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JIM: One of the biggest purchases anybody will make in their lifetime is their home and, today, I have a real estate expert who’s one of the top real estate professionals in Washington County, which happens to be the county that I’m in, and I’ve used him for myself personally. What makes him unique is how he educates his clients on making smart decisions when they buy their home with a special emphasis on first-time homebuyers. I’d like to welcome Scott Stortz. Welcome, Scott.

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SCOTT STORTZ: Thanks, Jim. It’s wonderful to be here.

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JIM: We were talking the other day and you were talking about all the things somebody should be considering and I remember you talking about someone who called you and said they’re ready to buy their house and you started asking them a few questions and it turned out they had made the decision to buy a house but they weren’t really ready. Describe what happened.

0:49

SCOTT STORTZ: Well, it’s pretty typical, especially with young first-time homebuyers. They finally get to a point in their life where they decide that they want to move forward and purchase something so they’ve made the conscious decision to move forward but, yet, they haven’t done anything other than call the realtor. Most real estate agents are going to jump in their vehicle and start showing this person or this young couple a house or two or three or whatever without sitting down and educating them so, in that example that you were just talking about, one of the policies that I have is I want to invest the time upfront with the buyer right out of the gate and have a buyer consultation meeting. Before I go out and start showing them properties just based on what they’re telling me that want, I want to sit down with them, educate them on the process, to make sure that they understand what it takes from looking to closing, not to mention find out have they met with a lender, who that lender is, and quiz them a little bit about what their needs truly are. Many times, buyers, I know this doesn’t make sense, but they don’t know what they want until you start flushing it out of their head by asking them certain questions and then showing them things online and get a feel for them. I know a lot of buyers get excited and they don’t want to have that meeting. It’s very boring to sit in a room and have a meeting. They just want to go out and look at properties and I get it. That’s the exciting part of it but it’s such a major decision and it’s such a large purchase that buyers should, by default, expect their agent to want to do this to help guide them through that so once I’ve explained it to them, they’re generally open and they want to sit down and then we can talk about that and buyer agency, which I’m sure a topic we’re going to be talking about here a little bit later, which is very important when picking a realtor, what’s involved with buyer agency contracts.

2:19

JIM: We were just talking about this just before we started that your profession is a lot like mine and I use the word profession and professionals very carefully because I believe in my own business and your business and the legal business and the accounting business, these are all very important cogs in the wheel so to speak of your financial wellbeing and, unfortunately, there’s a lot of people in those different businesses that aren’t really, in my definition, a professional, they’re transactional. They just take care of the transaction, love them and leave them, and they’re not worried about what’s going to happen next. If people make a poor decision, especially when you’re talking about a big purchase like a house, you make the wrong decision, that’s going to have serious financial consequences in the future and, if you look at it, you talked about having a mortgage ahead of time and understanding some of the expenses, and we’ll get into a lot of that, well, if you’re spending all of your money on a mortgage and your property taxes and your maintenance, well maybe you’re not funding your retirement. If we have a crash like we did in 2007 and let’s say that’s the time you were going to downsize your house and you thought you were going to cash out all of your retirement savings out of your house, I know that’s a plan that a lot of people had and it didn’t work out so well. Let’s switch gears, now, and let’s talk about how do people make a smart decision when buying a house. What are some of those considerations that you think are so important before you walk through that first entryway of that first house that they’re going to look at?

