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Rob Cassam

September 2021

# REAL ESTATE Update™

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## It Ain't Over 'Til the 'Funding Lady' Sings

When your loan officer contacts you and lets you know your loan has been approved, it's very possible there are still some outstanding conditions attached to your approval. This simply means there are some additional things that still need to be addressed - 'loan conditions.' The more important conditions are those that need to be fixed before closing papers can be ordered.

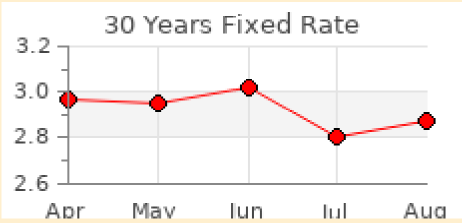
Lenders refer to these items and 'pre-doc' conditions, or items that need to be addressed before loan documents can be ordered. These are the more important set of conditions. The loan can't reach the next stage until these conditions have been satisfied.

At your closing, once you've signed and initialed where needed, the papers are notarized and delivered back to the mortgage company. But the loan isn't fully approved. It hasn't officially 'funded.' In most cases at your closing the settlement agent will even hand over the keys to your new home but while it's not official, it's very, very close.

The lender will make one last run-through to make sure all the conditions are satisfied. Once they've been met as determined by the lender, the lender contacts the settlement agent and provides a code, referred to as the funding number, which lets the settlement agent release the funds needed to transfer the cash to the concerned parties. When the funding number is released, the loan is indeed final.

Mortgage Rates
U.S. averages as of September 2021:

30 yr. fixed: 2.87%
15 yr. fixed: 2.17%
5/1 yr. adj: 2.42%




## Preparing to Make an Offer

What exactly does making an offer entail?

First, you should have a few things in place before you make an offer. One is a mortgage preapproval from a minimum of one lender. If you get preapproved, it helps you know how much house you can actually afford. The preapproval letter also shows sellers you're serious.

Then, you need to understand the local market to make sure your offer is competitive. Your real estate agent will be able to help you with this.

The third thing to have in place before you make an offer is making sure that you have the down payment in the bank and ready.

Once the three things above are ready to go, then you'll start to determine your price, contingencies, and your timeline. If you're buying in a competitive market, you should ask your agent how you can make your offer as competitive as possible.

To leave room to negotiate, it can be a good idea to make an initial offer below the maximum price you can pay. Contingencies can include things like appraisals and inspections.

## Tips for Choosing a Home Builder

The following are some of the things you should generally know about choosing a builder and tips to help you along the way.

**What Is a Home Builder?**
The term home builder can refer to any contractor who builds residential housing, but there are subcategories within the larger category of a home builder. There are home builders for hire, meaning that you hire a company, and they have a team of professionals who work in-house and manage every aspect of the project. Another option is to hire a general contractor. A general contractor will hire people and manage them. They will ultimately build your home. A general contractor is also responsible for getting materials and permits. You might have your own architect design your home, and then you would hire a general contractor to build it.

**What to Ask Builders**
You should interview at least several builders. Before you do this, you do need to have an idea of what your expectations and anticipated timelines are. Some specific questions you should ask include whether or not they're happy to provide references and if they guarantee their work. You'll need to talk about how allowances are determined, the type of materials they use, such as copper or plastic plumbing, and once you decide on a builder, every detail of what you agree upon needs to be in writing.

When potential builders give you references, you should actually call them. Along with clients, references should include vendors and subcontractors.

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## Inspection vs. Appraisal: How Do They Compare?
### *By Ashley Sutphin*

When you're buying a home, you'll need two types of inspections—one is the actual inspection, and the other is the appraisal. They seem similar at first glance because both, as you might guess, involve a walkthrough of the property. They have different purposes, however. The information obtained is also reported to different parties.

**What is a Home Inspection?**

An inspection is thorough and is done by a professional, qualified home inspector. The inspector will look at the safety elements of a home and the integrity of the structure. The systems and structural elements an inspector looks at include the plumbing, electrical, and HVAC systems, roofing, and siding.

A home inspection takes a few hours. Then, when it's done, the inspector reports to the buyer.If you're the buyer, you can use the inspection information to decide whether or not buying the home is a suitable investment for you.

When you sign a contract with a seller, one of the first things you'll do is schedule an inspection. If you're in a competitive market, you might hire an inspector before you make an offer. It's up to you to choose a good, reputable inspector.

A buyer and their agent can attend an inspection, and it's worth the time and money to make sure the property you want to buy doesn't have any major, potentially expensive issues you should know about.

Sometimes, you might waive the inspection contingency, so you have a stronger offer, but you're taking a risk in doing so. Most states require sellers to disclose issues in a home when they're selling it, but there's no guarantee there isn't a lurking issue that the seller simply isn't aware of.

