REAL ESTATE FINANCE

Lesson 9

Working with Buyers

45 Hour Louisiana Post-Licensing

10/14

Working with Buyers

Introduction

Across the nation, the number of buyers who pay cash for real estate averages between five and ten percent annually. To real estate licensees this means that ninety to ninety five percent of the buyers they will come into contact with will rely on some type of financing in order to be able to purchase. It is not unusual for a licensee to retire from a long and profitable career in real estate sales and not once meet a buyer who is able to purchase without financing some portion of the sale price.

Although there are some exceptions, the majority of real estate purchases are made using mortgage loans where the property is pledged to secure the loan.

No matter how much of a "people person" a licensee may be, no matter how good his or her contacts are within the community, unless financing is successful there will be no closings of transactions. Without closings, licensees do not get paid.

It is therefore of greatest importance that all licensees have some understanding of the mortgage loan process. The very first thing new licensees need to understand perfectly is that they are not usually mortgage loan originators or processors. Those are the folks who undertake the exacting, detail rich, jobs of ensuring that all the documentation required by the lender will be gathered into the precise form required by the lender.

Most licensees do not have these skills and have no wish to acquire them. Fortunately, in depth understanding of exact procedures of loan processing is not necessary to be able to have a successful real estate sales career. What is necessary is an excellent understanding of how the overall process moves from application to approval and the role of the licensee in getting there.

Each licensee should have a basic knowledge of the way the qualifying and approval processes work for several good reasons:

- Licensees should be sure that consumers are actual buyers and not just lookers who waste licensees' time and stress sellers
- Showing property that consumers can actually buy saves time and disappointment all around
- Buyers will be better served by licensees who are familiar with the full variety of mortgage loans available
- Not all lenders are equal; if a lender is attempting through malice or incompetence to defraud a consumer the licensee should recognize the attempt

Therefore, the lessons any licensee should learn about financing are:

1. Licensees should have general competence in real estate finance, and,
2. They should use this knowledge to oversee the process, not attempt to perform it.

As we work our way through this module many licensees will be tempted to think it's a waste of time for them to bend their brains around information that loan originators and processors already possess.

Those licensees would do well to remember the recent mortgage lending scandals where unsuspecting consumers were coerced into accepting mortgage loans they could never realistically hope to pay back. Only real estate licensees who were inexcusably ignorant of unethical lending practices or themselves willing to fleece consumers would have allowed consumers to enter into predatory loans.

After witnessing the suffering brought on by these unethical lenders, the current group of newcomers to the profession must try do better than some who went before you. Because of the widespread coverage of unethical lending practices and the resulting real estate market meltdown, it is no longer possible to use ignorance as a defense. The only other path available to licensees is to learn about real estate financing.

Pre-Qualifying Questions

Pre-qualifying questions are those lawful questions licensees ask so that they will not be forced to show every single property available in the market area until, by trial and error, one is eventually found that the buyer wants and can afford.

A very important, but *non-financial*, question should also be asked right up front; consumers should be asked to identify the geographic areas in which they would prefer to live. This simple question prevents licensees from deciding for the consumers where they will live (a clear violation of the fair housing laws). There is another very important question that should be asked of any potential buyer (or seller) that is not a *financial* pre-qualifying question but could also impact your ability to earn a commission. That question is: **"Are you working with another agent?"**

If the answer is negative, you should still pay attention to the level of familiarity the consumer has with properties currently on the market or recently put under contract. A potential buyer who knows, for example, that a property has unacceptable interior colors or a really tiny master bedroom closet did not learn these facts from media advertising. Knowledge of specific information on properties may be a clue that these folks have been looking with another licensee. When and for how long they have done so is critical information to have.

The questioning period begins right after hello. Pre-qualifying question #1 is so basic that sometimes we forget to ask it:

Pre-Qualifying Question 1: Are you employed, or are you paying cash?

If they're not working, and they aren't paying cash, they're probably wasting everyone's time. Anticipated insurance settlements and inheritances are not actual cash until they are received and there is usually a long time period between anticipation and reception. Sellers are usually not willing to roll the dice in favor of mama passing away shortly, and smart licensees shouldn't either.

There are a couple of good reasons for unemployment. Having just completing education or military service and *considering multiple employment offers* are the best reasons for not being employed. In both cases employment is imminent, and it can be assumed that when multiple employment offers are being considered one of the factors will be comparative income.

In those rare instances where a buyer states he is paying cash, he should be informed by the licensee that he will be expected to verify the amount and location of his cash when he makes an offer.

Pre-Qualifying Question 2: Are you interested in buying or renting?

It is very disheartening to have spent days or weeks showing properties for sale to learn the consumer really wants (or needs) to be looking at rentals. It's almost as disheartening to learn up front that the consumer will look at both sale and rental properties before making a decision, but at least the licensee knows how much time it is reasonable to devote to a consumer who has problems making decisions. Note: buyers who are capable of making decisions are the best kind.

In addition to helping with time management, knowing a consumer is interested in rentals either instead of or in addition to sale properties provides clues to what the next pre-qualifying questions should be.

Pre-Qualifying Question 3: Have you met with a mortgage company to learn how much you can afford to buy?

If you are dealing with a first-time buyer it is very important to distinguish between the friendly folks at their bank branch and a real loan originator. No offense to the good folks who work at the branch bank, but the difference between them and a loan originator is very much like the difference between a general practitioner and a cardiac surgeon when cardiac bypasses are needed. They're nice and they know something about mortgages, but they don't have the specialized knowledge a loan originator has.

Sometimes the branch bankers don't realize they don't have this specialized knowledge, and neither do most first time home buyers. Many first time buyers believe there will be some financial advantage to getting their loan mortgage from the bank where their checking and savings accounts are placed. They should be advised to shop around for the best offer from several sources.

If prospective buyers say they have "talked to" a lender, it is the job of the real estate licensee to explain that nothing is accomplished until a formal application has been made and all required fees have been paid.

If prospective buyers say they have not talked to a lender but have consulted an Internet pre-qualifying web site, they must be told that nothing is accomplished until a formal application has been made and all required fees have been paid, all with the lender who is actually going to give them financing..
In fact, no matter what their status with a lender, nothing is accomplished until a formal application has been made and all required fees have been paid.

The only way they will know how much they can afford to buy is to make a formal mortgage application with a real loan originator. If they say they have done so, that triggers the next question:

Pre-Qualifying Question 4: Do you have your loan approval letter from the lender with you?

One purpose of this form is to break down how much mortgage buyers can afford. Another is to determine the type of loan that is most appropriate for buyer's financial status. Equally important, this document bridges any possible gap between the fantasy of what the buyers want and the reality of what they can afford.

Always remember to check for the borrower's and loan originator's signature on this document. If it is not signed, the lender is not responsible for its content. The borrower's signature indicates that the information in the document has been explained and understood.

When possible, it is good practice to have buyers pre-qualified before they are shown any property. This practice ensures that consumers are actual buyers before licensees' and sellers' time is wasted. It also prevents buyers from viewing properties that are more costly than they can qualify to purchase.

