Developers set good-faith deposits as they please, but you have room to push back

by Ilyce_Glink

Q: I am looking into buying a new townhouse. The developer's sales representative told me I would need to put down $10,000 for a good faith payment after I sign the purchase agreement. I told him I'd think about it.But I just talked to a co-worker who just bought a condo unit with similar square footage. He had a real estate agent with him and only had to put down $2,500 after he signed the purchase agreement.So, I contacted the sales rep and told her that $10,000 seemed like a lot of money. She then told me that all I had to put down was $7,500.Is there a set amount for how much money needs to be put down in situations like this? Putting down this kind of cash seems a little off given how the market is right now.A: Each developer sets the amount that he or she wants you to put down on the property. But as you've seen, this developer doesn't want to do anything that might scare you away in what appears to be a soft local market where buyers are hard to come by. So, you pushed back on the down payment, and the sales rep has been trained to give you what you want.Typically, developers want to get as much of a down payment as possible so that they know you're in it for the long haul. The more you put down, the less likely you are to walk away from the deal.However, in a slow real estate market, plenty of folks are walking away from bigger deposits than $7,500. I've heard of people who have walked away from $100,000 or more because they didn't want to close on a piece of property they knew would be worth less than they were paying.When I've bought new construction, the developer generally asked for 5 or 10 percent of the purchase price in cash. But in today's market, a developer who desperately needs buyers might not be inclined to enforce that provision of the contract.One thing that concerns me is that it sounds like you're looking for new construction on your own and are not working with a buyer's agent.There's no reason why you shouldn't have your own representation. Developers budget for buyer's agent commissions, and then you'd have a smart, knowledgeable representative who could help you with your negotiations.As your friend has discovered, having an agent who knows what's going on means you'll get more favorable treatment and may even buy at a lower price and receive better upgrades and options. That's because a good agent will know what's being offered around town and how to get the developer to give you the best deal possible.   Go find a great agent to help you figure out what you want to buy and what kinds of deals developers are offering in your area. Then go back to this developer if you decide this is still the townhouse your want. The developer's salesperson will likely tell you that you can't bring your buyer's agent into the deal now "at this late date," but tell her you'll walk if you can't have representation.Given how well she responded to your pushback on the down payment, I have no doubt you'll be able to make this work as well. If you decide not to bring in an agent, you might want to insist on a lower amount of money to put down to buy the townhouse.Q: Do you do private lending? I'm a real estate investor and would like to be able to acquire more properties.A: Thanks for your letter. I am not in the private lending business, but if you've tapped out local banks and mortgage lenders, you might want to try a Web site called Prosper.com.Prosper.com is a site that connects borrowers with private lenders. You post a "loan listing" which includes some of your personal financial information (you decide how much personal information to reveal) and what you're trying to do online and various lenders will bid for the right to do business with you. You can borrow up to $25,000.Prosper.com founder and chief executive officer Chris Larsen helped start Eloan.com. He started Prosper.com because he thought there was a market for people who wanted to borrow money outside the traditional financing channels.According to its website, Prosper.com makes money by charging a 1 to 2 percent fee from borrowers when a loan is funded. It also assesses a 0.5 to 1 percent annual loan servicing fee that is paid by lenders. The company has raised approximately $20 million dollars and is backed by a host of top private capital companies.But as with any business relationship, you need to do your due diligence and make sure you understand the relationship between the parties, what you will get out of the transaction, the pitfalls and benefits of the deal. Finally, as for Prosper.com or any other Web site you consider, make sure they are reputable and that you understand the risks of doing business with that Web site.