3:44

SCOTT STORTZ: I really believe the very first choice, the very first decision that a buyer should be making, whether it’s a first-time homebuyer or an experienced homebuyer, but especially a first-time homebuyer, is choosing the correct agent. No different than picking a financial advisor or an attorney. The barred entry in my field is very low. At least in the State of Wisconsin, you take a 72-hour course and you pass a test and you’re a realtor. Most of the firms will hire you just because you have your license. Just because somebody has a license in any particular field doesn’t necessarily mean that they are proficient or appropriate to guide you through these major decisions so I really think that the first major decision that any buyer should be making is interviewing realtors to get a comfort level for those and find out how experienced they are and meet with them. Most buyers don’t even think about this. They pick up the phone, they want to go look at the housel, they run into the open house, whatever, and they get excited, not understanding the ramifications of those decisions whether or not they’ve got somebody there who’s got their back so the number one most important thing is taking the time. When people look at real estate, many time it’s the seller who thinks they should be interviewing realtors to list their home. It’s no different when you’re a buy. When you’re a buyer, you should also be interviewing realtors. You should be sitting down and questioning those agents to find out what their level of experience is, how well they know the community that you’re thinking of moving into, and having a sit-down with them to make sure that you feel that they are going to counsel you correctly so that is the number one decision. From there, the realtor should be able to help you understand whether or not, financially, you should be looking at a certain price strata. I will tell you that when you go and meet with a lender and get your preapproval, they are always going to show you your top dollar, what you can afford. That may not always be the best decision. Just because the bank says you can afford a $2000 a month mortgage payment, that may not be the best decision for you, and, many times, it’s funny, I’ve been accused by a lot of buyers who have stopped midpoint through a house and they have turned to me and they have said why do you keeping talking us out of properties and it’s not that I’m talking them out of properties, I’m trying to make sure that they’re making the best appropriate decision based on conversations we’ve had and what I believe their tolerance is for work, what their tolerance is for finances, because some people will fall in love with a house and not see the expense with that particular property. It may look like it fits in their budget but they’re not thinking about these other things but, again, back to your question, the number one decision is the realtor that’s going to represent them. When I say represent them, one of the things, at least in our state, is you have a choice to have an agent represent you or not represent you. By default, in the State of Wisconsin, all real estate agents automatically work for the seller even if it’s not their listing. You, as a buyer, want the agent to work for you so you want to sign what’s called a buyer agency agreement. What this does is it makes the agent contractually obligated to make sure that you’re getting all of the appropriate information, getting that agent’s professional opinion based on value, location, and other things that the agent would not normally have to tell you. For example, if you just pick an agent out of the blue, they’re showing you homes and you don’t have a buyer agency with them, that agent, by law, is not allowed to tell you what he or she thinks about the property, its price, its location, etc. They’re just there to show you the property and fill in the blanks. The minute you have a buyer agency with a realtor, now, that realtor is held to a higher level of distributing information to you and sitting down with that agent to understand buyer agency and I know, again, buyers get scared, signing a contract, does that mean I have to buy something with you. No, not necessarily, etc., etc. People don’t think that signing a contract upfront, at least in our area, for a lot of people it’s foreign, that that is the norm. The contract comes when you buy the house and, really, they need to start thinking the opposite. They need to, first, contract with a realtor to make sure that that agent is working in their best interest, not in the seller’s best interest, so those are very important first steps. Then, from there, before you jump out and get in the car and start looking at properties, make sure you’ve sat down with qualified mortgage officer. Again, just like in our business, becoming a mortgage loan officer is a relatively easy task to do. Make sure that you’re dealing with somebody who has got a lot of experience and offers a variety of programs. There is a lot of different financing options out there, FHA, USDA, WHEDA, conventional adjustable rate mortgage, there are grant programs available in many counties in many states that you may qualify for depending on your credit and income levels, but making sure that you’re working with a mortgage broker that has a first grasp on all of these different areas can save you a lot of money and possibly get you a better interest rate. It’s a lot of upfront investigative work that has to be done by a buyer before they buy a house that’s going to set the tone. Do you have the right people on your team? Do you have the right realtor who’s got the right connections for home inspectors, etc.? Do you have the right mortgage loan officer that’s going to be able to help you through this piles and piles of financing decisions that have to be made? Once you’ve got those ducks in a row and you feel comfortable with the team that you’ve assembled, then you go out and you start looking at properties.

8:23

JIM: That’s awesome. That was a mouthful.

8:24

SCOTT STORTZ: Yeah.

