

# **Buying Your Home with Redfin, The Gory Details**

*Updated: June 26, 2007*





# Buying Your Home with Redfin

## Introduction

Redfin Direct for Buyers is a home-buying program that combines an e-commerce application with the services of a local, experienced Redfin agent. Home-buyers who can find a home to buy on their own get 2/3rds of Redfin's commission refunded at closing. Local, experienced Redfin agents and transaction coordinators handle home tours, pricing advice, negotiations, inspections and the closing process.



Colin Bogart & Joan Pranata saved \$13,000 buying a San Francisco house through Redfin.

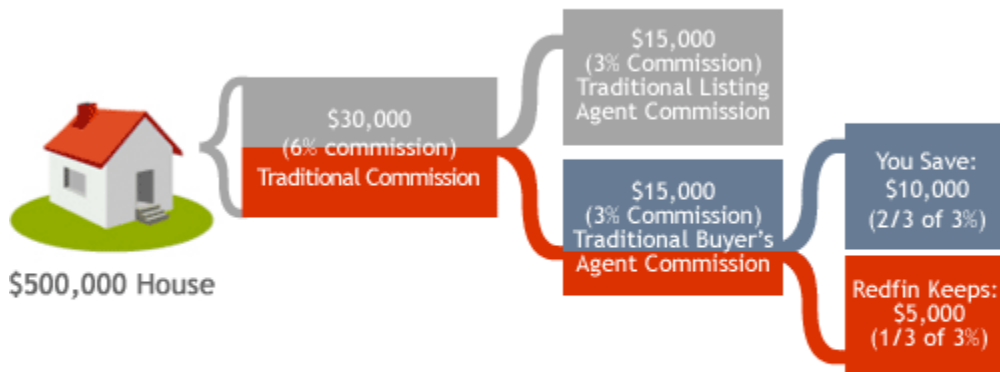
Since we launched our service to the Seattle market in February 2006, more than 500 customers have purchased a home through Redfin, with a customer satisfaction rating above 95%. Over 80% of our customers think our service is better than that of a traditional agent.

## How You Save Money

With Redfin, a typical buyer saves \$10,000 on the purchase of a home. Here's how it works: the traditional commission is six percent of the final home price, and it is traditionally split evenly between the real estate agents representing the buyer and the seller. The agents deduct the commission from the purchase price paid by the buyer, leaving the remainder for the seller.

Not all commissions are six percent. When putting the house on the market, the seller sets the commission rate, so it can vary from property to property. Once you find a house to buy, we can confirm the actual rate and calculate your refund amount.

### Buying with Redfin, The Breakdown



When you buy through Redfin, you get 2/3rds of the buyer agent's commission refunded to you at closing. On a \$500,000 property with a traditional 6% commission, this comes out to \$10,000.

A TYPICAL BUYER'S REFUND	
Price of a Home	\$500,000
Buyer's Agent Commission (3%)	\$15,000
Redfin Commission (1/3)	\$5,000
You Save (2/3)	\$10,000



Whatever the commission turns out to be, Redfin keeps 1/3rd of it, with a \$3,000 minimum, and refunds the rest to you at closing. You can apply your refund to the closing costs, and get any remaining money as a check from Redfin approximately ten days after closing. The U.S. Internal Revenue Service has ruled that this refund is not taxable. The average refund is around \$10,000.

## The Economics of Our Business Model

Redfin can afford to offer great service while refunding its home-buying customers most of its commission because the company only pays real estate agents to serve customers, not to generate sales. Most traditional real estate agents spend the bulk of their time on the hunt for customers, but our customers come to us via our website, having already found a property to buy. Rather than recommending listings that you can easily find on your own, we focus our service where customers need it most, on winning the deal and handling the contracts. We pass much of the savings from our model to our customers.



## Communicating with Redfin

Just because our model is more efficient doesn't mean we can't spend time talking to you about the whole process of buying a house; you should feel free to visit our [Redfin Forums](#) to get answers or post a question for our agents and our customers, [meet us in person](#), or [drop us a line](#). If you ask a private question, it takes us a day or less to respond. And we won't hound you with sales calls afterwards or send any e-mail spam. Redfin pays its agents bonuses based on customer satisfaction, not commissions, to ensure you feel no sales pressure. We don't solicit customers by telephone or e-mail, so you can contact us, get your questions answered, and then be left alone.

