BUYING A HOUSE IN AMERICA

Buying a house here is quite different from Europe. Here are some of the factors that will be encountered.

1. Survey – the survey is prepared by a private company, not a government official, and having a current one is usually a requirement for getting a mortgage.
2. As is, where is – the seller's warranties (promises about the condition of the property) die at closing. Getting ones that can be enforced after Buyer's inspection is very rare.
3. Title insurance – a private insurance company checks public records and the survey and gives the buyer and the financing bank an insurance policy – one time for a fee.
4. Deed – the seller's attorney makes the deed and it is reviewed by the title insurance company and registered in the public records after the "closing."
5. Contract with signing and closing – the buyer and seller sign an agreement to buy and sell the property under certain conditions. The buyer uses the time – often one month but can be longer – to inspect the house and get a mortgage. Sometimes the buyer is not obligated to buy if the buyer's house sale has not been successfully completed.
6. Conditions often found in the contract:
   Financing
   Inspection – roof, systems, water damage, termites; windows and doors; insulation; AC adequacy. Lawn maintenance. Environment – oil tanks; leaks. Distance to fire station and fire hydrant.
   Title Insurance
   Hand money / deposit
   Home owners association – golf course. Extra fees.
7. Personal property – sometimes the contract includes buying some of the seller's personal property, such as lawn furniture, carpets, etc. Or if may exclude items normally part of the house, such as fancy light fixtures. The Contract often allocates the purchase price. State tax may apply to some items and not others.
8. Mortgage – these are typical in America and may have fixed or floating rates, self-amortizing or "balloon." Even if buyer can pay cash, having a bank in the purchase transaction tends to assure the buyer that the transaction runs properly. Note, however, that the bank's interest is limited to the amount of the mortgage, not the full purchase price. So the bank may be willing to take risks that the buyer is not.
9. Fees

Taxes – states and municipalities impose certain fees on house transactions and on the value of the real estate.

Title Insurance

Closing sheet – this is a detailed allocation of certain costs and taxes or items like heating oil in the tank (if the house has oil heat)

Title officer – this person normally orchestrates the closing and issues a title insurance policy to the buyer and the financing bank at the closing.

Insurance – the title insurance – acting in the interest of the bank – will require proof of insurance on the house.

Attorneys – much of the work is normally done by a paralegal, one who specializes in residential real estate.

10. Co-op – these are quite different and the buyer gets only stock in the corporation which owns the building and a right to occupy the apartment.
11. Condominium – these are more like pieces of real estate.
12. Beach rights; dock; rights of public access – in resort properties, these are quite important.
13. Rights of Broker – normal fees; usually seller pays.
14. Tear down – set back lines; local restrictions – if buying a house to tear it down, factors like oil spills, asbestos, areas which can be built, height restrictions, curb-cuts are important.
15. Utilities – Usually these are not important, but the buyer may want gas heat. Gas pipes may be in the street, but not attached to the house. Hooking up may be expensive. The costs of utilities are either coordinated by a meter reading on the date of the closing or by pro-ration.
16. Easements – these are rights of 3rd parties to the property or rights of the property owner to property of others, such as use of a common driveway.
17. If second home, who maintains – insurance if empty
18. Zoning.
19. Surrounding structures
20. School and property taxes. These can be quite high in America and may be increased based on the price of the house, not the value of other homes in the area.
21. Buy at foreclosure – stability of neighborhood. Other empty homes.

Since the collapse of the US housing bubble in 2006, home prices have fallen 30% in many areas. Many homes are “under water.” This means that the mortgage debt is greater than the value of the house, so the house has no value to the owner. Some owners are by law or as a practical matter not liable personally for the difference between the value of the house and the mortgage debt. The owner may then simply walk away from the house. For decades, homes were viewed in the US as a safe investment, often providing a significant part of the owner’s retirement funds or event funds for the children’s college tuition, new cars, tv’s and other expenses. Those days are over and the average American thinks twice now about buying a house instead of renting. For the right buyer, the market offers interesting opportunities, but only some of the old rules apply.

Old Rules –

A German interested in buying a second home in the United States is not a typical buyer. He or she will likely be interested only in a place in a resort, near a golf course, in the mountains, on a beach or in a major cultural center such as New York. The home is likely to be vacant much of the year, creating special problems. The top neighborhoods and developments have not lost much of their value. They are not as dependent on the US economy. So a German should not hope to get a bargain or to buy a property to enjoy a significant increase in value. But few experts think the US market will drop much more.

Before addressing the special second (or third) home aspects, what are the steps to buying a home in the US and how are they different from Germany?

1. In both countries, use of a broker is normal. The seller usually pays the broker's fees, normally about 5-7% of the purchase price.
2. Once a home has been identified, the buyer submits a written offer, with the price and any conditions to be fulfilled. If any of the conditions is not fulfilled, then the buyer should get his deposit back. If the seller accepts the offer, the buyer pays some amount to the broker, to be held as a refundable deposit in escrow.
3. At this point, the buyer has to try to fulfill all the conditions in the contract. These are normally an inspection of the house – unless this has already been done; arranging for financing as foreseen in the offer; and issuance of a title insurance commitment, with only certain exceptions. (More on this below.) Other conditions are also possible, but the fewer the conditions, the greater the likelihood the offer will be accepted. The larger the deposit, also the greater the likelihood the offer will be accepted. Of course, the buyer may pay the full purchase price in cash, without any loan secured by the house. The seller will also want the period between signing of the contract and closing, when the seller gets the full purchase price, to be short. It is theoretically possible for the contract signing and closing to be simultaneous, but this would be highly unusual.
4. Title insurance is unique to the United States. Private insurance companies review public records and determine who the proper owner is and what third parties have interests in the property. These interests may be the seller's mortgage, tax liens imposed by a government authority, rights of neighbors or utilities (such as for a sewer line, electrical line, water line, etc.) and more general restrictions. For example, a development may impose restrictions on all home owners, such as limiting the number of cars that can be parked on the property or permitting assessments for maintenance of a golf course or activities center. The report will also insure the accuracy of a survey and related building restrictions, such as areas that must be left free from construction. Possibly the object being purchased is a building lot, carved out of a bigger parcel. Then the survey and compliance of the lot with local requirements is important. Zoning restrictions may also be important. These can protect the buyer from neighbors or limit the buyer's flexibility. The buyer pays for title insurance. This is a one-time payment and depends on the purchase price of the house. The fee is set by statute, so not negotiable. It is theoretically possible to buy without title insurance, but if a lender is involved, it will require its own title insurance coverage.

5. At the closing, the buyer and seller and their counsel appear, along with a representative of the title insurance company. (It is possible to do this by power of attorney.) All papers are signed, the title representative marks up a copy of the title insurance commitment for the buyer and any lender, and money is paid to the proper parties, often through an escrow account controlled by the title company. A typical payment would be, for example, to the seller's lender, to obtain the release of any mortgage

Despite these requirements, buying a house in the US is generally simpler than in Germany, with less paperwork and fewer government officials involved.

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