**What is an Appraisal?**

An appraisal is something almost all lenders are going to require you to have to get a mortgage. The appraisal's purpose is to determine the estimated market value of a home. A third-party appraiser makes this determination based on factors like the home's location, the value of properties that are similar and recently sold in the area, and the condition of the house.

The appraisal process will include a walkthrough, but it's not as in-depth as an inspection. Then, the appraiser will research the comparables in the area and create a report. The report will highlight the appraiser's determination of the market value of the home. The lender will then use the appraisal report when they decide to approve a loan amount.

A lender can't finance more than 97% of the home's appraised value in most cases. If there's an appraisal that comes back lower than the price you offer, then you have to pay the difference out of pocket, renegotiate, or leave the deal.If the appraisal comes back and it's higher than your offer price, you already have more equity in your home.

**How Do the Two Compare?**

The following are some specific differences between an inspection and appraisal:

- A home appraisal is something required by your lender if you're buying a home, but a home inspection isn't needed.
- Your lender orders an appraisal. If you want an inspection, you arrange this yourself.
- An inspection doesn't affect your ability to get the loan amount you need, but an appraisal can.
- Appraisers only look at the surface features of a home, but an inspector looks for deeper issues.
- During an inspection, you're encouraged to walk with the inspector, but an appraiser usually goes through the process without anyone present.
- During an inspection, if you're there, the inspector will explain things to you as you go along. With an appraisal, you don't know anything until the report is complete.
- Inspections only consider the property's condition during the assessment, but an appraisal looks at local factors like crime rates in the area, lot size, and comparable home prices.

Overall, while there are differences, both an inspection and an appraisal are beneficial to a homeowner because they help you get the peace of mind of knowing that your home is worth what you're going to pay for it and that it's a safe place for you to live. Also, both are completed by a third party, so you can feel more secure in your overall decision to buy a home.

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## When Do You Need a Permit for a Renovation or Remodel?
### *By Ashley Sutphin*

You've made the decision that you're going to do a home improvement project of some type. So a big question becomes whether or not you need a permit. The short answer is that it depends, but below we'll go into more details about what you should know in these situations.

**What Are Building Permits?**

Building permits are an authorization put in writing by your city or county that gives you permission to do some type of construction. The objective of building permits is to ensure compliance with zoning and building codes in your local municipality.

**When Do You Need a Permit?**

When you're considering a home renovation or remodel, these are some projects where a permit is often required:

- Taking out a load-bearing wall
- Changing the roofline of your house
- Installing circuits or new electrical wiring
- Adding a fence that's over a certain height—usually over six feet
- Building decks that are over a certain height
- Anything involving a sewer line
- Building an addition or garage, or changing the layout in a major way
- Work that requires a new opening like adding exterior windows or doors
- Adding a fireplace
- Installing a new water heater, furnace, or air conditioner, pool (including in-ground and above-ground)

**When Do You Not Need a Permit?**

Situations where you usually don't need a permit include:

- Adding new roof materials
- Changing your flooring
- Replacing a sink
- Painting—interior or exterior
- Replacing countertops
- Minor electrical work
- Adding decks below 30 inches
- Adding detached buildings like a storage shed that's one-story and doesn't require electrical or plumbing work

**What is the Process to Get a Permit?**

If you think your project will need permits, they are issued by local municipalities based on city ordinances where you live. Building codes aren't based on federal or state standards. Instead, they vary from city to city. If you're working with a contractor, they should know whether you need permits with your project and how to get them. If you're doing the work yourself, you need to determine this. Also, don't assume that your contractor is handling the permits—verify. If you don't get the permits it may stop your renovations or complicate trying to sell your home later on. You have to show that you have the proper permits if you're going through a home inspection or appraisal process.

You can apply for a permit through your local municipal government office. If the project is relatively simple, you may be able to get the permit right away, but if it's more complex, there may need to be an inspection of your plans. Also, during the process of the renovation, inspections of the work may be done. If you're doing a large project, usually there will be multiple required inspections. After the work is complete, there can be a final inspection, and the permit can be issued.

The big takeaway from all of this is that many projects where you're going to change your home will require a permit, especially when changing the structure. It's better to be on the safe side when determining if you need a permit, and no matter who is actually doing the work, it's your responsibility as a homeowner to make sure you get the correct permits.



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## How Do You Get a Construction Loan?
## *By Ashley Sutphin*

If you want to build a custom home instead of buying an existing property, you might need a construction loan. A construction loan is considered a short-term loan that covers just the cost of building a custom home. After your home is built, you have to apply for a mortgage, and that's used to pay for your completed home. Along with being shorter-term than a mortgage, a construction loan usually has a higher interest rate. The loans usually last for a year, and during that time, the property has to be built, and you have to receive your certificate of occupancy.

