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**10 Questions to Ask  
Upon Review of a  
Sales Contract**

Presented by:

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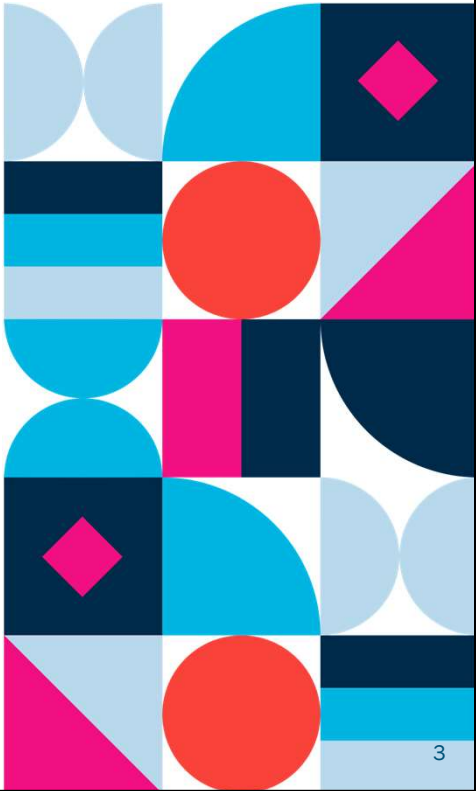
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**Objectives**

Discuss	the required components of a sales contract
Identify	10 questions to ask upon review
Recognize	common red flags





## Real estate sales contract



A real estate sale agreement, more commonly referred to as a sales contract, is a document that outlines the terms and conditions of the sale of a property. It is a legally binding document.



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**Do I have a complete copy?**



- All pages
- All addendums
- Required disclosures
- Buyer Brokerage Agreement
- Signed by all parties
- Fine print/alterations initialed



## Sales contract red flags

-  No real estate agent
-  Use of power of attorney
-  Contract dated after credit documents
-  Contract is boilerplate with limited fill-in-the-blanks



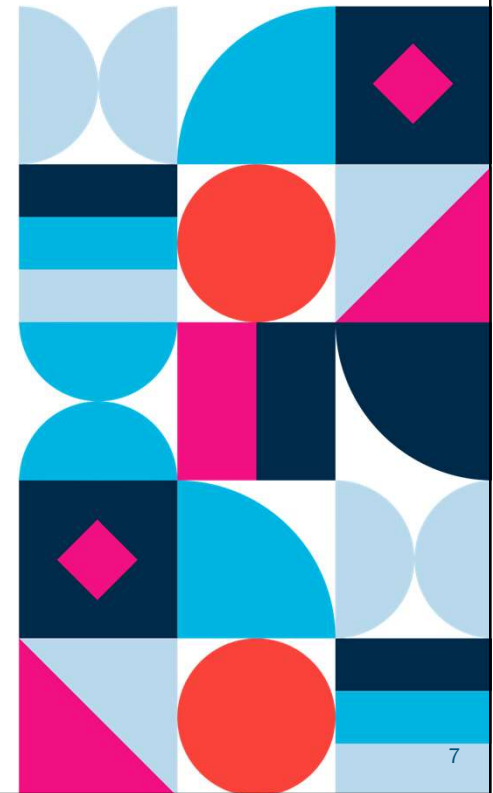
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## Have I confirmed legal ownership?



- Cross-reference current owner
- Chain of title
- Non-arm's length transactions

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## Confirmation of current owner

Copy of the recorded deed, mortgage or deed of trust

Recent property tax bill or tax assessment

Title report

Title commitment or binder

Property sales history report





## Non-arm's length transactions








Transactions where there is a relationship or business affiliation between the parties

- Newly constructed homes are limited to primary residence transactions
- Gift donors cannot be interested parties to the transaction\*
- Full appraisal report is required
- Property value should be scrutinized carefully

\*The donor of a gift of equity is not considered an interested party



## Sales contract red flags

-  Relationship between parties
-  Seller is not reflected on title
-  Seller has only owned property for a short time
-  Buyer is not the applicant
-  Individuals deleted from/added to sales contract



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### **Is the information accurate?**



- Seller and buyer legal names
- Property legal description
- Parcel ID numbers
- Intended occupancy
- Financing terms