## Your Redfin Team

Once a Redfin Direct agent begins working with you, you'll work with his or her team throughout the rest of the transaction. The team consists of a local Redfin Direct agent who negotiates the deal, as well as a transaction coordinator who handles most of the paperwork once the negotiations are final. A third team-member, a field agent, handles your property tours and inspections.

The Direct agent who negotiates your deal lives and works in the area where you're seeking to buy, and must have experience with at least 20 transactions before representing Redfin customers. You'll have the e-mail address and cell number of each member of the team, all of whom will work together to support you seven days a week; when your Direct agent is off-duty, another team-member can help you out. Every member of the team is an employee of Redfin.



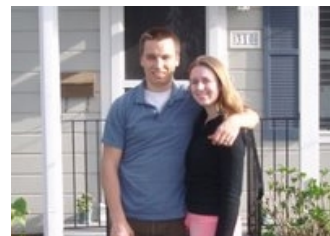
Andrew Hafzalla, Redfin agent  
*He made me feel like I was the only client he was dealing with and like my transaction was the most important thing he was working on. Compared to everyone else we've dealt with in our three real estate transactions, he seriously just blew them all out of the water.*  
Liz in Issaquah, Washington



## Components of Our Service

Having gone over what our service costs, who provides it and how you can talk to us about it, we can now get down to brass tacks, and assess what you get for 1/3<sup>rd</sup> the traditional commission, and what you don't. The services included with Redfin Direct for Buyers are:

- **Advice on getting started:** we can help you figure out what neighborhoods to tour, what you can afford, and how the whole process works. You can chat with Redfin agents via [Redfin Forums](#), or [ask a private question via our website](#). You can also ask questions during [a web seminar or face-to-face meeting](#).
- **A free afternoon of property tours:** you can see five or six properties in a single three-hour property tour with a Redfin agent. The first three-hour session is free of charge. Thereafter, tours cost \$250 per three-hour session or \$125 for a single property. To arrange a tour, open any property page on our website and click *Tour This Home*. During business hours, an agent will get back to you within four hours to schedule a tour.
- **Online guidance on offer terms:** Redfin's Offer Wizard is a guided, dynamic Web questionnaire about the basic terms of an offer. Once you complete the Offer Wizard, a Redfin agent will contact you to go over everything. You can easily back out up until the moment you sign the actual offer paperwork.
- **Telephone consultation on offer terms and negotiation:** once we get your proposed offer, one of our agents will call you to discuss the terms in detail.
- **Comparative market analysis (CMA):** if you're unsure what to offer, a Redfin Agent will guide you on price. You can query Redfin.com for past sales information or your Redfin agent can give you a list of recently sold properties similar to the one you want to buy, so you can get a feel for the market.
- **Competitive research:** understanding the seller's requirements and the number of buyers bidding on the property is crucial to winning the deal. A Redfin agent calls the seller's agent to find out who else is making an offer and what terms the seller is looking for.
- **Preparation of all offer documents:** once your Redfin agent has drawn up the final offer paperwork, he or she will go over it with you to make sure you understand everything.
- **Offer presentation to the seller:** in situations where you feel that presenting your offer in person gives you a significant competitive advantage, we'll do our best to do so, but this is not our standard practice.
- **Negotiations:** your Redfin agent will negotiate with the seller's agent and the seller on all aspects of the offer. Our service includes responses to counter-offers and preparations of new offers. Compared to their peers at other brokerages, our agents have traditionally been able [to negotiate better prices](#), above and beyond the refund commission. One reason for this is that our agents aren't paid a percentage of the sale, but instead get customer satisfaction bonuses, so they're motivated to seek a lower price.



