

Why the High Offer Gets Snubbed

by Tara-Nichole Nelson, February 12, 2010

Q: I've been making offers on homes for what seems like forever. I make offer after offer, and don't ever get them accepted. I've been doing this for so long, though, that a number of the homes I didn't get have closed escrow and their sales are now public record. I'm seeing that some of the places sold for less than I offered. Why would the seller take an offer lower than mine?

A: Doesn't that make you crazy? I also work in a market where most first-time buyers face (and get outbid or rejected in) multiple-offer situations time after time before prevailing and getting "their" home.

Some of my clients face the same exasperating reality -- they usually lose a few homes while they're becoming educated about the need to offer more than the asking price in what they thought was a smoking buyer's market and then see that a few of their lost dream homes actually sold for less than they had offered!

I can't speak specifically to the homes in your market, but I can tell you about situations I've seen in which **the highest bidder does not end up as the buyer.**

Cash offers often trump offers that are contingent upon obtaining financing, even when the cash offers are lower than the financed offers. This is because a cash offer can close much more quickly (two weeks on average, versus 45 days on average currently for a financed contract to close escrow).

With most cash offers, there's no question as to whether the home will appraise at the sale price; there are no potential glitches that might arise if a condition problem is found with the property; and there are no potential problems like the buyer losing their job or having their credit score drop at the last minute.

Because they offer certainty and speed, most cash buyers insist on a major discount -- and they often get it, even in multiple-offer situations.

Similarly, if your offer is financed by an FHA loan, it's not unusual to get beat out by an offer financed by a conventional (i.e., non-FHA) loan. Many homes -- even ones in seemingly good condition -- have seemingly minor condition problems that make the listing agent a little doubtful as to whether the place will meet FHA's particular condition guidelines.

Additionally, an FHA buyer's typical characteristics, including low downpayment and little assets in the bank, tend to make sellers who have other options wary of whether their transactions will actually close.

Finally, if you've been making offers on bank-owned homes, be aware that some asset managers are hesitant to accept offer prices significantly above the asking price, for the express reason that they are so high above asking. This is counterintuitive, as you'd think they'd just want to recoup as much money as possible.

However, there were a number of buyers out there who offered excessively high prices for foreclosed homes just to beat out the other offers, counting on them not to appraise that high. Then, they'd just turn around and demand a price reduction when the appraisal came in low.



You've got to understand the context. Before a bank-owned property comes on the market for sale, there has usually been a couple of weeks (or months) of wrangling between the listing agent and the asset manager, with the listing agent making the case that a low listing price is supported by the comparables.

Listing agents know the lower the price, the more likely the place is to sell. However, that primes the asset manager to disbelieve that the property will appraise at a significantly higher price than the list price.

So, even if you and your agent see comparables that support a higher price, and believe it will appraise at the higher price, the listing agent might feel you're trying to game the system and set yourself up for a price reduction down the road.

Asset managers look bad when their projected recovery on a given property doesn't come to fruition at closing. They'd rather have a sure deal that will close at the contract price than have to go ask their boss for a price reduction mid-stream.

Accordingly, my REO listing agent buddies are telling me that some of their asset managers prefer to accept either (a) a sale price that they are 100 percent certain will be supported by the appraisal or (b) an over-asking sale price accompanied by documents demonstrating your ability to make up the difference between the list price and your offer price with cash in the event the property doesn't appraise.

There are lots of other things that happen in isolated instances resulting in an offer other than the highest one being accepted, including situations where the listing agent represented both sides (and gave the seller a break on commission), but these are the most frequent.

Moving forward, make sure that your offer paints the strongest honest picture of your financial qualifications to close the deal, and eventually you will prevail!