The time for pre-qualifying questions is over at this point. If there is no loan approval letter the ideal next step is a formal loan preapproval appointment with a lender.

If you choose to show properties without having the buyers pre-approved for a mortgage loan, keep in mind that you are rolling dice on whether you will have a closed transaction even after investing a lot of time and money in the buyer.

If you are the designated listing agent of a seller who presents an offer that is conditioned on the offeror being able to find financing, make very sure the seller understands that you and he are both rolling dice on a possible closing.

Pre-Qualified and Pre-Approval Letters

There is an enormous difference between a buyer who is pre-qualified and a buyer who is pre-approved. Real estate licensees may pre-qualify consumers; unless they are also mortgage lenders they have neither the expertise nor the authority to pre-approve a borrower.

The pre-qualified buyer has visited with a loan originator and answered questions regarding his financial and economic status. No credit report has been secured, nor has employment or savings been verified. The lender is saying, in effect, **if** this potential borrower has told the truth, he probably is eligible for a mortgage loan from some lender.

The pre-approved buyer has a letter stating that the lender has verified all information that needs to be verified and will make a mortgage loan to the borrower. The letter will then list the conditions under which the loan will be made: date of pre-approval, maximum mortgage amount, interest rate maximum, maximum loan term, no change in employment or other economic status, no change in marital status (if applicants are a married couple qualifying on both incomes or joint savings or if a single applicant marries), etc.

The pre-approval letter can be attached to any offers made by this purchaser. Inclusion of the pre-approval letter with offers will usually strengthen offers, as sellers will know the suspense attached to whether or not the offeror will be able to secure financing is removed.

Obviously, pre-approval is the best way to go. There are times, however, when pre-approval is just not possible. At those times it is imperative to:

1. Get the offeror to a lender as soon as possible,
2. Watch while an application is made, and,
3. Witness the payment of all required application-related fees.

Sometimes it is not possible to witness the loan application. When that is the case, just to be absolutely sure all necessary business has been transacted with the lender, ask for a copy of the Truth-in-Lending form. Check to see that all blanks are filled in and that the loan originator and the borrower have signed the form. School the applicant to provide you with a copy of the approval letter when it arrives.

Confidentiality

Banking regulations forbid lenders from sharing loan information with anyone other than the applicants. "Anyone" includes parents or spouses of applicants and definitely includes real estate licensees.

There are times, however, when it is in the best interest of the borrower and the transaction for real estate licensees to get information on pending loans straight from the lender. In these times, the borrower may submit, in writing, permission for the lender to share information on the loan in process with a specific real estate licensee who is properly identified (name, company name, license number) in the written authorization.

The permission may be broad enough to cover all facets of the loan in process or it may be limited to certain factors. This choice is the option of the borrower. Any information learned as a result of the borrower authorizing the lender to share with you is confidential and may not be shared with anyone other than the borrower(s).

At no time may the lender legally share information on a pending loan with a real estate licensee (who is not the borrower) without written authorization from the applicant.

QUESTION:

A prospective buyer requests to be shown residential properties. Which of the following information should you attempt to solicit during the initial conversation?

a. If the residence should be close to buyer's work.
b. If the neighbors should be of a specific race.
c. If the buyer has been pre-approved for a loan.
d. Both a and c

The correct answer is d.
b is a violation of fair housing laws and should not be asked.
a opens discussion of buyer's employment.
c opens discussion of how the buyer plans to pay

Type of Loan Best Suited to Consumer

Introduction

Mortgage loans for real estate purchase are so universally used and so readily available that most consumers and even most real estate licensees do not realize that less than three generations ago there was no mortgage loan industry. Banks might lend highly esteemed customers money to buy real estate, usually farms or other businesses, and the real estate secured the loan, but this was not the norm. The owner's equity (or down payment) was typically set by banks at fifty percent.

There was no amortization of the principal. Borrowers paid interest only until the due date of the loan (usually ten years or less from the beginning) and a single payment of the entire amount of the loan was made at the end.

Banks had no mortgage loan departments, nor even mortgage loan originators. If the bank president liked the deal, the loan was made. This system worked because bank presidents of the time were notoriously tight fisted and fiscally conservative. This essentially meant that very few mortgages were granted.

Insurance companies were the first to brave residential and small business real estate loans. Their motives were less than pure. They reasoned that if borrowers failed to pay they could foreclose on the properties and gain large amounts of real estate more cheaply than by making outright purchases. Of course, they soon found lower risk and higher payoff schemes and eased out of the mortgage business.

Savings and Loan Associations were invented in the early 1800s and were specifically intended for the use of their members who deposited funds into savings accounts and, when needed, could borrow from the associations. The 1946 movie, "It's a Wonderful Life" starring James Stewart as the reluctant president of a building and loan association is an excellent representation of the way the building and loans worked until after the middle of the twentieth century.

By the 1900s, savings and loan associations (sometimes chartered as Building and Loan Associations) were leaders in the mortgage lending business. These associations would lend up to eighty percent of the value of a residence.

In the 1930s, modern mortgages appeared on the scene when the Federal Housing Authority (FHA) initiated a new type of mortgage specifically for buyers who didn't have the 20 percent down payment required by savings and loan associations. They first lowered down payment amounts to ten percent of value; later the down payment amounts were lowered to five percent of value and, in time, even lower.

FHA eventually introduced the amortized mortgage, which allowed borrowers to pay a graduated percentage of the principal amount along with installment interest payments.

Observing FHA, banks realized that there was money to be made in lower equity loans and, in the 1950s began offering home loans with ten percent down. In the 1960s they lowered their down payment requirements to five percent of value.

Low borrower equity loans generally mean that there is a greater risk of borrower default. When a borrower defaults on a mortgage loan the bank resumes ownership of the property and can sell it again, but for most banks the risk is too high and the return too low for foreclosures to build their portfolios. Low consumer equity loans must be buffered by some sort of financial device designed to limit risk.

Enter Private Mortgage Insurance, commonly known in the real estate industry as PMI. PMI can be named something else, as FHA Mortgage Protection Insurance illustrates, but if the objective is to protect the lender's risk position on any part of a mortgage, it is PMI by another name.

Almost always PMI is an insurance policy that, in the event of borrower default on a mortgage, pays the lender the **difference** between the amount borrowed and eighty percent of the value of the mortgaged property.

This is the reason that PMI is based on the mortgage amount, not on the sale price of a property. It is also the reason why, under certain circumstances, PMI can be removed from a monthly mortgage payment. The circumstances are:

- No language in the mortgage requiring PMI for the life of the loan;
- Evidence that the difference between the unpaid mortgage principal balance and value are twenty percent or less; and,
- The borrower makes a formal, written request to remove PMI from their payment.

Today the mortgage loan industry is a thriving business offering a multitude of different ways to finance real estate. Many of the mainstay programs of the mortgage industry were designed to meet the needs of the various types of borrowers (while still making lenders a healthy return on their investments). We will examine several of the most commonly used mortgage products, and illustrate how they are suited to specific types of buyers.