### More than one dwelling

1-4 unit

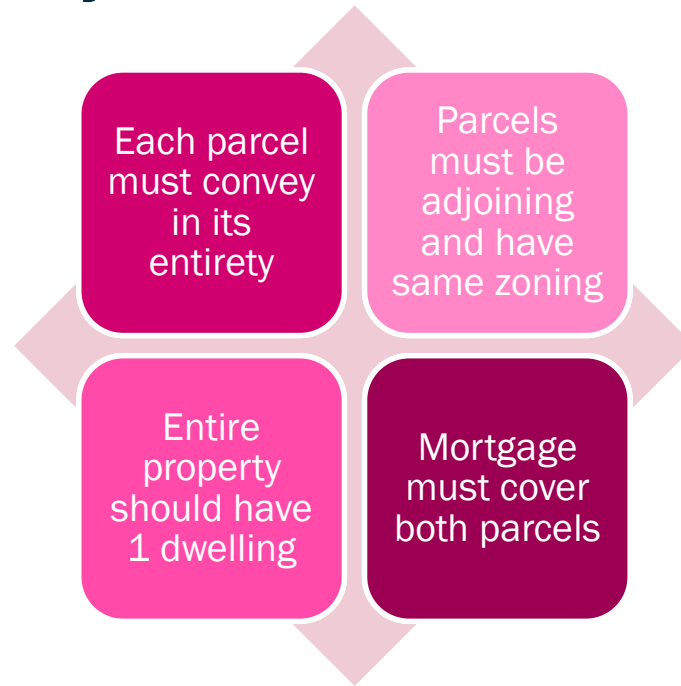
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Ineligible





## Multi-parcel property





Is this property eligible for conventional financing?

1. Property is located at a lake
2. The subject property is situated on Lot A
3. There is a road separating Lot A from Lot B
4. There is a garage on Lot B as well as a dock
5. Lot B is a buildable lot

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## Analyze occupancy

Principal residence – borrower occupies as primary residence

Exceptions:

- Military service member currently on active duty
- Parents of disabled adult child
- Children providing housing for parent unable to work or provide sufficient income

Second home







- Must be occupied by borrower for a portion of the year
- 1-unit dwelling suitable for year-round occupancy
- Borrower must have exclusive control – not subject to any rental or management agreement

Investment property

- All funds must come from borrower (no gifts allowed)



## Occupancy red flags

-  Significant or unrealistic commute
-  Downgrading in size or value
-  Sales contract subject to an existing lease
-  HOI policy is not consistent with intended occupancy
-  Address discrepancies
-  Borrower owns other property but is a renter





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## Are the numbers correct?



- Purchase price
- Closing costs (including any real estate commissions)
- Secondary financing
- HOA fees



## Sales contract red flags

-  Second mortgage is indicated but not included on 1003
-  Real estate commission is excessive
-  Excessive contributions/concessions



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**Is the EMD required for funds?**



- Sales contract deposit
- Verification of source of funds
- Receipt of deposit



## EMD red flags

-  EMD is inconsistent with sales contract or application
-  EMD is excessive
-  EMD check written by another party
-  EMD is not reflected in account withdrawals
-  EMD equals the entire down payment



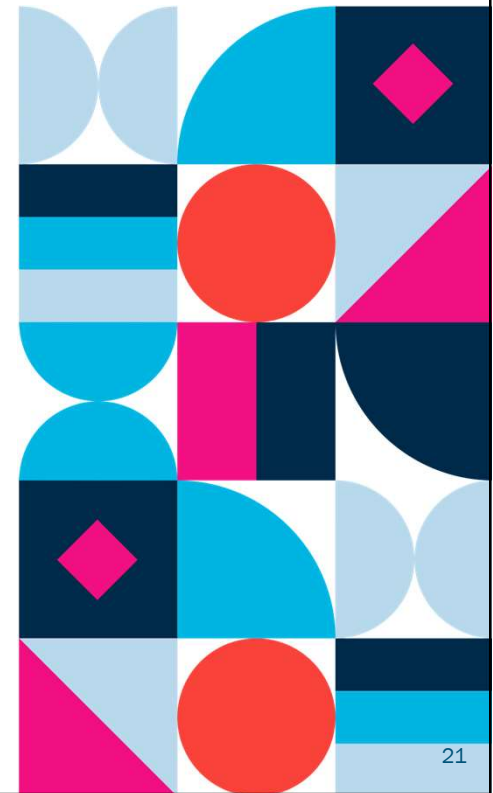
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## Are there any concessions or contributions?