8:25

JIM: There’s a lot there. One thing is, I was, as a financial planner, I always get real involved in major financial decisions for my clients. I was shocked to discover because my mindset was WHEDA loans are for that first-time homebuyer and someone who’s barely making any money and these were for state grant type programs in our state and I know they have them in other states. I know there’s federal programs, all different things that can help people out. I was surprised to find out while counseling a client, I said well let’s get a mortgage professional on and let’s figure out what’s available and, here, they were making some pretty good money and they were able to qualify for a first-time program for a mortgage and they weren’t a first-time homebuyer so the definition of first-time homebuyer in his case, if he hadn’t bought a house that his name was on in the last, I think it was 12 months, he was already eligible for a program and then there was another program after a couple years so there’s a lot of different things available and I think sometimes people come into an inheritance or a new job or something and they say well I’ve got the cash and they’re jumping headfirst into a transaction and, you look, just a couple hundred a month or $300 a month or $500 a month or whatever, if you don’t right to that maximum, that’s money that can be used for other things like maybe the kids dental work or maybe books for school or maybe your retirement or maybe insurance in case something happens and you get sick or disabled or whatever, there’s a lot of different things that money goes for and you’ve got to make sure you’ve got all of those bases covered. Hey, we’re going to take a short break and when we come back, we talked about all of these things a buyer should look at, now, what’s the next step, we’re looking at homes, so how does it go from there so please stay tuned.

10:01

BREAK

10:30

JIM: Welcome back as we continue to visit with real estate professional Scott Stortz and, in the beginning, he was talking about all the things you want to consider before you first walk into that house so all those things you talked about is, first of all, have a professional or a team of professionals that you can feel comfortable with and, if you’re buying a house, you might want to consider having a buyer’s agent and one thing I’ll just say from a personal note, I know, Scott, you helped me sell my last house, you helped me buy my new house, you gave me some bold advice along the way and I know because of your relationship, you asked permission to give me that bold advice first but, I’ll tell you what, I didn’t want to hear any of it but it was golden advice. I think when you have an advocate for you, someone that is willing to take a chance and maybe someone’s got their dream house, they want to buy it, you, as a professional, know it’s probably not the right financial decision for them to make, it’s really hard to tell somebody, you know, maybe we should look at something different. You’ve talked about it a little bit in the first segment so you’re taking someone out, you’ve maybe set their expectations to a level that they can be in a comfortable position that fits them based on the interview that you’ve done with them. Now what?

11:40

SCOTT STORTZ: Well, it’s interesting. When I originally went to college, my degree was going to be in Psychology and Human Behavior. That’s where I wanted to be. Ultimately, I changed majors and I ended up in the Business field but I use the psychology and human behavior and social sciences in my business life more than my actual Business degree. One of the things that I’ve learned is how to read people and really understand. Many times before they even know what they want, I know what they want, so when you take that time to interview an agent and you start to build a relationship and you have communication and you take them through properties, you need to make sure you have an agent that’s doing a lot of listening and really understands your personal background, where you come from, what you do for a living, what your skillsets are, etc., because, when you buy a property, different properties sometimes require different skillsets. When I’m taking a buyer through a property, they’re, many time, looking at, oh, isn’t that pretty, isn’t that nice, and that’s wonderful. I’m in the background and I’m looking at the age of the roof and the mechanicals and whether or not there’s peeling paint and is it a septic and a well versus city sewer and water and what does the landscaping look like and going downstairs and checking out mechanicals, looking at things that are going to need work or attention. Then, I also have to assess my client and I have to understand does my client even know how to change oil in a vehicle. If they can’t do that, they’re not going to be able to handle property like this. Sometimes, they get so wrapped up in the view or the room size or the color that they forget that they might be taking on a project that’s bigger than they could handle. I just really feel that it’s really understanding your client and then helping them understand what they may or may not want because, many times, they don’t know. It’s kind of funny. It’s usually a journey. We start the journey and they’ve got a certain thing in their mind that they feel is what they’re looking for. Through the process of going through properties and having open discussions, they start to realize needs and wants are a little bit different. The other thing that I have found that works, at least it has worked very well for me and most of my clients, is that I have no filter. I don’t sugarcoat things. The people that tend to hire me, for example, know that they’re getting a straight shooter and that I’m not going to tell them things that they necessarily want to hear. I’m going to tell them things that they have to hear so I cut to the chase. I really point out a lot of things, even if it kind of bursts their bubble a little bit, but I really feel that they’re not buying a shirt. If they don’t like it, they can’t take it back. This is a huge, huge, huge financial decision that can have longstanding consequences on credit scores, ability to move forward, retire. There’s so many thing that are involved, the expenses that are involved in maintaining a property, that if they don’t have an advocate for them that is really telling them the truth and they’re more interested in just closing a transaction, that agent could be setting that buyer for failure down the road when it comes time to move on and it’s very important that they have an agent who is that forceful.