Veterans Administration (VA) Loans

We're starting with VA loans because the segment of the borrower population for which they are designed is obvious; to get a VA home loan one must have served in the US military or be the un-remarried widow of a soldier who dies in action. The exact definition of service that qualifies an individual for such a loan is in the "Eligibility" document at the end of this module. If a veteran intends to use his VA benefit to purchase a residence he should immediately order his Certificate of Remaining Eligibility (CRE) from the Veterans Administration. Having the CRE in hand is the only way to be absolutely certain that a borrower can get a VA loan, and how much loan he is entitled to.

Although it is possible for a veteran to have more than one VA loan outstanding at the same time, the total amounts of the mortgages may never exceed his CRE. Also, VA loans are only for primary residences. If a veteran is purchasing a second home, or if he is purchasing a rental property, 100 percent VA loans may NOT be used.

The veteran may file a request with the Veteran's Administration on their web site, www.VA.gov, to receive the Certificate of Remaining Eligibility. Also, the lender, upon receiving authorization from the veteran, may also request the CRE. In most cases, the lender will receive the CRE more quickly than the veteran.

An additional benefit to veterans lies in the down payment requirement; if certain conditions are met, veterans may purchase with NO down payment or with a lesser down payment and no PMI. VA loans are not intended only for veterans who have no money for down payment. They are primarily intended as a tangible thank you from a grateful nation for having served. For this reason the VA guarantees that if the veteran defaults on the loan it will be paid by the VA.

There is, however, the VA Guaranty fee that is a percentage of the loan amount. This fee may be paid in cash or the veteran may finance it over the life of the loan. The formula for calculating this fee is complex and is impacted by veteran's branch of service, time of service and several other factors. It is strongly recommended that the lender be contacted for each case before quoting any dollar or percentage fee.

Residential properties financed under the regulations of the Veterans Administration must still be appraised, and the amount of the loan is based on this appraisal. When appraisal values do not equal sale prices, veterans may renegotiate with sellers to lower the price. If this negotiating maneuver fails, veterans who have the money may make up the difference by making a down payment in the amount of the shortfall.

In the case of new residential construction, there are guidelines for construction quality that must be followed and inspections are made periodically to ascertain that that materials and construction are within these guidelines. These inspections are not free, and any new construction contract for a residence to be financed under VA regulations must address the cost.

Builders may lose time waiting for these inspections, and time lost can be expensive (builders typically borrow money to build and daily interest is charged to them whether work is being done or not). These and other factors may add to the cost of a residence, thus we find that many purchasers of new construction who are veterans with down payment money may choose to use a different financing opportunity.

There are two possible exceptions to the VA inspection requirement: (1) houses that are less than one year old and have never been occupied may be allowed to substitute their city inspections in place of VA inspections, and, (2) if the veteran makes a down payment of ten percent.

To summarize, VA loans are made to veterans subject to the regulations of the Veterans Administration and may have no down payment, but are subject to appraisal value and (usually) market interest rates.

VA Eligibility (*Downloaded from www.va.gov, 6-6-2013)*

You must have suitable credit, sufficient income, and a valid Certificate of Eligibility (COE) to be eligible for a VA-guaranteed home loan. The home must be for your own personal occupancy. The eligibility requirements to obtain a COE are listed below for Service members and Veterans, spouses, and other eligible beneficiaries.

VA home loans can be used to:

- Buy a home, a condominium unit in a VA-approved project
- Build a home
- Simultaneously purchase and improve a home
- Improve a home by installing energy-related features or making energy efficient improvements
- Buy a manufactured home and/or lot.

Eligibility Requirements for VA Home Loans
Service members and Veterans

To obtain a COE, you must have been discharged under conditions other than dishonorable and meet the service requirements below:

Status	Qualifying Wartime & Peacetime Periods	Qualifying Active Duty Dates	Minimum Active Duty Service Requirement
Veteran	WWII	9/16/1940 - 7/25/1947	90 total days
	Post-WWII	7/26/1947 - 6/26/1950	181 continuous days
	Korean War	6/27/1950 - 1/31/1955	90 total days
	Post-Korean War	2/1/1955 - 8/4/1964	181 continuous days
	Vietnam War	8/5/1964 - 5/7/1975 *For Veterans who served in the Republic of Vietnam, the beginning date is 2/28/1961	90 total days
	Post-Vietnam War	5/8/1975 - 9/7/1980 *The ending date for officers is 10/16/1981	181 continuous days
	24-month rule	9/8/1980 - 8/1/1990 *The beginning date for officers is 10/17/1981	• 24 continuous months, OR • The full period (at least 181 days) for which you were called or ordered to active duty
	Gulf War	8/2/1990 - Present	• 24 continuous months, OR • The full period (at least 90 days) for which you were called or ordered to active duty
Currently On Active Duty	Any	Any	90 continuous days
National Guard &	Gulf War	8/2/1990 - Present	90 days of active service

Status	Qualifying Wartime & Peacetime Periods	Qualifying Active Duty Dates	Minimum Active Duty Service Requirement
Reserve Member	• Six years of service in the Selected Reserve or National Guard, AND ○ Were discharged honorably, OR ○ Were placed on the retired list, OR ○ Were transferred to the Standby Reserve or an element of the Ready Reserve other than the Selected Reserve after service characterized as honorable, OR ○ Continue to serve in the Selected Reserve		

**If you do not meet the minimum service requirements, you may still be eligible if you were discharged due to (1) hardship, (2) the convenience of the government, (3) reduction-in-force, (4) certain medical conditions, or (5) a service-connected disability.*

Spouses

The spouse of a Veteran can also apply for home loan eligibility under one of the following conditions:

- Unremarried spouse of a Veteran who died while in service or from a service connected disability, or
- Spouse of a Service member missing in action or a prisoner of war
- Surviving spouse who remarries on or after attaining age 57, and on or after December 16, 2003
  (Note: a surviving spouse who remarried before December 16, 2003, and on or after attaining age 57, must have applied no later than December 15, 2004, to establish home loan eligibility. VA must deny applications from surviving spouses who remarried before December 6, 2003 that are received after December 15, 2004.)
- Surviving Spouses of certain totally disabled veterans whose disability may not have been the cause of death

Other Eligible Beneficiaries

You may also apply for eligibility if you fall into one of the following categories:

- Certain U.S. citizens who served in the armed forces of a government allied with the United States in World War II
- Individuals with service as members in certain organizations, such as Public Health Service officers, cadets at the United States Military, Air Force, or Coast Guard Academy, midshipmen at the United States Naval Academy, officers of National Oceanic & Atmospheric Administration, merchant seaman with World War II service, and others

Restoration of Entitlement

Veterans can have previously-used entitlement "restored" to purchase another home with a VA loan if:

- The property purchased with the prior VA loan has been sold and the loan paid in full, or
- A qualified Veteran-transferee (buyer) agrees to assume the VA loan and substitute his or her entitlement for the same amount of entitlement originally used by the Veteran seller. The entitlement may also be restored one time only if the Veteran has repaid the prior VA loan in full, but has not disposed of the property purchased with the prior VA loan. Remaining entitlement and restoration of entitlement can be requested through the VA Eligibility Center by completing VA Form 26-1880.