- Contributions/Concessions
- Max IPCs
- Fixtures vs. personal property
- Solar panels

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## Contributions vs. concessions

Contributions

- Financial contributions from interested parties paying for costs that are normally the buyer's responsibility
- Cannot exceed actual costs

Concessions

- Sales concessions are non-realty items that are added incentives
- May reduce sales price dollar for dollar



### Interested party contributions (IPCs)

Occupancy type	LTV/CLTV ratio	Max IPC
Primary/Second home	90.01% or greater	3%
	75.01% - 90%	6%
	75% or less	9%
Investment	All CLTV ratios	2%



## Fixtures vs. personal property

Fixtures

- Regarded as part of the house or a permanent attachment
- Built-in items

Personal property

- Personal items belonging to the seller
- May reduce sales price dollar for dollar





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## Solar panels

- Cannot be sole source of power
- Ownership and financing structure are key to determining if solar panels are personal property or a fixture to the real estate

### Borrower-owned

- Considered a fixture
- No impact on DTI
- Can be given value by an appraiser

### Leasing agreement

- Are they transferring to your buyer/borrower?
- Payment must be included in DTI
- No value given

### Separately financed

- Is there a lien on the solar equipment (PACE loan)?
- May impact first lien position
- If acceptable to loan program, payment must be included in DTI



## Dispute game: **Stays** or **Goes**?

- Microwave sitting on a shelf
- Built-in refrigerator
- Playground set imbedded in concrete
- Mirrors hung on a hook
- Light fixtures
- Blinds
- Curtains/drapes
- Basketball hoop mounted to house
- Storage shed
- Pool cover and equipment

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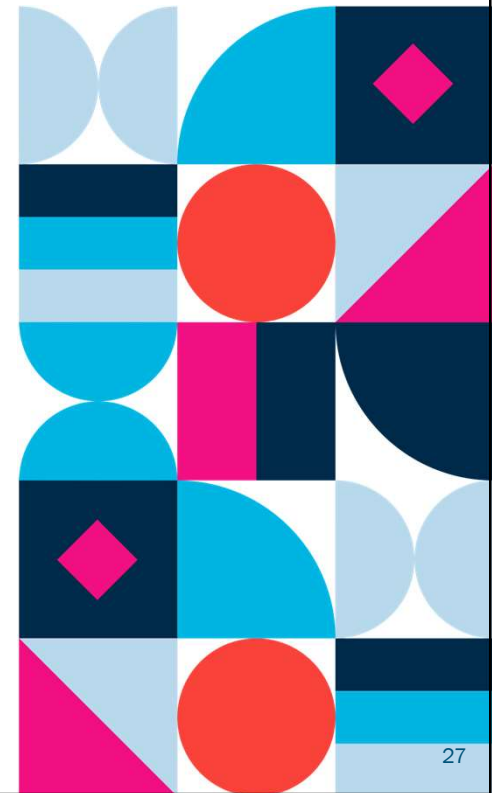
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### Any issues noted on the seller's property disclosure?



- Habitability or safety issues
- Required repairs
- Escrow holdbacks

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## Repairs



Required repairs: Physical deficiencies that affect safety, soundness or structural integrity

If noted:

1. Are additional inspections and/or estimates required?
2. Will the seller complete repair prior to closing?
3. Who will pay for repair?
4. Will appraisal need to be completed "subject to"?
5. Is an escrow holdback allowed by investor?



An appraisal waiver *cannot* be exercised if the sales contract includes which of the following?

1. A gift of equity
2. Repairs indicated as not minor
3. Property is a leasehold
4. All the above

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## What contingencies do I need to keep in mind?



- Appraisal:** Must appraise at the sales price or higher
- Home inspection:** Must pass inspection
- Financing:** Buyer must secure financing
- Home sale:** Buyer must sell property
- Title:** Seller must convey clear title
- Home insurance:** HOI must be obtained



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## What dates should I pay attention to?



- Contract date
- Financing date
- Contingency dates
- Walkthrough date
- Closing date
- Possession date



Borrower has applied for a mortgage for the purchase of a primary residence. A review of the purchase contract indicates a possession date 4 months after closing due to an existing lease.

Is this a problem?

1. Yes
2. No

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## **Seller rent-back agreement**



For owner-occupied transactions, the borrower must occupy the subject property within **60** days of closing.