14:27

JIM: I look at one of my first real estate transactions, actually, it was my second one because I bought a duplex and then I turned around and sold it, and I brought on a real estate agent and I told this gal, I was just kind of test driving her and I told her this. I said I’m trying to find someone that I can comfortably refer my clients to and I told her right upfront I’m going to have an attorney review th4e transactions, the attorney is going to be involved because I knew about the rules where a real estate agent more or less represents more of the transaction, it’s not really representing my best interest. They’re representing getting the property sold, it doesn’t really matter how it gets sold. At any rate, I got an offer and she calls me up and says this is a really good deal, really good deal. You should sign it. She gives me a song and dance about how financially strapped the potential buyer was and that this was a good offer and would help them out and all of that and I’m thinking I’m selling my property, I’m not a community service trying to help some people out. I’ll look at the offer and she told me I had, in the offer, it said I would bring it up to renters’ standards, whatever they may be. I had an older house. I was concerned if there might have bene asbestos in there or lead or whatever. My attorney explained to me you’ve just given them an open checkbook because there’s no parameters on that. You could end up losing all your equity in the house paying for what was on that open-ended offer so making sure you have someone working for you. You talk about the long-term unattended consequences or financial consequences, I've experienced it. Now, one thing that I’ve always had a lot of respect for you, Scott, is you have been a straight shooter and everybody that I know that has worked with you all hold you in high regard that you’re honest and you tell the truth. What about somebody out there who has a realtor that’s just in it for the transaction. They make the deal, they get a commission. How do you protect yourself from that or how do you know if they’re doing it right by you? What protections would you recommend?

16:21

SCOTT STORTZ: Well, I think on a buyer’s side, one thing, again, going back to that whole buyer agency thing, when a buyer signs a buyer agency with that realtor, that realtor is taking on a lot of additional liability and making sure that those T’s are crossed and those I’s are dotted so the buy has a little bit more teeth if there were to be a lawsuit and whether or not they were misrepresented or not. Even though we are constantly being told in this state, you guys aren’t attorneys, you’re realtors, fill in the blanks, period, end of story, move on. The truth of the matter is we are like attorneys. We have to know those contracts and the law inside and out. You need to make sure that you’re working with a realtor that really understands how to craft language and what to cross out and what not to cross out. To your point, the slightest change in a word, in an added contingency, can change the whole meaning of the contract and cause an out for the buyer or the seller or cause a blank check to be written for one of the parties. To your point earlier of unintended consequences, yeah, that’s usually caused by sloppy language put into a contract or verbiage that is not correct. I have had many brokers over the years go by the philosophy that you should keep contingencies vague. I think just the opposite. This is a legal contract. We need everything to be very specific. There should be nothing vague about a legal contract but many agents subscribe to that vagueness thinking it gives the parties, including themselves, more flexibility. To me, that’s going to flexibility them right into court. I really believe that when you’re talking a legal contract, it needs to be specific so you need to have an agent that’s well-versed, really understands real estate law, if not law in general, to make sure that those blanks are filled in correctly. When you look at a standard offer to purchase, for example, here in the State of Wisconsin, one advantage that we have in our state is that real estate agents, no matter what firm they work for, are not allowed to create their own offers to purchase. These are state-mandated forms. A standard residential offer to purchase in the State of Wisconsin is nine pages and we also have certain addendums that we can add to them. These addendums are anywhere from two to nine pages long so we’re talking a fairly hefty contract with a lot of very tiny print and a lot of language. In so many of these areas, things can be crossed off or not crossed off, words can be added, dates can be added or inserted, and something as simple as not having correct dates or timelines set in motion can cause a domino effect in the negative. You really want to make sure, especially a buyer, and you’re the one writing out the check to buy this house that your agent is being very thorough about the language that is being placed in these contracts because it can be huge.

18:53

JIM: Now, as you’re talking about that, I know for myself personally, I’ve always had legal representation and, even as much as I trust you and I know you and everything else, I know attorneys, they have to take another level of responsibility when they’re representing you because they are attorneys, they’re held to the standard of attorney, and if they miss something, it’s on them, so I look at it if someone who tries to do this on their own, I see these people for sale by owners, I just think such a major transaction. Unless they’ve got real estate background and they understand contract law, these folks, I think, are setting themselves up for some real trouble and especially those that buy private party listings. I know so many people say, oh, we could save the real estate commission. One thing I know that you did for my house is you screened the people so I’m not showing it to every curiosity seeker and deadbeat that wants to come walk through the house because they’re curious. You prequalified those buyers, you screened them. It wasn’t’ about let’s just try to get whatever fruit falls from the tree. Let’s make sure this is a professional relationship and a professional transaction so I appreciate that. Any last thoughts that you’d have, Scott, for a new time homebuyer.