U.S. Department of Veterans Affairs - 810 Vermont Avenue, NW - Washington, DC 20420
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QUESTION:

A veteran who served in the Vietnam conflict wants to purchase a residence using his VA eligibility. He bought his first home in 1978 using a VA loan and still owns the property. What should the veteran do in order to be positive that he can buy using his VA eligibility?

a. Make mortgage application with a lender
b. Order his Certificate of Remaining Eligibility from the VA
c. Provide the mortgage lender with a copy of his discharge papers
d. Ask his real estate agent if he is qualified

The answer is b. A veteran’s Certificate of Remaining Eligibility is proof of the veteran’s ability to purchase using his VA eligibility.

Note: a form requesting the CRE can be downloaded by a veteran at the VA web site, www.VA.gov.

Federal Housing Administration (FHA) Loans

A buyer who is not a veteran and who is qualified on income and credit to purchase but who is a bit short on down payment money may be a good candidate for a Federal Housing Administration (FHA) loan. Buyers must meet FHA credit qualifying standards, but these standards are somewhat relaxed in comparison to what is required for some other types of loans.

All lenders who offer FHA loans must be approved by FHA. Loans made under FHA guidelines by approved lenders are insured by FHA, meaning that FHA provides security for the loan over and above the security inherent in the real estate. Appraisers who appraise properties ensured by FHA must also be FHA approved.

The mortgage insurance premium that is charged monthly is a premium paid by the borrower that, in effect, serves to assist the FHA in continuing to offer its loan programs.

The down payment required by FHA is slightly less than five percent, which makes it easier for move-up buyers and, in some cases possible for first time buyers to purchase. There are many loan programs available under FHA, but easily the most popular is the Title II, Section 203(b) loan, often referred to as “203(b).” Using this program a buyer can finance up to approximately 96.5 percent of the value of a residential property (up to 4 units).

Other distinguishing features of FHA loans are:

- Most of the closing costs may legally be added into the loan
- There is a Mortgage Insurance Premium (MIP) that is an annual charge but is usually paid monthly, and usually for the life of the loan
- An additional MIP premium may be charged to be paid at the time of closing
- The maximum allowable loan varies by geographic region
- When used to finance new construction, FHA loans require special inspections unless the borrower is making a minimum down payment of ten percent of the sale price
- Manufactured homes may be financed using FHA-insured loans if the borrower owns the property on which the manufactured unit is located and also on lots in approved manufactured home developments
- Discount points* may be charged

*Discount points are up-front interest charges made by lenders who wish to offer a lower interest rate on loans. They are often charged to help purchasers who are close to, but do not actually, qualify at a slightly higher rate. Sellers may pay these discount points as long as the maximum amount paid by the seller on any FHA loan does not exceed six percent of the costs normally paid by the buyer. FHA loans can be fixed rate, but can also be adjustable rate, depending of the program selected.

Some homebuilders may choose to build their new house under FHA guidelines. If they do so, much like VA, the FHA requires periodic inspections during construction. Builders who produce houses near the low end of new construction values are the most likely to accept this cost because they are aware that the majority of their buyers will require FHA mortgage loans to be able to buy.

Unlike new construction, existing homes can be purchased using FHA loans with a simple appraisal. FHA-certified appraisers are expected to report any structural problems as part of their appraisal (with pictures of the problem). It is not unusual for FHA to require sellers to make repairs to properties before a loan will be made.

Sellers are sometimes reluctant to make costly repairs before the sale actually closes to avoid having spent money for a deal that doesn’t happen. This potentially thorny problem can be solved if the designated listing agent of the seller has competently advised the seller of what to expect when the property is appraised.

The listing agent who researched sales in the neighborhood of a listing and found that fifty percent or more sales have been with FHA financing, that listing agent should inform the sellers to make needed repairs before the house is put on the market.

Appraisers who come to properties needing obvious repairs, and plenty of them, are exercising prudent judgment when they examine these properties very, very carefully. It is good for us to remember that the FHA is insuring up to 96.5 percent of the value of the property at the time of closing. If the property must be foreclosed, the better condition it's in when it's sold, the closer FHA will come to recouping its insured mortgage amount.

There always are going to be some sellers who are not willing or who are not able to spend money repairing a residence before it is sold. Listing agents in this situation have a hard decision to make. If they list the property without repairs they are betting that it will sell to a cash buyer, to a buyer with sufficient cash to make an increased down payment or that the seller, when presented with an offer from a qualified buyer, will bite the bullet and make the required repairs.

A licensee representing an FHA buyer also has a choice. That choice is between spending a lot of time on a deal that has only a slight chance of closing because of the condition of the property or of choosing to show only properties in acceptable condition to FHA. Especially if you are relatively inexperienced, it makes a lot of sense to show property that's in good condition. As you gain experience you will become more knowledgeable about what can be fixed cheaply and what costs a lot of money. Until you gain this knowledge, you might want to leave the tough properties to others.

You will also, in time, become familiar with the personalities of the various FHA appraisers. Although all have the same certification there is a certain amount of leeway granted them by FHA. This means that a repair that one will insist on might be overlooked entirely or modified by another. Any repair that is overlooked will certainly NOT be a critical foundation or frame problem, but while one may demand an entirely new roof another might ask for repairs to an existing roof.

This is a personality quirk that can mean thousands of dollars to a seller or, later, to the buyer. If you are representing the seller, it's a wonderful day when a twelve-year-old roof passes the FHA appraisal with only a repair requirement. On the other hand, the buyer will be faced with replacing a roof sometime in the near future.

You are not allowed to choose who will appraise a property for FHA. If you are the listing agent, and you have good reason to believe that the house will sell with FHA financing you might consider advising the seller to get the FHA appraisal done before the house goes on the market. That appraisal stands for ninety days, and the seller will know in advance the repairs he will have to make.

If the appraised value and/or the cost of repairs mean that the seller can't afford to sell the property, he buys that information for the cost of the appraisal. The listing agent is saved the time, money and mental anguish of shepherding a listing that will not close without miraculous circumstances arising.

Most first time home buyers use either VA or FHA financing, and of the two FHA is more often used. Many newly licensed agents find themselves working with first timers. It seems to be a good pairing since the buyers have no yardstick for comparison of license competence and instead look for an individual who sincerely wants to help and has the time to do so. Learning the ins and outs of FHA financing has launched and kept afloat many careers in residential real estate sales.

QUESTION:

Your listing has been sold by a cooperating agent under an FHA loan. The appraisal has been made and the appraiser noted, and FHA demands, that a detached garage in the back yard be torn down. The garage is admittedly not in good repair, but the seller currently uses it to store his lawnmower and an assortment of other items of little or no value. He will do the tear down, but only after the loan closes. The loan, of course, will not close until the garage has been removed. How do you get from this point to closing?

a. Inform the seller your broker will sue for commission if he does not close
b. Negotiate with the seller to install a relatively inexpensive metal or plastic shed to house the lawnmower
c. Have your broker and the broker's attorney meet with you and the seller so that he will understand his obligations under the listing contract
d. Lend the seller the money with the understanding he will repay you at closing

b is the correct answer.