A rent-back credit may appear on the CD as a credit to the borrower.

The borrower must have sufficient funds for closing outside of this amount.



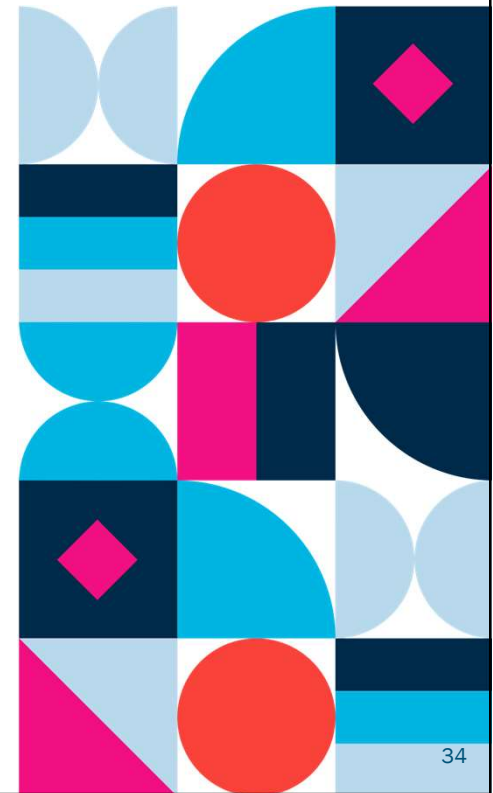
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## What other factors do I need to consider?



- Special assessments
- Large acreage
- Mixed-use properties

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## Special assessments

Surtax

- Pays for specific local infrastructure projects
- Tax is charged only to property owners that will benefit from project
- Special assessment district

HOA rider

- HOA improvements that apply only to members of the HOA to cover unforeseen expenses
- Special maintenance outside of project's budget



## Large acreage



Appraisal must include actual size of site

Review degree of development in neighborhood

Focus on characteristics of property, zoning and present land use

Review description of the subject and adjoining properties

Comparable sales of similar use and size must be provided



## Mixed-use properties

01

Property must be a 1-unit dwelling that the borrower occupies as a primary residence

02

Borrower must be both the owner and operator of the business

03

Property should be primarily residential in nature

04

Dwelling may not be modified in a manner that adversely affects marketability



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 These courses are designed to provide lenders and servicers an understanding of the key property insurance requirements for one- to four-units, PUDs, condos, and co-ops.  
 Flood insurance training modules coming late Summer 2024.

Explore training and resources

**Property insurance 1-4 modules**  
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**Property insurance for one- to four-units**  
 Property insurance for one- to four-units  
 Modules:

- Evidence of property insurance
- General property insurance requirements for all property types
- Property insurance coverage requirements for one- to four-unit properties
- Determining the required coverage amount for one- to four-unit properties
- Understanding replacement cost value, replacement cost coverage, and actual cash value
- Deductible requirements for one- to four-unit properties
- Individual property insurance requirements for a unit in a project development



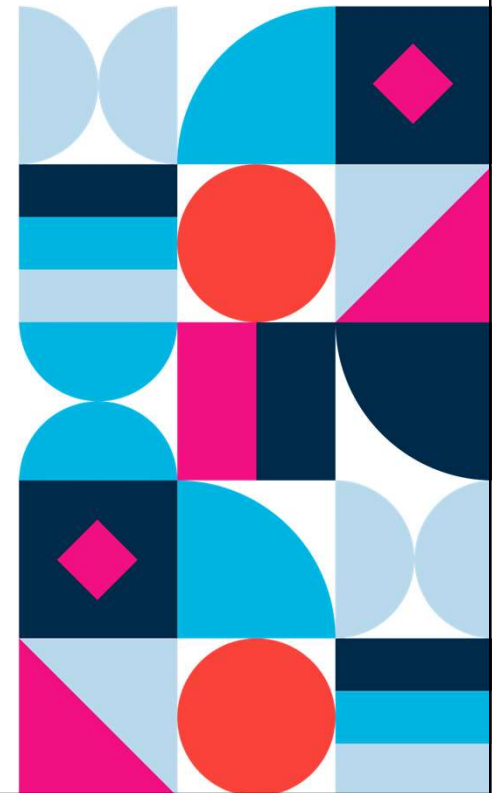
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