

## AGITA Panel Discussion Notes

### Panelists:

Steven Larson, Shamrock Mortgage  
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Chris Depalo, Lepizzera – Laprocina  
Kathy Donovan, Appraisal Resources  
Kathleen Christopher, Christopher and Regan Insurance Inc.

General statements identifying main issues in today's market

### Mortgage

- 1) Not properly prequalified – issues with buyers not understanding their total payments
- 2) Property – Utilities on for appraiser
- 3) Guidelines/situations outside of anyone's control

### Appraisals

- 1) Appraisals are based on historical data – in other words, value is based on recent similar sales closed ON or BEFORE the effective date of the appraisal of the subject property.
- 2) What is considered in living square footage, room count etc.
- 3) More detailed market information is now required by lenders to be analyzed in approving the appraisers value.

### Legal

- 1) Short Sales/REO
  - a. Title issues – during the boom, title work was not as detailed as it could have been creating issues today
  - b. Short Sales – inspections should be done upfront. If they wait until short sale approval and the price needs to be renegotiated as a result of the inspections, then the transaction needs to be renegotiated with the bank after an already long and tedious process
  - c. Buyer's pre-approval/prequalification letters are not valid or inaccurate
  - d. MARS, Mortgage Assistance Relief Services governs the fee structure for short sale and loan modification negotiations and has specific disclosure requirements. This was implemented so consumers who were attempting to obtain a short sale or loan modification were protected against unfair fees and practices.
- 2) Read, understand and USE MLS approved short sale addendums

## Insurance

- 1) 40% less insurance companies doing business in RI in the last 5 years
- 2) Rhode Island has a bullseye on it due to concerns over hurricanes
- 3) Insurance industry views all of RI being a coastline regardless of how close property is to the water. Concerns over wind storm damage causing more strict guidelines for the companies still writing business in RI.
- 4) Flood Insurance
  - a. Transferable and grandfathered in to flood zone in effect at time insurance was issued if policy is still in force
  - b. FEMA is constantly reviewing flood maps and making changes

## Land Planner/Surveyors

- 1) Flood maps now digital giving more accuracy but some properties that are borderline get put into a flood zone. Getting an elevation certificate will prove/disprove zone which is the first line of defense with lender. If lender does not accept the elevation certificate, a LOMA (Letter of Map Amendment) can be filed with FEMA.
- 2) RI Cesspool Act
  - a. Any home within 200 feet of any coastal feature or water reservoir needs to be removed and tied into sewers or install new DEM approved septic system if sewers are not available by January of 2013
  - b. If property was built prior to 1968, it most likely has a cesspool. After 1968 most properties had a DEM approved septic system

## QUESTIONS AND ANSWERS

Does the seller have to be late on their mortgage payments to do a short sale?

Predominantly no – occasionally the lender will require it but the standard is no, It is easier for the seller to obtain financing in the future if they do not have any mortgage late payments on their credit.

Are buyers being correctly pre-approved?

Pre-approval – Credit, income etc are reviewed and run through an automated underwriting system. Pre-qualification – NOT a pre-approval – no credit analysis. The letter from the bank is clear whether it is a pre-qualification or pre-approval.

Can an agent speak to an appraiser?

Yes – at the appraisal appointment an agent can speak to the appraiser and provide information about the property.

Is there a process to dispute an appraised value?

Yes – but with the lender directly – never with the appraiser.

Is there an effort to get relevant appraisers by location of expertise etc?

Process is always under review but not controlled by the appraisers.

Should listing agent present comps and other information to an appraiser?

YES. Especially the comps the listing agent used to develop a marketing plan and determine the potential sale price. Definitely provide information that may not be readily available, i.e. deeded beach or boat ramp, recent pending sales that may be closing soon and relevant to the subject property...

Can listing agent deal with the bank to dispute appraisal?

New purchase and sales agreement states listing agent can contact lender

What happens to a short sale deficiency?