*Redfin was exactly what we were looking for when buying our first home.*  
Michael Harris & Emily Kane,  
Redwood City, California

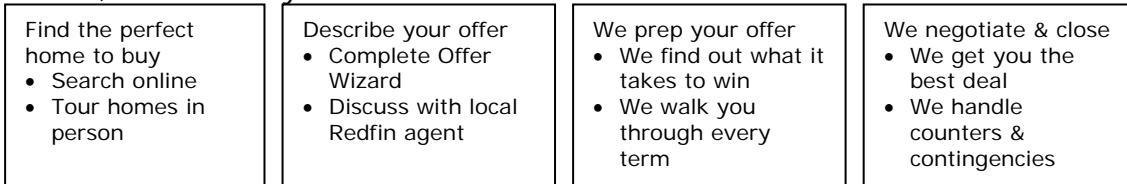


- **Contingencies support:** Redfin agents will handle all of the paperwork for any of the contingencies you may want to include with your offer. The most common contingencies account for mortgages and inspections, but you can also include feasibility contingencies based on the approval of building plans, title contingencies to ensure there are no liens or assessments, or water-rights contingencies for digging a well.
- **Property access for an appraisal:** an appraisal is required by the bank before you can get a mortgage, and this means an appraiser has to check out your new place. Some appraisers can get into the property on their own, but for those who can't, a Redfin agent will come out to open the door.
- **Post-inspection property tour:** you may request that a Redfin agent will walk through the property with you before closing so you can see for yourself that any repairs relating to the inspection contingency have been completed.
- **Coordination with the lender:** we'll provide your mortgage broker or lender with the information needed to fund the loan in time to buy your home.
- **Coordination with the escrow agent:** we'll provide the escrow agent with all the purchase-related documents he or she needs to close out the deal.
- **Hand over the keys:** we'll arrange for the seller's agent to get the keys from the seller so you can move into your new place.

The services that you are responsible for are:

- **Searching online for properties to buy:** Redfin does not send you recommendations except by automated alert.
- **Touring properties,** usually via an open house, sometimes with a Redfin agent providing access, sometimes with a seller's agent or the seller providing access.

The rest of this paper will take you through the home-buying process, explaining how it works with Redfin as your partner. If you aren't 100% satisfied with Redfin's service, we'll refund you our entire commission.



*Buying a Home with Redfin: Overview of the Process*

## Deciding Whether to Buy

The first question to answer is whether the time is right to buy a property. Some people try to time the market for maximum financial gain. But nobody knows when a market will improve or decline, particularly when it can take months or longer to find the perfect place to buy.

The question of whether real estate is a better long-term investment than stocks has been hotly debated in [The New York Times](#) and by [academic economists](#); a website called [HouseMath](#) compares the costs of renting and buying, allowing you to adjust assumptions about local taxes, mortgage rates and capital appreciation.

Any property can gain or lose value, but if you want to be conservative about such gains or losses, bear in mind that condominium prices tend to be more volatile than



house prices because you buy the land underneath a house. Similarly, new developments at the outskirts of town or in gentrifying areas may be more volatile in price than listings in established neighborhoods, with more potential for appreciation but also more risk.

Apart from the financial risks and rewards, the reasons to buy are that you get the creative control to really make a place yours. You can paint a wall or tear it down. But if you aren't handy, the repairs can be a hassle, and if you plan on only staying in one place for a year or two, the transaction costs on the mortgage and the real estate deal itself will take a big bite out of whatever equity you hope to build up.

You should not buy a house for financial reasons if you are expecting to move again within two years, as the government will tax any appreciation as a capital gain.

## Deciding What You Can Afford

Even once you know you want to buy a place, you have to decide how much you can afford. If you know how much cash you have on hand for a down payment, you can use an [online mortgage calculator](#) to estimate what your monthly mortgage payment would be for different prices.

A rule of thumb is not to spend more than 50% of your income on mortgage, car and credit card payments unless you're confident that your income will continue to grow. You should also know that you'll have to pay for mortgage insurance if you borrow more than 80% of the money used to buy your place, which takes the same form as a slightly higher interest rate.