Conventional Loans

A conventional loan is one that is secured by investors, but neither insured by the FHA nor guaranteed by VA. Conventional loans can be fixed rate or adjustable rate. Adjustable rate mortgages are those that start at one rate and adjust at time intervals written into the mortgage. Also written into adjustable rate mortgages are two other important statements: the index which will be used to adjust the interest rate and the maximum rate beyond which the mortgage rate cannot be adjusted.

When interest rates are low there is little call for adjustable rate mortgages. The prime time for adjustable rate mortgages is when interest rates on fixed rate mortgages is so high that they impair the ability of borrowers to purchase property, even when rates are backed down using discount points.

Discount points, as discussed earlier, discount points are front-end interest payments used to reduce the interest rates on mortgages. Lenders decide how many discount points will be charged to reduce the interest rate by one point. The number may vary from lender to lender but the rule of thumb is considered one point per one percent of the <u>mortgage amount</u>. Within certain guidelines either sellers or borrowers may pay discount points, and, when the device is used, discount points are often subjects of extended negotiation over who will pay.

Traditionally conventional loans are made for eighty percent of the purchase price with the buyer making a down payment of twenty percent. When this is the case, there is no private mortgage insurance (PMI). Of course, if a twenty percent down payment is required a very large segment of potential buyers are unable to buy.

Lenders realized this and invented the PMI system to allow borrowers to purchase with less than a twenty percent down payment. In today's mortgage market buyers may borrow ninety or ninety five percent of the purchase price using standard mortgage programs. In special programs, even lower down payments are allowed.

Borrowers should think of PMI as a savings program enforced by a bank that can literally remove the roof from over their heads if they fail to make regular installments, because that is exactly what it is. The big advantage is that buyers don't have to wait until they save up twenty percent for a down payment. This is critical when home values are rising because the amount that has to be saved continues to rise and often rises completely out of reach of many potential borrowers.

The big disadvantage is that paying PMI is a very, very expensive savings plan. Lenders collect PMI then pay it out to special insurance companies that are specifically for that purpose. Lenders, of course, collect a fee for handling PMI, as they should since they are doing half of the clerical work to collect it. The insurer calculates that and all other fees into the premium.

Borrowers who take the time to calculate the amount of PMI they will pay while it is in effect are appalled at just how many times they will pay out the difference between their down payment and twenty percent of the sale price, but they are few and far between. Most borrowers just want to know how much the monthly payment will be and if they qualify to pay it.

For good or ill, PMI has become a mortgage industry standard. It will certainly continue as long as first time buyers continue to disdain properties (if any) their savings would allow them to buy if they made a twenty percent down payment. This is very good news for real estate licensees, because first time buyers are the base of the home buying pyramid. Without first time buyers there would be not be several layers of move-up buyers, second home buyers, McMansion buyers and, eventually, empty nest buyers.

Candidates for conventional loans will be well-employed, have reasonably good credit ratings and some discretionary money in savings. They will also usually be move-up buyers who are probably receiving a profit from the first timer house they're selling.
Second homes must be a minimum of 60 miles from the borrowers' principal residence, or, if closer, on waterfront property. There is no private mortgage insurance for second homes, meaning that the minimum down payment is twenty percent.

Whether new or existing construction, lenders do not require inspections other than that done by the appraiser. This does not mean that buyers will not want a property condition inspection prior to closing. That is a different type of inspection that has no involvement by the lender.

Appraisers must be certified by the state, but beyond that there are no certifications specifically for conventional loans. It should be noted here that many appraisers voluntarily join professional appraiser societies. Members of these societies include appraisers who are VA and FHA certified as well as those who appraise for conventional loans. Membership carries with it a pledge to ethical behavior and a professional training element.

Lenders who make conventional loans may also be approved to make VA and FHA loans. It is prudent practice to use lenders who make government backed and conventional loans, particularly when buyers are first timers or when there is a language barrier. There are times when communication problems result from buyers not understanding what they are being asked, either through inexperience or language disconnects.

All of these problems come into the glaring spotlight when verifications of employment, income, credit and savings return to the lender's loan processor. A buyer who, based on his application information, should have been a good candidate for a conventional loan, may turn out to be better served by an FHA loan when the verifications return. It happens. When it happens a good Plan B, the FHA loan, can be put into effect without delay if the same lender is used.

There probably will be a new appraisal even if the original was made by an appraiser certified by FHA. Although the appraised value may not change, there are different paperwork requirements and different photos required for FHA. There is also a more detailed repair list. Thus, a genuine second, different, appraisal must be made and charged for.

Conventional loans are easier on paperwork but he costs are a bit higher, there are more restrictions on the amount of seller contribution to closing costs, buyer's credit scores, savings and earnings must be higher than for VA or FHA loans.

QUESTION:

A contract to purchase and sell has been signed by buyer and seller, subject to the buyer getting a conventional loan. For reasons known only to him, the buyer has incorrectly reported his income at a higher amount than is verified by his employers. The buyer no longer qualifies for a conventional loan but the loan originator feels he has a very good chance to be approved for an FHA loan. Is the contract to purchase and sell still valid?

a. Yes. It's a small change.
b. No. The seller may now have more costs to pay.
c. Maybe. It depends on how the contract is written.
d. Maybe. It depends on whether or not the seller thinks he can resell the property.

The answer is c. If there is wording in the pre-printed contract to cover changes in financing the contract is still valid. If the licensees involved were experienced enough they may have added an addendum to the pre-printed contract covering changes in type of financing, costs and who will pay. Otherwise, unless the sellers agree to the changes, the contract is no longer binding.

Recommending Lenders

It is very common for experienced licensees to have a favorite lender who will go the extra mile in order to keep their business. While going the extra mile is a great feature of a lender, the licensee who recommends only one lender (or property inspector, insurance agent, etc.) is taking a giant liability risk.

Licensees who wish to avoid liability risks and the money and effort spent to cure them will recommend several lenders. There are times when even the sharpest loan originator or processor will miss something in the massive stack of forms required for loans. This can lead to a loan that should have been approved being rejected.

If the true situation comes to light, the lender and the real estate licensee who sent the borrower to "the best mortgage banker in town" could be in serious legal trouble. The good news is that, while the banker may be looking at jail time the licensee is only looking at money loss. Of course, the bad news is that the licensee may be looking at money loss. It's best to cover yourself by recommending several lenders and allowing the borrower to select one.

Benefit to Buyers/Sellers

When the buyer has a list of qualified lenders to choose from he will not be as likely to feel that he has entered some conspiracy of licensees and lenders. Since he will have had input into making the choice he will probably feel more comfortable with giving the loan originator complete and accurate information. In turn, this leads to swifter completion of the loan process.

