



October 19, 2009

Tax Credit Deadline for First Time Home Buyers - *Flirtn' with Disaster!*

Not managing expectations of the first time home buyer regarding the urgency to close before Dec 1st in order to realize the tax credit is like "**flirtn' with disaster!**" As of today, there are only 26 business days left until Dec 1st - Veteran's Day, three days during Thanksgiving, and not counting the last day of the month reduce the actual number of business days from 31 to 26. And, and November only has 30 days in the month!

The lending industry is requiring perfection on properly documenting every loan file before the closing package can be released to attorney's office; therefore, it takes longer to clear conditions on each loan (see my most recent blog post "[Is the Loan Clear to Close?](#)").

Appraisers must spend more time documenting their appraisals by supplying additional comps or commentary to justify or defend their value.

Over half the sellers are banks. Banks will move at their own pace! Do not expect banks to respond quicker to offers, counters, etc. as the deadline nears expiration.

Rates are low, home prices are deeply discounted, and the eight thousand dollar federal tax credit is in play. **There has never been more incentive or opportunity for a first time home buyer.** Activity has picked up as motivated buyers move with urgency to write a contract and close by 11/30. This is a great opportunity to enjoy a run in business that we all welcome, to help buyers realize the American Dream of home ownership, and to help buyers improve themselves financially with instant equity and tax benefits. **However, absent of setting expectations to the buyer on timeframes and responsibilities, this is a recipe for disaster that can crush clients' hopes and destroy our professional reputations.** We must plan and anticipate if we are to best serve our clients!

Here are some tips to discuss with your buyers whose top priority is closing before 11/30:

1. Act now- time is really running out, 26 business days remain
2. As a buyer look to make offers on homes for sale by individuals, not banks
3. As a seller be prepared to respond quickly to offers and act quickly on repair requests - Listing agents should advertise listings to message that seller is motivated to close before Thanksgiving
4. Prepare buyer to provide all financial documents to lender ASAP
5. Work with lenders focusing on PURCHASE business- do not work with lenders heavy in refinance business- a commitment to purchase business is in your buyer's best interest. Lenders focusing on refinance will not have a system to close the time sensitive purchase business you need for the next 26 business days
6. Stay away from lenders who do not have localized underwriting- when a loan file leaves the building of the lender and is underwritten offsite, the originator loses control and closing date is in big jeopardy- mortgage brokers typically do not have underwriting in their building so your buyer's loan waits in big line and broker has little influence
7. Meet with your lender and closing attorney in early November to ensure: title has been ordered, appraisal has been ordered, closing date is set etc. Having a tight team committed to your client

and your business will ensure details do not destroy. "The devil is in the details" Manage the process with your partners PROACTIVELY!

8. Take ownership and initiative

Here is a sample of a timeline and questions and answers to ensure you are proactive:

1. Have your buyer get pre-qualified NOW
2. Ask lender to provide you list of financials your buyer needs to provide lender
3. Have fully executed contract to lender by 10/23
4. Title and appraisal should be ordered by 10/26 by lender- once appraisal is in inquire if any repairs are required, termite letter needed, water test, septic letter, etc
5. If seller is bank, clarify with bank how many days package must be to attorney's office prior to closing and notify lender
6. Loan should be submitted to underwriter by 11/6
7. Obtain list of conditions from lender and meet discuss with your buyer- ensure all parties are clear on who and when steps will be received by lender
8. Loan is resubmitted by 11/12-11/13 to underwriting to be cleared and sent to closing department- buyer should have finalized home owner's insurance at this point
9. Request lender to send over prelim closing instructions to closing attorney once loan is approved
10. Loan cleared and file gone to closing department of lender by 11/17. Ask lender if Truth N Lending is compliant to avoid three day delay if APR increases by more than .125% from original TNL
11. Lender to review HUD-1 with buyer
12. Ideally close loan on 11/20 or 11/23
13. Details- are both seller and buyer attending closing or is there chance a POA will be needed for either party, buyer needs photo ID, certified funds made out to himself

I strongly suggest targeting closing on 11/20 or 11/23.

Suggested Responses to Buyer Questions:

- Buyers are asking, "is it too late to take advantage of the tax credit?" My response, "not yet, but if you wait much longer that could be the case." Each day that passes without writing a contract makes it more difficult to meet or beat 11/30 closing date.
- Buyers are asking, "I hear the tax credit will be extended?" My answer, "that could be true but nothing is official." There is discussion of an extension but if the purpose of the tax credit is to stimulate buying activity why would the government announce an extension now? Do not expect an extension to be announced (if it is going to happen) until closer to 11/30, perhaps over the Thanksgiving weekend. Ask the buyer if they want to risk the opportunity of the tax credit on what the government MAY do?

On final note and a very important note for both selling and listing agent- Remember that most of our first time home buyers will pursue FHA financing. Be sure to avoid being blindsided by the **FHA flip rule**. **IF** an investor bought a house within the last 90 days and the buyer is getting FHA financing a lender cannot close that FHA loan until the investor has had title for 90 days. This means that a 90 wait period is in play if buyer is getting FHA loan and seller just purchased house within last 90 days. This rule usually does not apply if seller is a bank. Rule is in play if seller is an investor. **Action- ask seller for copy of the HUD-1 when they bought house.** I had two loans not close in September because of this scenario. If we do not proactively determine when seller took title (when buyer is going FHA) then it will not be discovered until title comes back...and that may be too late.

Let's get our buyers motivated and EDUCATED. Let's get our sellers motivated and EDUCATED. Collectively let's pull together (realtors, lenders, attorneys, appraisers) to ensure our first time home buyers capitalize on this tremendous opportunity! At the end of the day we will have guided our buyers through a labor intensive, time sensitive process. There is an awesome opportunity for us to showcase our expertise and value and ensure we earn future referrals from those we serve.....and avoid "**flirt**' **with disaster**" caused by missed expectations and opportunities.

Please call me if you have any questions, if there is anything I need to clarify, or if I can help you with a buyer or particular scenario. I am eager to assist!