WHAT ABOUT FINANCING

Why the Buyers Financing Matters to You

There are innumerable ways and means to finance a home purchase including outright cash. We're going to only deal with the ways that affect you as a seller.

You may be wondering what financing has to do with you? You're the one selling the house, not borrowing money to buy it.

The type of financing your buyer is using can directly affect the time it takes and the probability of making it to the closing table. When you go into contract your house is pulled off the market. If for whatever reason the deal falls through the time off the market will affect your selling price. How? Because it appears your house has been on the market longer that it has.

Your house goes up for sale and 6 weeks later you have a contract. The deal is 3 weeks in, maybe 4, and the bank says your buyer can't get financing for whatever reason, so your house goes back on the market. To home shoppers it now appears your house has been on the market for 9 or 10 weeks rather than 6.

Now you may be getting into that stage that people start wondering what's wrong with it. Why hasn't it sold. Remember- *the longer it sits the less it gets.*

Types of Financing

Conventional Loan

A conventional loan is one that is not guaranteed or backed by the government. It's a deal between a person or an organization and a lender. A person or organization borrows money from a lender and pays the lender back. If the borrower defaults, then the lender takes the house back and is stuck with it.

Conventional loans generally require more down. The banks like 20% but often will take less and charge the borrower PMI or private mortgage insurance. The theory is the more the borrower has in the deal the less likely they are to default. If they do stop paying back the commitment the mortgage insurance company will take care of it. Why is this important to you? Conventional bowers are usually the strongest buyers, and the easiest loans to get through to closing.

Most conventional borrowers have more *skin in the game* or money down. Conventional loans usually require higher and better credit scores. Then the idea becomes maybe this borrower is more responsible and less likely to have something “come up” during the loan verification process. You don’t want anything “coming up” during the verification process.

Story: One of the first deals I did as a real estate agent fell apart 1 week before closing. My buyer, who had a barely acceptable credit score, was “pre-approved” for a government backed loan (more on that later) and we began looking at houses. I noticed early in the search he had temporary tags on his car. It was a new purchase but didn’t register anything to me.

We found a house, negotiated a contract and went through the loan verification process which includes appraisal, inspection and underwriting. Underwriting is when the bank digs deep on a potential borrower’s finances, bills and responsibility factor.

One week before we were to close the bank found out about the new car and his loan was denied. Apparently, he had gone out and bought a new car *after* he got pre-approved for a home loan.

Conventional loans are the next best thing to cash for a seller.

Government Insured Loans

Government insured loans are just that. Home loans that are backed by the government so if a buyer defaults the government insures against losses the lender may incur. There are 3 types of government insured loans.

FHA

The Department of Housing and Urban Development (HUD) is the branch of the federal government that manages the Federal Housing Administrations (FHA) mortgage insurance program.

FHA loans are available to just about anyone that qualifies with credit and income guidelines. These loans are very popular because they require a relatively small down payment and are easier to get approved for. Borrowers can get into a house with as little as 3.5 percent of the contract price down. Potential buyers can get by with lower credit scores and even in some cases recent bankruptcies or foreclosures on their record.

The disadvantage to the borrower is they must pay mortgage insurance for the life of the loan.

What concerns you is the appraisal process. The government has a Stricker appraisal process.

The home must be in a certain good condition. According to HUD handbook 4150.2 the structure "*must be free of all known hazards and adverse conditions that may affect the health and safety of the occupants*".

Some of which:

- The lot should be graded to promote positive water flow away from the house to prevent damage.
- All bedrooms must have egress (a way out) for safety concerns such as fire. A window is OK if it's large enough for someone to get out.

- In homes built prior to 1978 when lead based paint was banned in the US the appraiser will check for any chipped or peeling paint. Painters must have a specific license to deal with lead-based paint and *it is expensive to hire them.*
- All steps and stairways should have a handrail. Sometimes if steps are uneven the appraiser will call it out.
- The heating system must work and be sufficient to create comfortable and healthy living conditions.
- The roof must be in good condition and, obviously, keep moisture out of the house. It should have a future too.
- The foundation must be in good repair and able to carry and normal loads imposed on it.

Appraisers are human, so this may not be an exhaustive list. The official HUD appraiser guidelines are included in this section. It's also possible they may miss something but be aware that if any defects are found it is supposed that the seller is willing to fix them.

FHA loans can come in many forms. Often lenders and FHA offer special programs to help people become homeowners. There are first time home buyer programs, bond programs and others. These are all usually FHA.

The VA Home Loan Benefit

The US Government created the VA home loan benefit in 1944 to assist service members returning from the war to be able to purchase homes. Since it's inception the VA home loan has helped over 20 million veterans and their families obtain affordable financing to buy a house.

The veteran can get into a house with $0 down and no PMI.

VA loans are great for qualifying veterans but a little more work for you. It's great if you want to help a vet by considering his/her offer from the multitude that you'll get. Keep in mind the VA loan is a lot like FHA with an even a more stringent appraisal process.

The appraiser requirements are mostly like the FHA requirements, but my experience has shown the VA appraisers are a little stricter. More likely to call you out on what they consider defects.

There are some fees that the veteran is not allowed to pay and if they come up are the responsibility of the seller, bank or escrow company. Some of these fees are a processing fee (not to be confused with origination fee), closing fee or the cost of termite inspection.

Remember Veterans have given their time and more serving our country and fighting for the benefits we enjoy living here. Just something to keep in mind when considering a veterans offer.

USDA/Rural

USDA loans are another 0 down loan that is designed for low income borrowers. There are a lot of rules as to qualifying income and type and price of the home. Those rules vary from state to state.

What matters to you, again, is the appraisal process. I have found USDA and Rural loans to be the most difficult to get through. The house must be in really good condition and where I live in Kansas that can be a challenge because the maximum allowable home price is so low. When considering an offer using USDA financing be sure your home is in good shape or negotiate the contract with required repairs in mind.

Look to the official FHA property requirement guide in this section for specifics of what an appraiser will be looking for.

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The three key things to remember what will be watched for any of these Government backed loans are:

1. Safety
2. Sanitary
3. Structurally sound

That is essentially what the appraisers are looking out for, but it is open to their own interpretation. This is certainly not designed to make you scared of government backed loans just to make you aware.

In reality there are many more FHA and VA loans used to buy a house than conventional. They're easier to get.

The following is what I mean by *open to interpretation*. In the defective conditions section of the FHA handbook it shows how the process leaves you at the appraisers mercy. It reads as follows:

Defective Conditions

A property with defective conditions is unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated.

Defective conditions include:

- Defective construction
- Poor workmanship
- Evidence of continuing settlement
- Excessive dampness
- Leakage
- Decay
- Termites
- Other readily observable conditions that impair the safety, sanitation or structural soundness of the dwelling.

(That's a quote from the handbook)

You have 3 identical offers except one is conventional, one is FHA and one is VA. Which do you accept?