Lender has 3 options 1) it can waive the deficiency and issue a 1099 which may have a tax impact. There are a few exemptions under the current tax code. 2) The lender may release the lien only and subsequently can pursue a client for the difference. 3) Lender can exercise a reservation of rights approval whereby lender approves the short sale but does not state how they will handle deficiency with seller – they have 3 years to issue a 1099 and 10 years to pursue the deficiency.

What is HAFA?

Home Affordable Foreclosure Alternatives is a federal program to incent sellers to move on and incent lenders to accept short sale versus foreclosure. It is intended to help sellers transition into new homes. It is part of President Obama's economic recovery plan but it does not require lenders to participate. It provides for payments for moving expenses up to \$3,000.00, waives deficiency balances and postpones foreclosures for up to 120 days.

Are lenders looking closely into sellers financial circumstances in determining approval of short sale?

Lenders look closely at explanation of hardship. Are they paying off other creditors, is it a buy and bail etc?

How many insurance companies are left in RI?

30 viable companies, 15 – 20 writing insurance across the board. The Fair Plan writes everything.

Does credit play a part in insurance premiums and eligibility?

Credit reporting is huge, it is not score driven. Clue reports are also pulled which reports previous accidents, home claims, mold remediation etc.

How credible are quotes?

Quotes are as credible as the insurance company/agent is. Company ratings are available on the internet. Look at the coverage and see if it makes sense keeping in mind that the

underwriters will review and if the coverage is too low and the insurance costs increase, it may impact mortgage approval. Know who you or your client is working with.

How strong is the coverage on a HO6 policy (condo walls in)?

Does not cover any issues resulting from home improvements made, it is based on the original so buyers may need higher coverage.

How do vacant properties impact insurance?

If a property is vacant 30 days or more, coverage is at risk. If furniture is in property, temporary lapse during buyer/seller transition is usually ok for insurance purposes. There are concerns for unoccupied properties on the market for sale for more than 30 days. The minimum premium for a vacant property is \$1500. If the owner does not notify the insurance company that the property will be vacant, they may not be covered. Two family properties have higher premiums.

Is RI over an earthquake fault line?

Yes.

If the seller cannot sell and decide to rent their property, is there an impact to the mortgage and insurance?

The buyer must sign an occupancy affidavit on the new house and can only use rental income from the new renters under some circumstances. From an insurance perspective the policy must be changed from a homeowners policy to a fire dwelling policy which is at a higher cost.

How are boundary disputes handled?

Typically land surveys are conducted. Class 1 which is the most common survey has corner markers and costs approximately \$900. Class 3 does not set corner markers and costs approximately \$300.

Can two different surveyors come up with different results?

Yes – it depends on where they begin their survey.

Are flood maps correct?

Generally speaking, yes.

If the land is in a flood zone but the structure is not, is flood insurance needed?

No – but a survey may be required to prove that.

What is the lowest point of an elevation certificate?

Two things are required to complete an elevation certificate for determination of whether the property is in a flood plain. LAG, lowest adjacent grade, is the land relationship to the structure and lowest floor which is related to the BFE, base flood elevation.

What is the cost and timeframe to get an elevation certificate?

Elevation certificate is \$575 and takes approximately 1 week.

LOMA costs an additional \$300 and can take up to 30 – 60 days for FEMA's determination.

How much time does it take for a FHA condo approval?

The typical timeframe is 3 weeks to 3 months depending on the completeness of the documents submitted to HUD. Some of the main issues HUD looks for are FHA concentration (how many FHA loans are currently being used in the project), delinquency rate of association dues, is there any language in the condo documents that is not acceptable to HUD, current financial status (reviewing budgets). Some larger banks in the area have a condo department and will submit the documents to HUD and manage the process.

If there is a FHA case number on the property from when the condo had FHA approval, will that grandfather in after condo approval expires?

Gray area.....

Do light fixtures need to be installed for a FHA appraisal?

Any hanging, unsecured wires may present a hazard becoming a health and safety issue and FHA requires all health and safety issues be cured.

Is a door required in a bedroom for FHA?

Not really a health and safety issue so it would be underwriter discretion.

Should a sales contract include language of subject to a satisfactory appraisal in addition to the other contingencies?

Yes