

APPRAISAL TASK FORCE UPDATE

Don't Let Water & Sewer Issues Muddy Up Your Closings

Inaccurate information on the availability of public utilities can derail an otherwise uneventful closing at the last minute. It is in everyone's best interest to verify what kind of water and sewer service is connected and what is available on any property listed in the MLS system.

Lenders are becoming much more interested in the type of utilities available to residential properties. Not only are they interested in what type of water and waste disposal system a property is already using, but many lenders want to know what facilities are available at the street. FHA wants to know not only that a property has a well and/or septic tank, but they also want to know if public water and/or sewer is available at the street. It is an FHA requirement that a property be hooked up to public water and or sewer at closing if it is available and the cost of the hook up does not exceed 3% of the purchase price. Many times the buyer, buyer's agent and the lender find this out three days before closing when the appraiser reports the availability of public water and/or sewer on the appraisal. Needless to say when this happens, you will probably not close as scheduled. In some cases where money is very tight on both sides of the transaction a last minute expenditure of that magnitude will derail the deal entirely.

Reporting only the systems currently hooked up to the dwelling meets all MLS and material fact disclosure rules. The question is do you want to be proactive and report all relevant information up front or would you rather wait for the potential disaster to crop up when you can least afford it? If you advise your client to offer or accept an Offer to Purchase based on FHA financing wouldn't you rather know when you are negotiating the deal that somebody is going to have to come up with \$3,500 before closing to hook up to public sewer?

Other issues which can cause major problems when dealing with lenders are shared wells without proper easements, septic tank lines and/or tanks being on property not owned by the seller, shared septic systems or homes with more bedrooms than the septic tank permit allows. In all of these cases reporting information in MLS saying the property has well and septic could be right, but if you and a potential buyer don't know the details involved you could be dead right!

Lenders hold appraisers to a higher standard of reporting than is typically required in the MLS system. The full details of the utility situation will be known to the lender at some point prior to loan approval. It will be in your and your client's best interest not to be surprised by that information days before closing.

Finding all the necessary information about the utilities on a property can be challenging. The first source of information is to ask the owner to provide copies of utility bills. Most municipal water/sewer systems are operated by the city or county governments. A call to the utilities and/or engineering departments will be the best source of information. In most suburban and rural areas the county environmental health departments would be the appropriate agency to contact concerning well and septic information. A couple of hours of research when you take a listing could save days of anguish when you are trying to save a closing.

~ By Mike Leamon, Leamon & Associates