Sellers will have the peace of mind that comes with knowing purchasers are actively involved in the mortgage loan process. This is no small thing, as sellers who are paranoid about whether or not the loan will close tend to bombard the listing agent (and sometimes the selling agent as well) with lots of telephone calls regarding the progress of the loan.

There are time when there simply is no progress to report, such as the interval between the date verification forms are sent out from the lender to their appropriate recipients and the time the recipients return them in completed form. No number of telephone calls to the lender will in any way modify the time this process takes.

This is equally as true when savings are being verified by the very same bank in which the mortgage loan is being processed as it is when there are two financial organizations involved. It takes as long as it takes. Thus, nervous sellers who call and call and call everyone involved in the process get no satisfaction. Sellers who have a higher level of confidence that the sale will close tend to call less.

If something goes wrong with buyers #1 choice lender, buyers and sellers both will have the comfort that comes with knowing the next lender they choose might produce different results. This is pretty much a last resort, as there are costs attached to switching lenders. Having a workable Plan B is always a good idea in real estate sales.

QUESTION:

The worst has happened and a buyer’s application for a mortgage has been rejected by Big Lender Bank and Trust. You are representing the buyer and have good reasons to believe the loan would be approved by Small Lender and Company. What are the first things you need to know in order to switch lenders in mid-stream?

a. How much money will the buyer and seller lose over the rejected loan and how much more money will it cost to switch lenders
b. If the property condition inspection(s), appraisal, etc. are transferable to the new lender
c. If the switch will impact the contract closing date, and if closing date changes radically, will that kill the contract
d. All of the above

The correct answer is d.

Preparing Borrowers for Loan Application Appointment

Cost/Benefits Comparison of Lenders and Loans

Buying mortgage money is a lot like buying groceries; prices for each of the services purchases from mortgage companies will vary. The trick is to make a comparison chart that will allow you and potential borrowers to make a meaningful comparison between lenders.

Unfortunately, it isn't possible to make a single chart that will be good forever, or even until you have the next purchaser. Everything about mortgage fees is subject to change and does so with bewildering regularity.

Fortunately, technology comes to the rescue! Online web sites such as www.mortgagemavin.com offer interactive charts that will compare two different mortgages; all you or the borrower must do is enter the correct information into the correct boxes and let the program do the work. If you want to compare more than two mortgages, you'll have to enter two at a time, but the possibility of a calculation error is almost non-existent.

If you are not quite high tech, you can make a comparison chart of your own that will do the same thing, but the time and trouble spent making your own chart and praying your math skills are up to the challenge could just as easily be spent learning to use an online comparison chart.

Whether you use high or low tech doesn't matter. What does matter is that you have a way to show purchasers a way to select using hard data, not the "gut feelings" that you may trust but the buyer may think are a dandy way for you to justify steering them to a lender who is friendly to you (but maybe not to them?).

When the money comes up even for two or more lenders, then it's time to mention the other buyers one or more have made happy homeowners, especially if those past customers are willing to write testimonials for you to pass on to new clients and customers.

Lender Reliability Issues

The word tends to get around quickly on the real estate grapevine when a lender consistently fails to get loans approved. There is a mountain of paperwork involved in getting a loan approved. Paperwork, such as the original application, credit report, and verifications of savings, employment and past rental payment record (if any), ordering appraisals, etc. is essential to securing loan approval and must be pushed through the pipeline by loan processors as quickly as possible so that any delays will be caused by failure of the completed documents to be returned. Some or all of it will almost always be delayed.

Competent loan originators and processors know this and speedily get the documents to their respective responders. They also know which will have to be reminded to push the paper back to them and which will push it back either incomplete or incoherent. They plan for these eventualities and find ways to prevent them from blowing up deals. When you encounter a competent lender, ask the borrower for a testimonial to share with other buyers.

Testimonials for lenders' past successes are especially meaningful if the phrase "easy to work with" appears in them. Buyers, especially first timers, tend to approach the loan application with the same attitude a Catholic sinner approaches the confessional. Somewhere in their psyche there is rooted the belief that the lender will flush out the slightly late car payment or the month they were a bit short on the rent or the quarter some McDonald's clerk once overpaid them in change.

It is possible that the lender will do exactly that (OK, maybe not the quarter), but it is also highly improbable that it will be held against the borrower unless it is part of a pattern of late and incomplete payments. Borrowers should be made aware that the lender is not their mother and does not need to be protected from their minor mistakes.

A lender who truly is Easy To Work With will put them at ease and motivate them to tell all from the start when it may be possible to repair any unsavory items on their credit reports, will explain that sometimes it is better to use some of their savings to pay off specified bills and make a smaller down payment and other maneuvers that are the basis for loan originator success in dealing with borrowers.

The Easy To Work With lender makes the borrower feel part of a team that includes lender, buyer, seller, and all real estate licensees involved in the transaction. This is the ideal climate for getting a loan approved, and having the approval as quickly as humanly possible.

No matter how many of your fellow agents "just love a lender to death," if you are uncomfortable with that lender your buyer will often detect it and, in turn, may also feel uncomfortable. When you are completely inexperienced you have no acceptable choice other than to follow the recommendations of more experienced agents in compiling your list of lenders to recommend to buyers.

Some of these lenders will work with you throughout your career and you will be very happy with them. Others will fall from your list and be replaced by new lenders. The most important thing to remember is that results trump personality. If you have to choose between a loan originator who has a great personality but doesn't follow through to consistently get loans closed and another who could use a few public relations lessons but who consistently gets loans closed on time, go with your pocketbook and choose the one who gets results.

QUESTION:

You have written your first contract on an office listing. The buyers are first timers, and so are you. They ask you to help them find financing. Your first act should be to

a. Call your broker for help
b. Ask the first three of your fellow agents that you see for recommendations
c. Look in MLS for the names of the last three agents who had closed listings in the same development
d. Get out the yellow pages

The correct answer is c. Agents who have recently sold properties in the same development are probably the current experts on the type of financing that will work and which lenders can do the best job. They will almost always share their knowledge with you, and you will have made contacts in the real estate industry.

The Loan Application

When to Make Application

The ideal time to make loan application is before customers ever see a single property. Few commercial buyers would make an appointment to see properties without first knowing they can buy (if they see something they like). This is because they tend to think like businessmen, and they know their time is valuable. This is a lesson every real estate licensee must learn in order to succeed, and the earlier it's learned the sooner you will be successful.

Try to keep in mind that although you want to make the most efficient use of your time, you should try very hard to avoid sending the message to customers that you don't plan to give them all the time they need to feel comfortable. This is a balance that is harder for some of us to strike than others. If it seems to be a problem for you, put it on your list of things to work on.
The easiest way to use time efficiently without making clients feel rushed is to have a plan, and to share the plan with the customers. For example,

> *"Today we're going to talk a bit about what you want the property you purchase to do for you, and the financial resources you're planning to commit. Once we have a good idea of what we're looking for, we'll discuss lenders who can help us find the best loan to make it possible."*

You may have a detailed plan covering the entire transaction up to and including what moving in gift you plan to give them, but that is about all they can handle at one time. This probably is the biggest investment they will have made yet, and they're nervous. Feed the plan to them in small doses so that they can remember and feel somewhat on top of the situation. Giving the plan out in small bits has the added benefit of allowing you to make changes if needed as you proceed through the transaction process.