To get advice on mortgages and a more reliable estimate on your likely mortgage payment to boot, contact a mortgage broker or a lender for [a pre-approval letter](#). A mortgage broker is someone who, for a fee, helps you shop around among different lenders to find the best deal; sometimes you can get the best deal by working directly with a lender, but often the broker has access to more competitive rates. The only real way to find out what's best for you is to try both and see who comes up cheaper, but this can wait until a real estate deal is in hand.



*Redfin led us through every step, from the offer to the final inspection. David Hungerford & Betty Su, Oakland, California*

A pre-approval letter estimates the maximum price a lender could support your paying. Getting a pre-approval letter doesn't obligate you to work with the lender or the broker who generated it, and it shouldn't cost anything beyond about \$20 to pull a credit report. Moreover, the pre-approval letter will come in handy: when you submit an offer, you can include the pre-approval letter to give the seller some assurance you can afford to pay for the place. Some sellers, in fact, will not consider offers not accompanied by a pre-approval letter.

For each market, Redfin has a list of recommended mortgage brokers or lenders, or you can always choose your own. To ensure our recommendations are objective, Redfin does not have any marketing relationships or referral agreements with any third-party lenders or mortgage brokers. In Seattle, Redfin is experimenting with a mortgage service of its own, but this is currently available to only a handful of customers.



What you don't really need or want is [a pre-qualification letter](#), which some mortgage brokers offer in lieu of a pre-approval letter. A mortgage broker or lender generates a pre-qualification letter simply by asking you about your employment, income, debt and credit history, without verifying this information until later. Because a pre-qualification letter is unverified, real estate agents and home-sellers sometimes say it isn't worth the paper it's printed on.

A pre-approval letter on the other hand entails significant documentation:

- Three months of bank statements;
- Pay stubs for the past 30 days;
- Two years of W2s, or a full tax return if you are self-employed;
- Loan documents on your current home, if applicable;
- Divorce decree, if applicable; and
- A credit report, which usually costs \$15 - \$25.

The pre-approval letter has one other important use, as you can also show it to seller's agents and home-sellers to demonstrate your seriousness when asking for a property tour.

## Choosing a Neighborhood

Knowing your price range is the first step in picking out a neighborhood. Most people have a pretty good idea of the neighborhood in which they want to live, either because they're just moving across town or because they've made contact with some locals who can give good advice. You can also get a feel for a neighborhood just by driving around town and stopping in at a café for a cup of hot chocolate.

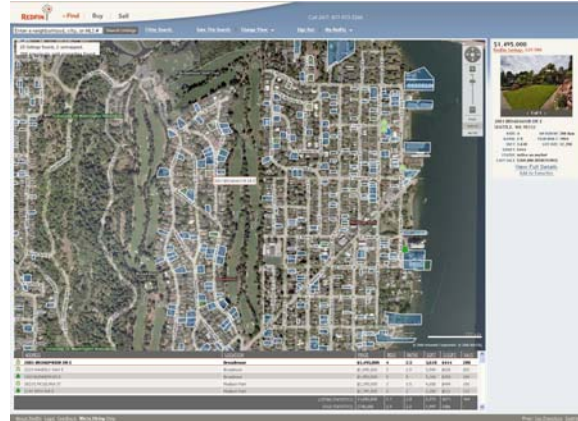
If you'd prefer to do your research online, try looking up the neighborhood in [Wikipedia](#), which usually provides some basic facts and links to other useful sites; for some neighborhoods in some markets, Redfin's [Sweet Digs](#) blog provides a bit of additional local color. You can also compare school quality across neighborhoods by querying state government sites for test scores; even if you don't have kids, this can have a big impact on re-sale value.

If you'd prefer to talk to an agent about neighborhoods, visit [Redfin Forums](#), an online question and answer site for real estate dreamers and deal junkies. An agent is available to answer all sorts of questions. You can also [ask a private question via our website](#), which we respond to within 24 hours.

## Searching Online

Once you've figured out what you can afford to pay and where you want to live, you can start looking at places to buy. For any market, the biggest database of homes for sale is the local Multiple Listing Service (MLS), which combines listings from all the brokerages in town. Usually at least 90% of all listings are available in the MLS. Only brokerages can put MLS data on their websites, so the first order of business is choosing which brokerage site to search.

