

REAL ESTATE Connection

IT'S ALL ABOUT HAVING THE RIGHT CONNECTIONS

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A Lawyer's Perspective

Don't depend on others to bring about change

BY DENNIS SCARDILLI

The mega-bailout of Fannie Mae and Freddie Mac is all over the news as I write this week's column. After I heard about the bailout, I called a contemporary of mine who experienced similar markets over the past 30 years Carlo Losco, owner of Balsley Losco Realtors, to talk about how my readers could protect themselves from this latest shake-up in the real estate market.

The bottom line of our conversation is that you can avoid heartburn and heartache by no longer depending on regulators, or any other formal institution for that matter. Instead, every home owners and investor must look after their own financial interests.

Start with being over capitalized and have sufficient reserves. Don't over extend yourself or expect that your financing institution will let you slide. Understand that existing commercial loans can be accelerated, or not renewed, if the loan to value ratio is over their limit or your financial position has changed. If you need help, pay for it. Don't rely on a financing entity's appraisal. Get your own so you are comfortable with the value to which you are obligating yourself.

My father once occupied the market position that Carlo holds now. From the 1960's through the '80's, my late father, Joe Scardilli, was one of the leading real estate brokers in Atlantic County. Dad would go over the buyer's finances, work with a mortgage company representative or take the application himself, drive to HUD or VA offices in Camden or Newark to get the FHA or VA to push the paperwork.

Carlo remembers those days but tells me that this is no longer possible because of regulations, computerized online loan applications handled by the buyer on their own, privacy issues and other changes in the industry. The world has changed. Today, you must be pre-

pared to pay someone to help or advise you on these matters, have the expertise and time to reaseach these issues on your own or be prepared to pay others to do these things for you.

When Carlo and I were young real estate salespeople in the mid 70s, the mortgage companies sent their "reps" to Realtor's offices. The reps would carefully go over the mortgage application with the buyer and the Realtor. If a young couple had just bought a car that kicked their debt-to-income ratio into the no-loan-zone, those reps would tell them to sell the car. If they did, the rep would then go back to the underwriter and get them approved. "Desktop Underwriter" computer programs, like Fannie and Freddie use were Dick Tracey stuff. Shoe leather, hand-holding, and straight talk got good deals through. Today, be prepared to pay your accountant for a realistic picture of your finances before making a loan application to avoid over borrowing and to avoid a possible future foreclosure.

Before you meet with your accountant, do your budget homework and have her grade you. Carlo tells me that sufficient financial reserves are no longer a lender's standard requirement. You should have several months of reserves for your home mortgage payment, in the event of a lay-off. For commercial properties, a sufficient reserve fund should be established for rent-up or absorption.

Before you begin to look for a property, consider hiring an experienced Realtor, like Carlo, as a "Buyer's Broker" (my idea, not his). Complex deals, or red flags on simple deals, may require a consult with an attorney who understands real estate, contracts, land use, construction law or whatever is necessary to avoid a future lawsuit. Most of the court-ordered mediations I have been doing involve one of those areas of law. Believe me, a consult before the fact is a lot less expensive.

My father used to go to building inspectors, planning board meetings, whomever necessary, to get the deal done. Today, you need to go to the municipal hall and talk to the Land Use Administrator to determine if there are any land use-land mines, as I have said before in this column. You may also have to hire a professional planner, engineer, home inspector, plumber, electrician, roofer, etc to provide advice on approval or repair costs.

Don't rely on the lender's appraisal. Last spring we talked about the "Cuomo Agreement", an imperfect, but necessary first step toward combating lender pressure on appraisers. While waiting to see if that agreement survives the Fannie-Freddie debacle, Carlo suggests you pony up for a pre-application drive-by. In some deals, you may need a basic independent appraisal performed before you start negotiations.

No one should buy their first home without at least addressing the issues that Carlo and I discussed, today. If you are eligible, there are public housing counseling agencies that will help you work through these issues.

Whatever you do, don't think that regulators like Fannie and Freddie will take care of you. That's why God gave you the gifts you have. Use those gifts to make money in this crazy real estate market and then, like Carlo and me, plan on someday telling your grandchildren about it from your winter home on a golf course in Arizona or Florida.

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