



# REALTOR®/Lender Task Force

## How do you do Due Diligence?

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Many REALTORS are asking the lender what the due diligence period should be, 30 days, 45 days, 60 days? Good question, but not an easy answer. There are so many things that can affect the length of time it takes to get a loan approved these days. Here are just a few: borrower is self employed, newly employed, receiving a gift; needs down payment assistance; property is a condo, log home, rural, small horse farm, second home, rental, unique, in need of renovation, a flip. These are a few of the items that affect the length of time it takes to get a loan approved.

What everyone needs to understand today, especially Realtors, buyers, and sellers, is the loan process takes longer today than a few years ago. As you are probably aware, and may have experienced first-hand, credit standards have tightened considerably over the past few years. It's not as easy to get a borrower approved as it used to be, but contrary to some media sources, we do it every day.

But back to the issue at hand, the due diligence period. What can you do, as a buyer's agent, to protect your buyer when determining the due diligence period. Most importantly, insist your buyer be pre-approved. And not the old pre-approval, but the new, fully documented, pre-approval, with bank statements, paystubs, W-2s, and tax returns if needed. Think about it. Your buyer is getting ready to put down real money, real **non-refundable** money. And there are a number of things that could cause them to walk away from the property after they've paid their **non-refundable** money, like things they discover from the home inspection.

But why would anyone want to risk **non-refundable** money, and why would you want to waste your time, not knowing if they can get a loan. That's really the only thing they can control before making an offer. For the majority of loans today, specifically conventional and FHA/VA, most lenders use an automated underwriting program as an initial underwriting decision on a borrower. If the loan is approved at that initial stage, and the borrower has provided paystubs, W-2s, bank statements, and tax returns, they can be fairly confident they won't have to pull out during the due diligence period because they can't get their loan. Of course, they will always be exceptions, and not all loan programs can use an automated underwriting program, but still, insisting your buyers get pre-approved is the prudent first step.

Now, if your buyer has been fully pre-approved and finds a property they want to make an offer on, they may be more confident using a shorter due diligence period. This may make their offer more attractive to the seller, and you will know you've done everything you can to put them in the strongest negotiating position as possible.