Redfin is an MLS-powered site, and the only one to combine tax records, Zestimates and, in most markets, property outlines; if you're logged in, Redfin also provides the name of the seller's agent for each property, so you can easily call to find out when a listing is open to the public. Some traditional brokerage sites sometimes display more photos for their own listings. Another brokerage, [ZipRealty](#), lets you to search for price-reduced properties. Each has its advantages.



You may also want to search for homes on the community website [craigslist](#); although most of the properties on craigslist are also listed in the MLS, some homeowners try craigslist for a couple of weeks as a way to sell their home without using the MLS; using craigslist exclusively allows a home-seller to avoid paying commissions altogether. You can also read up on local inventory and prices by searching real estate blogs such as San Francisco's [SocketSite](#) or Southern California's [Irvine Housing Blog](#).

## Touring Properties

Once you have an idea of what's on the market, you'll want to walk through a few open houses to get a sense of what you like.

To set up a tour with Redfin, view the full property details on Redfin.com and then click *Tour This Home*. A few tips for making the most of your Redfin tours:

- **Attend a few open houses in the area.** You can contact listing agents to find out when houses are open, or to try to arrange a showing.
- **Drive by the homes you're interested in prior to the tour**, to be sure you'll really want to see the inside.
- **Build up a solid list of contenders** if you can, to make the best use of your time.

If you would prefer to see the home without enlisting a Redfin agent to provide property access, you can call the seller's agent to find out if there's an open house, or to ask him if he is willing to show the property as part of his service to the seller.



You should not ask for a tour from the seller's agent under false pretenses; if you plan on using Redfin to make an offer, just say so. If you have any problems, let us know and we'll jump in to help you out.

When touring properties, you'll want to:

- **Bring a notebook** so you can jot down questions and observations, and a camera. You think you'll remember everything but you won't.
- **Bring a friend** if you can, as she may spot things you miss.
- **Avoid signing any guest register**, as this may pledge the buyer's commission to the seller's agent.
- **Keep your thoughts to yourself**, so you're in a better negotiating position; the one exception to this rule is asking the seller why she is moving.
- **Visit during the day** at least once so you can see how much light the place gets.
- **Be on the look-out for oddly placed furniture** that may conceal carpet stains.
- **Turn off any music** so you can gauge road noise.
- If in a condominium with open access to neighboring units, have a friend **flush the toilet upstairs** or walk around in shoes to see how noise carries.
- **Bring a golf ball** if you like to determine whether the floors slope.
- **Bring a tape measure** to make sure your couch can fit in the living room and the guest bedroom can accommodate a queen-sized bed, and also maybe a flash light to look in dark places for rats!
- **Check the basement's ceiling height**, in case you ever want to finish it out for extra living space.
- In winter, try to imagine how **bare trees may flower and block your view**.
- **Check for hardwood floors** underneath the carpet by pulling at a corner of the carpet near the heating vent.
- **Talk to any neighbors you see** about the neighborhood.
- **Look for wood rot** around the bathroom baseboards, condensation on the windows, wavy wood siding, or discoloration on the southern exterior wall. Make sure water spouts don't drain right back into the foundation.
- **Make sure there's enough storage space** for all your stuff, and a place to dump your laundry.
- **Peek into the attic** to make sure there's plenty of insulation.



*The Redfin team crafted an offer that not only worked for us, but that no seller would pass up.  
Michael & Anna Teter, Seattle*

Since the value of your property depends on what you can sell it for down the road, some things that you may not want for yourself still matter a lot:

- **Location:** you may not care if the neighborhood is a little gritty or if the property is on a busy street, but this stuff will lower the property's value.
- **Bedrooms and bathrooms:** homes with three or four bedrooms are easiest to sell, particularly if the bedrooms are all on the same floor.
- **Garages:** houses with no garage are hard to sell, and a two-car garage is preferable.
- **Master bedrooms:** you may not need a bathtub or a walk-in closet off the master bedroom, but other people apparently do.



- **School districts:** if you're buying a single-family house, the school district can swing the price up or down 15% or more. It's also nice to be around transit.