Of course, the plan will change. Some buyers will come to you demanding to see property immediately, usually from a sign call when you are either the listing or duty agent. If asked to submit to a counseling session before seeing the property they very likely will hang up the telephone and call another licensee.

They may keep calling until they locate a licensee with enough brainpower to realize that all you can do with a telephone call is make an appointment. When you are eyeball to eyeball with them, that's the time to show how much you care by suggesting a meeting with a loan originator.

The rule is this: make loan application before viewing property; if this is impossible or impractical, make loan application as soon as possible. Waiting until a buyer falls in love with a property to find out they can't have it is the recipe for disappointment for all concerned. And, it makes you appear to not know what you're doing. Especially when you are inexperienced, it's important to boost the client's confidence by giving the appearance of having a bit of a clue!

QUESTION:

A buyer who walked into your open house Sunday afternoon calls Monday and says he wants to make an offer. From your discussion Sunday you know that he needs a loan to purchase and has not been pre-approved or even pre-qualified for a loan. What do you say to this purchaser?

a. "Let's get you to a lender to be pre-qualified today and we'll write the offer tomorrow."
b. "You have to be pre-approved before we can submit an offer."
c. "Meet me at the office in an hour and we'll write an offer."
d. "I'm playing in a golf tournament today. Can we do this tomorrow?"

The answer is c. Having a pre-approved buyer is first choice, a pre-qualified buyer is second choice, but having a buyer willing to sign a contract and hand over a deposit is a good thing, too. Never let one of these get away.

Documents to Bring to Application

The clock starts running on contract time when an offer is made and accepted by buyer and seller. This is an absolutely terrible time to learn that one of the documents that will be required by the lender is lost, misplaced, misfiled or any other class of not being able to quickly be retrieved.

Some of the documents that may take a while to get if they're not on hand are: cancelled (but unrecorded) mortgages, military discharge papers, veterans' certificate of remaining eligibility, wills, probate documents, divorce decrees and property settlements. There are many more, but these are the most common.

It is easier on everyone concerned if buyers have a list of documents they will need for the lender IN ADVANCE of the loan application appointment. They still may not be able to find them in time for the appointment, but they will know to start looking or at least thinking about where they might be or where they can get duplicates.

Many sharp listing agents provide flyers with a "documents needed for loan application" list in their listings. This is a particular benefit when it is likely the buyer will be first timers, but almost all buyers will take one of these out of a flyer box and bring it home with them.

If you are not thrilled with the idea of a buyer you're spending time with taking a flyer with another licensee's name and contact information on it, you might consider making a list of your own. On paper that is a distinctive, easily found color.

Here is an additional list of information buyers will have to provide:

- A purchase contract, if you have one for the home you are buying
- Social Security numbers or individual taxpayer identification numbers for all borrowers
- Your home addresses for at least the past two years
- Current names, account numbers, and balances of all checking, savings, money market, retirement, and credit card accounts
- The address of your bank branch
- Checking and savings account statements for the past two to three months
- Your most recent pay stubs, W-2s, or other proof of employment and income verification
- Federal income tax returns for the past two years
- Evidence of any other income you receive (child support orders, Social Security award letters)

- Balance sheets and tax returns if you are self-employed
- Divorce settlement papers if applicable
- Canceled checks for rent or utility bill payments, to show payment history and amount of revolving debt
- Information on other consumer debts, such as credit cards, car loans, furniture loans, student loans, and department store credit cards
- Gift letters, if you are using gifts from parents, relatives or organizations to help cover the down payment or closing costs; gift letters state that the money you received is a gift and will not have to be repaid

If you think it isn't your job to provide buyers with this list, here's a tip for you: if you are only willing to do what you think is your job, you are going to have a very hard time achieving success in real estate sales.

Perhaps we should define the job, "real estate salesperson." A real estate salesperson is a licensed agent who sells listed properties to qualified buyers. Period. Any legal assistance needed by buyers or sellers related to the transaction does not fall within our job description.

QUESTION:

You are representing a buyer who works as a self-employed musician. If he has truthfully reported his earnings, you have reason to believe he will be able to buy. Should you be more or should you be less concerned about getting him pre-approved before submitting an offer to purchase?

a. More
b. Less

The correct answer is a, for three reasons:

1. He's self-employed and will have to provide significantly more documents to the lender as would any self-employed person,
2. He's a musician, probably work while you and the lender sleep and sleeps while you work so may be difficult to contact, and,
3. He's a musician, and while it may be profiling, he might not be a meticulous record keeper so much repair work may need to be done to his financial records.

Costs at Time of Application

Buyers often wonder why they are required to pay at application for a credit report, appraisal and application fees (if any). They often wonder why these fees are not reimbursed if the loan is rejected for any reason. After all, their good friend, the real estate licensee, is happy to work for free if the loan is rejected, so why not everyone else?

The reason is very simple. When the bank orders a credit report, the credit bureau charges the bank whether or not the credit report is favorable. There are no refunds, even when it can be proved that there are errors on the report. Ditto the appraiser and the clerks working for the lender who do the work that makes the lender need the application fee.

It should also be noted here that the fees paid for these services is significantly less than the commission the licensee will make if the sale closes, making the income gamble involved a little more understandable. There's nothing to be gained by making a big point of this with buyers, they should simply be told that the other guys are compensated on one plan, we're on another.

Another possible area for misunderstanding is on contracts where the seller will be paying some or all allowable closing costs. While a seller may be willing to reimburse the buyer, at closing, for some or all application costs as agreed in the contract, no seller will probably be willing to pay application costs for a buyer who may or may not be approved.

Buyers must have on hand at least the amount of cash they will need for down payments and application fees. This is fairly non-negotiable, and applies even to veterans who are making no down payment (unless there is a special program). Lenders are entitled to have the minimal peace of mind that comes with knowing buyers will have the ability to save a few dollars. After all, all properties will need some repairs, and buyers who can pay for needed repairs are more desirable customers for lenders.

QUESTION:

You are the designated listing agent representing a property that is under contract to a buyer using a VA loan for 100% of the purchase price. The accepted contract also specifies that the seller will pay all allowable closing costs. The veteran made a $500 deposit, but that use up all his cash. The seller is very motivated to sell and will do anything his agent recommends. The buyer is equally motivated to buy. Is there any way the listing broker can lawfully allow him to use the $500 for the fees due at loan application?

a. No. A deposit is to be held by the listing broker until the transaction is completed or terminated.
b. Yes. With the agreement of the seller the existing contract can be terminated and the deposit returned to the buyer; a new contract is written showing a lesser deposit amount. The difference can be used for the buyer's fees due at application.

The correct answer is b, but with a strong warning that this is a very risky solution to the problem. Either buyer or seller could refuse to sign the new contract; motivations have been known to change when a better deal comes into view. Both buyer and seller must be made aware of the risks before the original contract is nullified and the deposit returned. This is only feasible when the original contract will fail without taking action.