19:59

SCOTT STORTZ: Well, you were talking about attorneys and I will never tell a buyer or a seller not to also have an attorney involved in a transaction. That is their right. It’s preprinted in the offer and, actually, it takes a little bit of pressure off the realtor to have another set of eyes look at this stuff. I would also say that, you know, for those buyers that are out there and they’re buying the for sate by owners and they’re trying, both parties, the seller and the buyer that are trying to cut the realtor out of the transaction thinking that they’re going to save some cost, a) the buyer needs to realize it’s the seller saving the cost, not the buyer. When a buyer in the State of Wisconsin hires a realtor and buys a house, generally speaking, it will be a property listed through the MSL system, the multiple listing service, and they’re generally going to be buying a home that is listed through another firm and that buyer’s agent is going to get paid from the listing agent so, unless that buyer decides to buy a for sale by owner and that for sale by owner won’t pay the realtor, there’s no cost to have professional representation on the buy side. When you go to an attorney to have them draft the offer to purchase for you, there’s some major components missing. I’m not ditching attorneys, I love them. They’re there and they know what they’re doing for the most part but that attorney didn’t tour the property with you. That attorney isn’t there during that home inspection. That attorney isn’t there to help you understand what that home inspector had to say. That attorney generally doesn’t have a lot of resources for you to go to get additional information about those different things. That attorney isn’t really there to help guide you as to is this the appropriate purchase for you and your financial wellbeing and your future and is this goal of yours to buy this home a short-term or a long-term and what are the ramifications of that decision and is this house going to be sellable two years from now versus five years from now depending on different circumstances so I still believe that there has to be a stronger one-on-one relationship. You find a house, you go to the attorney’s office, he fills in the blanks and he’ll fill them in or she’ll fill them in correctly, but there’s so much more to a real estate transaction that is not there that an attorney is not offering that are huge, huge components to the entire process so I will have to say, honestly, my experience has been the vast majority of buyers and sellers, when I say vast majority I’m talking 99%, do not have an attorney involved, they’re working solely with the realtor, but I would really caution people going out on their own, especially the buyer. It’s one thing to list your house for sale by owner, it’s another thing to buy a for sale by owner and not have a realtor there to help you understand if you’re overpaying and if this is the right property for your wellbeing because the attorney is not going to be there for that so I would just be a little bit cautious about not having somebody advocate for you on the buyer side.

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JIM: And I look at it, I think both are critically important.

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SCOTT STORTZ: Yep.

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JIM: It’s just like financial planning and having a team. You talked about earlier in the first segment having home inspection. I’ve heard of people, they don’t even get a home inspection done. Man, they’re playing with fire when you do that. The mortgage, what terms you’re going to have, I see a lot of people do a 30-year fixed and they only plan on living there three years. Well, why pay the premium to lock it in for 30 years? Now, on the other hand, I’m one that believes lock in these low interest rates as long as possible because we’ve got the lowest interest rates ever, but if you know for sure you’re only going to be there three years or four years, first of all, you’ve got to question whether or not you should be even buying a house but, if you feel you’re going to be selling over a short period of time or maybe, hey, when the kids finish high school, we’re going to downsize or get a home for when we’re retired, and you know that in 10 years you’re going to be getting out of this house, well, maybe you do a 15-year lock-in or a 10-year lock-in. It can save a lot of money. Scott, I really appreciate you being here with us. I think you gave a lot of valuable insight. I think the morale of the story as it’s been on our program week-after-week and month-after-month is don’t go it alone.

23:37

SCOTT STORTZ: That’s a fact. Thank you, Jim.

23:38

JIM: Thanks for joining us this week and tune in again next week as we explore another phase of the   
Real Wealth process and, remember, if anything you heard in today’s show you’d like to get more information about, contact your Real Wealth advisor. Also, if you feel that any of this information would be helpful to a friend or family member, just click the Forward to a Friend button.