And don't go overboard on the amenities. Fancy granite countertops and a nice stove shouldn't distract you from what really matters: property size and location. Pools don't add as much to prices as they used to because people worry their kids will drown.

There's also plenty of online research you can do, on Redfin.com and other sites like PropertyShark.com and Zillow.com as well as county and city sites for tax and zoning information. Here are a few tips:

- **Ask a Redfin agent** to inquire with the seller's agent about why the seller is selling, and when the property is taking offers.
- **Check the zoning** to see if anyone can block your view or build a subdivision in your backyard.
- **Look up past sales information** on Redfin to see if the house was recently sold for much less than its current price.
- **Ask a Redfin agent** if the property was originally listed at a higher price, or taken off market briefly to avoid the appearance of a price reduction.
- **Query Redfin** to find out how long the property has been on the market.
- **Ask the seller's agent for a disclosure packet**, which will tell you about everything from lead-based paint and asbestos in an old house to when you can run the washer and dryer in a new condo.
- **Ask about the home-owner's association dues;** some of the listing services Redfin draws on include this information with the listing, others don't. In any event, a Redfin agent can find out for you what the dues are. It's also a good idea to get access to the home-owner's association minutes and other documents, so you can look for evidence of any major problems with the building.
- **Google the owners' names** to find out what you can about the sellers; this may help in crafting a cover letter for your offer, or it may uncover a need to sell.





## Pre-Inspection

An inspection is a thorough review of a property from the attic to the foundation, performed by an independent expert whom you hire to protect your interests. Typically, you engage an inspector after making an offer on a house or condominium, to ensure that you understand all the problems with the property you're buying.

When buying in a competitive market, you may want to complete the inspection before you make an offer, so you don't have to make your offer contingent on the inspection. The problem with this approach is that an inspection can cost you \$500 or more, depending on the size of the place, and the money will be wasted if the seller doesn't accept your offer.

On the other hand, if you are competing against other buyers, your offer will be stronger for your having already accounted for all the problems with the property, so that you don't have to haggle over the cost of repairs after the offer has been accepted.

The screenshot shows the 'Offer Wizard: Offer Information' form. It includes sections for 'YOUR OFFER' (with a price field set to \$400,000), 'YOUR ESTIMATED REDFIN REFUND' (\$11,780), and 'How do you want to apply your refund?' with radio button options for various refund methods. There is also a 'YOUR CONTACT INFORMATION' section with fields for buyer names.

You can get a list of recommended inspectors from Redfin by calling 877-973-3346; or by [asking a question via our website](#) or in [Redfin Forums](#).

## Drafting and Submitting an Offer

When you're ready to make an offer, visit Redfin.com and click through the Offer Wizard, which will ask you some basic questions about the location of the property and what you want to pay, with the option to provide more detailed instructions. Don't worry if you don't understand every question; a Redfin agent will review the offer with you term by term, and you won't be committed to anything until you sign the final paperwork.

You can complete the Offer Wizard questions in less than an hour; really in just a few minutes if you already know what you're doing. For its part, Redfin can usually turn an offer around on the same day it was submitted, so long as you get it in before 3 p.m. Redfin agents are available to work with new clients from 9 a.m. – 6 p.m. on weekdays, and from noon – 6 p.m. weekends.

In urgent competitive situations, Redfin can turn an offer around in less than a day, but that depends in part on how quickly you can review the finalized offer, sign it and send it back to us. For expedited service during business hours, call us after submitting the offer or let us know beforehand that it's coming: 877-973-3346. Once we get an offer and engage in negotiations, we do not rest until our service to you is done, regardless of the hour.



## Negotiations: The Redfin Advantage

Once we get a proposed, we work hard negotiating on your behalf. The way we're paid as agents motivates us to get you the best deal.

Traditional agents are paid a percentage of the home price, making more when their buyers pay more. A Redfin agent earns a salary with a customer satisfaction bonus, paid based on your responses to an online survey. Our agents' incentives are aligned with yours, so we'll always work to get the deal that's best for you.

After a year of representing buyers in our first market, we decided in February 2006 to compare our agents' results to those of other brokerages. Redfin's Seattle customers paid on average 99.340% of the listing price while buyers with other brokerages paid 100.233% of listing price for a difference of .893%, for an average savings of \$4,420.

