All your hard work has paid off. The purchase contract is signed. Now you can just sit back and wait to get paid. Wrong!

“Sometimes clients and salespeople think the closing is going to be a piece of cake, but these days, having a contract is only the beginning,” says Mary Sand, ABR, SFR, a branch manager and director of training with Century 21 Arizona Foothills in Phoenix. According to recent REALTORS® Confidence Index surveys conducted by the NATIONAL ASSOCIATION OF REALTORS®, between 10 percent and 14 percent of pending transactions don’t close. Another 20 percent are delayed but eventually close.

The easiest way to avoid a closing delay is to do your homework up front, says Alicia Trevino, president and CEO of Century 21 Fine Homes & Estates in Dallas. “Most of the time, a problem at closing really starts much earlier,” she says. Trevino encourages her 52 sales associates to use a checklist of tasks that must be completed. She suggests they review the list weekly and make follow-up phone calls to lenders and title companies, as needed.

Setting realistic client expectations is also essential. “Before they sign the purchase agreement, you need to educate your clients about the possible closing hurdles. You don’t want to scare them, but they do need to understand what could go wrong—from buyers who can’t qualify for a loan to delays with title,” Sand says.

Most hurdles that delay or prevent closings fall into three major areas: loans and appraisals, titles, and home inspections. By focusing in on the most common closing hurdles in each of these areas, you can gain control of your transactions and master the intricate details that make a closing happen.
Financing falls through at the last minute
Help buyers get their documentation in order

Tighter—and in some cases still-evolving—loan underwriting standards make it more critical than ever for buyers to make sure they’re financially qualified for the purchase, says Marki Lemons, ABR, CRB, a broker with Keller Williams Realty Chicago Consulting Group.

However, because of new requirements under the Real Estate Settlement and Procedures Act, many lenders are no longer issuing preapprovals—only prequalifications. If a buyer you’re working with has just a prequalification letter, Lemons recommends finding out whether income and assets have been verified.

“I look for a letter that shows the buyer has talked to someone face-to-face, not just completed an online form,” says Laura Sanders, a sales associate with Sibcy Cline Inc., REALTORS®, in Florence, Ky.

Tighter lending standards and heightened concern about mortgage fraud also mean more time-consuming paperwork, says Tracey Rumsey, a mortgage loan broker with Southwest Business Corp. in Bountiful, Utah, and author of Saving the Deal (AMACOM, 2008). “Mortgage brokers have had to relearn the underwriting process and ask all the questions up front,” she says.

For example, not only do FHA buyers who receive funds from a family member have to disclose the gift and its source, but the person making the gift must also show the source of the funds. “It’s easy to overlook this requirement, but you can’t fund the loan without it,” she says.

New condominiums can be a particular loan challenge because the FHA requires that 50 percent of the development’s units must be under contract before the agency will approve financing for individual condos. “The FHA was doing spot loan approvals for a while, but it’s getting harder,” Sanders says. Unless an exception is made, a buyer will have to shift out of an FHA product. Lenders are also asking to see statements of homeowner’s association reserves before approving a loan, which can create “a great deal of difficulty at the last minute if the HOA isn’t cooperative,” she says.

Lenders and mortgage loan investors in the secondary market are scrutinizing actual tax transcripts from the IRS much more closely, Rumsey says. She recalls a recent transaction in which a husband and wife had enough income to qualify for the loan amount. However, the lender’s review of their tax forms found the wife had an $8,000 loss from a side business, which dropped their income to below the required amount.

Appraised value doesn’t support contracted sale price

“T”he biggest hurdle to closing in an uncertain market is the lack of comps, especially for FHA and VA loans that require comps to be within a three-month time limit,” says John Mijac, e-PRO, GRI, with Old Adobe Realty in Tucson, Ariz.

To bridge the gap between his clients’ $175,000 offer and a recent comp that sold for $145,000, Mijac did a new CMA that justified the offer price.

Still, the appraiser wouldn’t budge. So Mijac worked with the listing agent to send supporting documents to Fannie Mae and ask for an adjustment. The property finally appraised and sold at $165,000.