Role of Loan Originators and Processors

The job of the loan originator is theoretically to correctly and completely fill in the blanks on loan application forms. In actual practice, the excellent originator becomes an ad hoc credit counselor, confessor and advisor to borrowers, especially first timers.

The loan processor takes all the information gathered by the originator, adds all the information from verifications and appraisals and translates the entire mess into the forms that will be accepted by the investors who will ultimately own the loan.

A loan originator/processor team knows there is a triangular relationship between savings (or gift money), credit repair and loan approval. The first move many make after receiving verified documents is to determine if the potential borrower is qualified just as he stands. If he is, there is a flurry of documents, an appraisal and, if the appraisal is positive, a loan approval.

Other times the verified documents will have uncovered some fatal flaw in the application that only time and clean living on the part of the applicant will cure.

Lots of times, however, there will be a few bills that can be paid down to the point where they will not negatively impact the loan request, allowing the loan to be approved. If paying these bills down will necessarily lessen the amount of cash for down payment, perhaps the buyer can be shuffled from a 95% conventional loan to a 96.5% FHA loan, and so on. The financial magic performed by a competent originator/processor team can be truly amazing to watch.

On the other hand, an incompetent originator/processor team can and will kill a deal that has the slightest flaw, and may do serious damage to a flawless deal. Most times the damage is done by individuals who are pursuing the wrong career path. Mortgage lending is a job for seriously detail oriented individuals who actually enjoy getting every little thing exactly right on every single loan. Big picture people persons should not attempt to do this job.

Other times individuals will develop or have increasing problems with substance abuse which do not mix well with highly detailed jobs. And, always, some persons who have been very competent in the past will encounter personal or health problems that render them unable to perform as they have in the past.

For all of these reasons and many more it is a good practice to develop a relationship with a number of lenders who do a competent job getting loans approved. It is equally necessary to always keep an eye on how the loan is progressing rather than turn it over to the lender and expect they will always do the job well.

QUESTION:

You are attending a loan application at the request of your buyer client. The loan originator continuously takes calls on her cell phone that seem to be of a personal nature. Between calls she seems to have problems remembering which forms she has filled in and can't seem to decide what type of loan will be best for the buyer. Should you take any action before the buyer signs the loan application forms and pays the fees?

a. No. The buyers chose this lender. It's no longer any of your business.
b. Yes. This lender was chosen from your list, and you want the loan to close. It's your business.

B is the correct answer. Even if you have to text the buyer a message or pass them a note, somehow you should find a way to get a private word with the buyer to be sure he wants to continue with this lender.

Your Post Loan Application Duties

Yes, there are still duties to be performed after the loan application that are directly related to financing. Perhaps the most important duty is to keep the buyer updated on the progress of the loan. This is not possible unless you are keeping watch over the lender.

There are going to be times when there is little to report, such as the time between when the verification forms are sent out and when they return, but if this time stretches out longer than two weeks, it's time to nudge the loan originator.

During this time the appraisal may be done as well. When the buyer's ability to qualify is in question, some lenders may allow the buyer a great privilege and wait to order an appraisal until all the verifications are in. If the verifications make it an impossibility to approve the loan, the appraisal fee may be returned to the buyer. Note that this is not standard practice, it is very much a favor done in a business where favors are very few.

If you want to inform the buyer clients the word when their loan has been approved (or rejected), you must be sure to make a clear arrangement to do so with the lender. Otherwise, they will call the applicant. Everyone is usually very happy when the loan is approved. When the loan is rejected, and you want to continue a relationship with the client, tactfully delivering the bad news can be a good way to further the relationship.

There are many reasons a loan may be rejected that can be cured with a bit of positive action on the part of the consumer. Most of these are related to credit, but some are due to unresolved personal situations. Although at the present time the problem(s) may render the consumer unable to buy, as soon as, for example, the blemishes are removed from the credit report or children who are 17.5 years old become 18 and the consumer no longer has to pay child support, eligibility is fully restored.

There are other post application duties: overseeing property inspections of all kinds, seeing that any repairs covered by the contract are made and reviewed by the buyer, accompanying the buyer to measure for carpets, paint, window coverings, furniture, appliances, etc. This is not only part of your job, it is prime time to let the buyer know you're available to help any of their friends, relatives, coworkers, etc. with their real estate needs.

During this time period you will also want to supply the buyer with an up-to-date list of utility providers so that utility service can be changed from the seller's account to theirs. You should also have, in writing and signed by the buyer and seller, a firm date when this transfer will take place.

Buyer's Post Loan Duties

The time period between making loan application and loan closing is one of the most active for most buyers. Most people hate paperwork and develop a kind of paperwork-specific amnesia. Both you and the loan originator have given them lists of the documents that will have to be provided by them in order for the loan to be approved. They will swear they never heard of the lists, the documents, and are pretty sure you told them you'd take care of everything for them. They still have to dig up the original documents or get acceptable copies.

They will also quite often insist there is no need for them to be present at the various property and /or termite inspections. They will assume you will be there (and you should), but they should also be there following the inspectors and observing any faults first hand. They are there to have a more complete understanding of any problems with the property. You are there for the same reason, and also to point out which problems (if any) the seller is obligated to repair.

During this time the buyers should also contact the utility companies that will be supplying electric, gas, water, sewer, telephone, cable, etc. to the property. Buyers who are efficient at this process can often save re-connect costs because their service will be scheduled to begin at the point when the seller's ends. All that is necessary for the utility service provider to do is bill correctly.

Final Jobs

Another task for the buyers is to select a closing company or attorney. Some will want to use an attorney they know. Some will want you to choose. You should give them a list of closing companies that are acceptable to the lender, for reasons we discussed previously.

In cooperation with the lender, the closer and all principals to the transaction, you will orchestrate a closing time. You will ensure that all concerned know the date, time and place of closing by sending written notice. Email is acceptable for this purpose, but be sure you request a delivery receipt and check up by telephone or in person if no receipt is returned within 24 hours.

You will attend the closing and, while there, will look pleasant and keep as quiet as possible. This is the closer's show, not yours, and you could probably use a little rest.

When the closing is successfully completed, thank everyone for their cooperation and go on your way.

QUESTION:

You have just written a contract for a buyer and accompanied them to the loan application. From the point of view of <u>these</u> buyers, what is the best time for you to spend a week at the beach?

a. Next week
b. Week after next
c. Anytime, your work is done
d. Never, something might go wrong

a is the correct answer. The week following loan application is likely to be the time when you are needed least because documents will go out for verification and not begin to return until the following week.

In your real estate career you will learn much more about financing than this module could possibly encompass. From the vast universe of financing knowledge, this course tried to extract the information that will be of most value to you in your first two years in the real estate business.

Real estate finance is very much a moving target. Every effort was made to give you the most accurate and timely information but it is possible for a rapid change to render some of it inaccurate and/or untimely. Please be on the alert for the possibility of changes, and, when they are found, alert LREC so changes can be made.