The total Redfin Advantage, combining the negotiating advantage and an average commission refund of 1.952% for the Seattle area, was 2.845%. The total savings for an average Seattle-area customer was \$14,080. On the basis of this data, we believe we offer not only a better price, but better service. The data behind this claim is a matter of public record, and has been drawn from the Seattle-area MLS and [published in a paper on Redfin.com](#).



## Finalizing and Negotiating the Offer

To finalize the offer, your Redfin agent contacts the seller's agent to find out what other offers are expected, and also what terms the seller is looking for. Then we call you back to share what we've learned and go over everything in the offer. At this point, you may want to ask us to prepare a CMA to help you calibrate your opening price.

Once you feel comfortable with the offer, we print it up and ask you to sign it, whereupon we send it over to the seller's agent. You'll typically know within a couple of hours of signing the offer whether the seller wants to negotiate with you.

In a typical negotiation, the seller's agent will call the Redfin agent to ask for a set of concessions, such as a higher price or a different close date, which we will in turn discuss with you. Often such requests are accompanied by modifications to the original offer, marked in ink on the original documents and then faxed back to us; this modified offer is known as a counter-offer. You'll need to have access to a fax machine to stay in the loop on offers and counter-offers; it comes in handy later on too after the contingencies have been satisfied.

Once you and the seller agree on a final set of terms, both parties will sign the same offer documents. This is known as mutual acceptance. Upon reaching mutual acceptance, you have to come up with the earnest money specified in the offer, typically between one and three percent of the purchase price, which is held in escrow to ensure that you uphold your end of the deal.

In most locales, you have two business days after mutual acceptance to come up with the earnest money, so you shouldn't make an offer without some cash on hand. After mutual acceptance, your Redfin team will help you deposit your earnest money



with an escrow company typically chosen by the seller, and begin the process of coordinating an inspection of the property. The team will also make sure the title of the property is clear, without any arguments over where the property's border is, or whether the IRS has first dibs on the seller's house.

## Contingencies

Just because your earnest money is held in escrow doesn't mean that you have to buy the property. It could turn out that the bank won't loan you the money for the property because its appraiser believes it's overpriced; or your inspector may discover that the property has problems that weren't apparent when you originally agreed to buy the place. If you can't get a loan, or if the seller refuses to address the problems identified by the inspector, the contingencies in your offer can give you a way to recover your earnest money and call the deal off.

Usually the inspection is an occasion for a second negotiation between you and the seller, as the two of you haggle over whether a particular problem with the property warrants a lower price, or should be repaired at the seller's cost. Redfin represents you in these negotiations; if repairs are made, you typically have the option to visit the property to ensure it was done to your satisfaction.

The mortgage is less likely to come into play as a contingency, but the logistics are such a hassle that it can prevent your deal from closing on time; you not only have to get an appraisal but also home insurance before you move in, and you'll have to provide all the information your lender requires in a timely way. For these reasons, Redfin will help you get cracking on the mortgage and the inspection as soon as the seller accepts your offer. We have a list of companies for all of this stuff, or you can use whomever you like.

## Escrow

Once we've addressed all the contingencies and the deal is ready to close, the escrow agent takes over. An escrow agent is a neutral party who facilitates the safe exchange of your money (and the lender's money) for the seller's title to the property. You'll sign all the final deal paperwork at the escrow agent's office, with support from Redfin as needed. The seller usually turns the keys over to the listing agent, who leaves them with the receptionist at his office for you to pick up.



## Our 100% Satisfaction Guarantee

Redfin offers a 100% satisfaction guarantee. Even if you complete a transaction from Redfin, we'll refund our entire commission to you if you aren't satisfied with our service.

If you have further questions, call or write:

- [Post a private question via our website](#), we'll answer in a day or less.
- Visit [Redfin Forums](#), our fanatical community of real estate dreamers and deal junkies; plenty of Redfin agents and product managers are on hand there to help you out.

Whew! That's it. We made it through the process! Thanks for your attention.