Questioning comps in transactions involving VA loans has gotten easier since the implementation of the so-called “Tidewater Initiative” in 2003. It allows any party of a real estate transaction to supply market data and information >>>
New lending and closing regulations create delays

Understand rules and allow time for compliance

Recent changes to the federal Truth in Lending Act and RESPA can slow the closing process. “The new HUD-1 form adds a few more hours of document preparation because underwriters and escrow agents aren’t familiar with it yet,” Mijac says.

“A lot of people didn’t expect the new RESPA rules to go forward and didn’t update their software programs or start training soon enough,” says Alyce Ritchie, a partner with Morris/Hardwick/Schneider in Atlanta.

Unfamiliarity and the fear of making a costly mistake in the Good Faith Estimate form are sometimes prompting lenders to ask for closing-cost information more than once or in several formats, Folkins says.

Lending rules have also made it harder to close on time if circumstances change late in the deal. Amendments to the Truth in Lending Act require a three-day disclosure period if a borrower decides to change the loan amount or anything else that can change the interest rate. “Changes of more than 0.125 percent in the APR immediately trigger another disclosure,” Rumsey says.

To prevent delays, avoid last-minute changes whenever possible. But sometimes, when the matter is out of your control, the best thing you can do is help your client have expectations about how long the transaction will take.
A home inspection uncovers serious issues

Look into possible repairs before buyer’s inspection

The time it takes to negotiate which party pays for repairs and get estimates—and sometimes even complete the work—can spell big delays for a closing. “People want a perfect house. We see buyers renegotiating repairs two or three times,” Kenline says.

One way to head off last-minute wrangling is to get a home inspection and make repairs before the property is on the market. However, that practice isn’t endorsed across the board.

“I tried doing inspections before marketing, but didn’t see the benefit,” Sanders says. In most cases, buyers want their own inspector, and the results of two inspections often differ, especially when a property is on the market for a long time, she says.

An alternative to a prelisting inspection: Walk through the property with sellers and ask about the condition and age of major components like the roof and foundation. Then get estimates on what potential repairs will cost. “Sellers don’t necessarily have to fix the problems, but knowing what they might have to spend will help them price the house,” Mijac says. The estimates can also speed repair negotiations.

Alerting buyers to possible high-ticket repairs and suggesting that they factor those potential repair costs into their offer can also cut down on post-contract negotiations, suggests Phyllis Harb, a sales associate with Dickson Podley, REALTORS®, in Pasadena, Calif.

Repairs required by VA appraisers can delay a closing because the work must be completed before the property can change hands, notes Mijac. Another hurdle with VA loans: a buyer can’t agree to pay for a repair, which can be a big problem if the seller can’t or won’t pay.

Above all, allow more time

No matter how much you plan ahead, it often seems that closings are just taking longer today, Harb says.

Indeed, the “new normal” may be that it takes 45 or even 60 days from the date the contract is signed to close the transaction. You can get a realistic estimate of a client’s closing date by creating a timeline of how long various inspections and approvals are taking in your area, suggests Trevino. “If it takes 10 business days to get an inspection and two weeks to get a survey, you shouldn’t count on closing in 30 days.”

John McCain, division president of Stewart Title North Texas in Dallas, says bankruptcy and pending foreclosure are among the most common issues that delay a closing today. All three of these things can cause title problems. With bankruptcies, you need to search federal records to be sure that there are no conditions affecting the disbursement of proceeds that need to be met before the sale. The bankruptcy court also has to approve the contract prior to closing. And if an owner is trying to sell a property before foreclosure, check with the lender to be sure the property hasn’t been posted for foreclosure and is still available to sell, McCain says. Also, be sure the proceeds are enough to pay off the mortgage lien and any fees from late payments.

Alicia Trevino, president and CEO of Century 21 Fine Homes & Estates in Dallas

“There shouldn’t count on a closing in 30 days.”

Problems:

- Liens for things like HOA fees or unpaid repair costs
- Bankruptcy
- Pending foreclosure

Solutions:

- Get a home inspection and make repairs before the property is on the market
- Ask about the condition and age of major components like the roof and foundation
- Get estimates on what potential repairs will cost
- Alert buyers to possible high-ticket repairs and suggest they factor those potential repair costs into their offer