above the highest received offer received by the seller is willing to pay. To protect the buyer, there is typically a limit set, above which, the escalation clause does not apply.

- **Provide an Appraisal Guarantee**

Often used in conjunction with an "above asking price" offer, an appraisal guarantee is a clause in which the buyer agrees to pay the price in the signed purchase agreement if the appraised value comes in below that price.

For example: If an agreed price is \$200,000 and appraised value is \$195,000, the buyer still agrees to pay \$200,000. The buyer pays the additional \$5,000 at closing as part of their "cash to close".

This tells the seller that the buyer is "very interested" and gives the seller increased confidence that the sale will go through.

This ability is limited by certain loan programs. Prior to the offer, the buyer needs to check with their lender to ensure they understand the impact of the guarantee on their finances.

Having the lender call the listing realtor to explain the financial strength of the potential buyer will help increase the strength of offers including this guarantee.

- **Shorten the Inspection Window**

An offer that includes a shorter window for inspection helps strengthen it. Sellers, while not reluctant to accept an offer with a standard inspection deadline, may lean in favor of one which shortens the window that a buyer can walk away from the sale for repair related issues. This reduces the amount of time the home is potentially out of the market.

- **Offer an Inspection Waiver**

An offer can include a statement which limits the seller's financial responsibility for required repairs or waives them altogether. The risk to the buyer in this situation is that an appraiser (not the inspector) can require certain repairs be completed prior to the sale concluding. If the buyer has not budgeted for the expense, the sale can fall through.

- **Offer Possession Terms Favored by the Seller**

Possession is taken at closing or within an agreed timeframe. Buyers and their Realtors know that, if the house is vacant, or the seller is making 2 mortgage payments, the seller will likely want to hand over the keys at closing.

If the sellers are waiting for construction on their new house to be finished, they may want or need to stay in their home after closing.

Many listing agents will provide this information, especially if continued possession is required. Identifying this situation and addressing it in the offer often tilts the seller's decision in the desired direction.

- **Reduce / Eliminate Contingencies**

Contingencies are items stated upfront, by the buyer, as potential issues or even "deal killers". These include "passing inspection", "acceptable appraised value", and others.

For example, waiving the inspection contingency lets the seller know that, even if the inspection finds issues that need repair immediately, the buyer will still move forward with the purchase. Buyers might give themselves a little breathing room by limiting the total cost of the repairs, but a low limit can weaken the offer in the eyes of the seller and the listing agent.

Sellers who either know that there are problems with their home, or who aren't sure, will place offers eliminating contingencies above those keeping them in, even when the contingent offer provides for a higher purchase price.

- **Have the Lender Contact the Listing Agent**

In companies with experienced loan officers, such as Ross Mortgage in the Detroit area, having the loan officer contact the listing agent and explain the financial strength of the buyer and address why and how the loan processing turn time is reduced for this buyer.

Very few, if any, sellers have the same situation and priorities. Increasing your understanding of the seller's situation and motivation to sell will enable you to tailor your offer to the seller's likely "hot buttons" and allow you to win the bidding war.



Mike Cohen is a Senior Loan Officer at Best Choice Lending