### What Do Construction Loans Cover?

A construction loan can be used to cover a variety of costs, including your contractor's labor, building materials, permits and the cost of the land. You may be able to use it for things like landscaping and appliances as well.

When you go to your lender to get a construction loan, you should go over with them specifically what it will cover and what will be included in the loan-to-value calculation.

In many cases, construction loans will have what's called a contingency reserve. The reserve can be used to cover costs that pop up unexpectedly during construction. For example, you might decide you want higher-end cabinets than you initially planned for, in which case you would use your contingency reserve.

### How Do These Loans Work?

Most construction loans have variable interest rates, so the rates go up and down according to the prime rate. The loan rates are almost always going to be higher than a traditional mortgage. When you get a conventional mortgage, the home itself is collateral. Then, if you were to default, the lender can take your home. Lenders don't have that option with a construction loan so they're higher-risk, meaning you pay a higher interest rate.

Then, after you're approved for financing, you are put on what's called a draw or draft schedule, following the stages of construction. During this time, you're expected to make only interest payments. The lender pays money out in phases as the progress on your home moves forward.

Draws will occur with major milestones being completed. For example, you might get a draw when your foundation is laid. During the construction process, your lender will have an inspector or an appraiser check on building progress. Once your home is built, you may be able to convert your construction loan to a traditional mortgage. This type of loan is known as construction-to-permanent. If you get a loan that's only for construction, then as the borrower, you might have to obtain a separate mortgage that is then used to pay off your construction loan.

### Different Types of Construction Loan

There are various types of construction loans, including:

### Construction-to-permanent loan

Construction-to-permanent loans give you the funding to build your home and also for your mortgage. You borrow money to pay to build your home. Then, once it's finished and you move in, your loan is converted to a permanent mortgage.

There are benefits to this option, including the fact that you only have to pay closing costs once. After your shift from construction to permanent happens, the loan will usually have terms of 15 to 30 years, and you make payments covering your interest and principal.

### Construction-only

With a construction-only loan, you get the funding just to complete building your home, but as the borrower, you have to either pay the loan in full at maturity which is usually within a year or get a mortgage for permanent financing. The funds from a construction-only loan are dispersed based on how much of the project is completed. A construction-only loan may end up being more expensive because you're going through the process of two loan transactions, meaning two sets of fees.

### Owner-builder construction loan

Finally, there's also something called an owner-builder loan. These can be construction-to-permanent or construction-only loans. The borrower is also the builder, but to get this kind of loan, you usually have to be a licensed builder.

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## Credit Document Aging
### *By David Reed*

What exactly does ‘aging’ mean as it relates to a mortgage loan application? Aging means making sure the credit documents are relatively new. When lenders review a loan file, they want to see the most recent material. What are credit documents? Credit documents include credit reports, employment, income and asset documentation. There of course are plenty of other documents located in a loan application including but not limited to property value information, title information and others.

Credit reports must be relatively new, of course. In the event of two or more people being on the sales contract, credit reports of all parties involved will be pulled. Mortgage loans will require a credit report being pulled for each individual along with credit scores. After everyone’s credit information has been pulled, the lenders will use the credit report with the lowest credit scores as the qualifying score.

If there are three people on an application and the first applicant has three scores of 750, 760 and 755, the lender will toss out the highest and lowest score and use the middle one. The same process will occur for the remaining two applicants. If the remaining two middle scores are 710 and 719, the lender will use the lowest of all three. In this instance, the qualifying score is 710.

As it relates to aging of credit reports, Fannie Mae asks the date on the most recent report be no more than four months old. However, lenders will want to see something a little more updated than that. Specifically, credit reports need to be less than 30 days old. This again directly relates to multiple credit reports in the file. In most cases, the credit report will indeed be more than 30 days past the initiation date simply due to the time it takes to get a loan originated, documented and final approval. Lenders will also run a final credit report right before funding to make sure there are no additional payments appearing that weren’t used on the initial application.

Employment and income data must also be updated. You might imagine someone providing the lender with copies of their paycheck stubs that are less than 30 days old. But without an aging limit, a paycheck stub could be three, four or five months old. That’s a lot of time. Someone could quit, take another job or get laid off during that period. Lenders will also reach out one last time to the employer to make sure the applicant is still employed. This is typically accomplished with a simple phone call.

Finally, asset information must be given one more look. If the initial bank statements showed $40,000 in a bank account, more than enough for the down payment, closing costs and cash reserves, lenders will also want to verify that information one last time. To make sure the assets are still secure with at least the initial amounts needed, lenders will need to see a most recent bank or investment statement within that 30 day period.

This is why applicants should not be alarmed when a lender contacts them asking for updated information. One might ask, ‘Why do they need that, I already gave it to them’ when the answer is simply they need to update the information they have in file to make sure the 30 day period is met.

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