

Bargain hunting in the U.S.? Better bring cash

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When Canadian accountant Kenneth Lee toured Florida looking for real estate deals in May, it seemed everyone in the state's ravaged housing sector bent over backwards to welcome him – with the exception of mortgage lenders.

A successful business owner, Mr. Lee, 37, faced a swath of red tape and a 45-per-cent down payment when he took the plunge last month and bought a new condo in Naples, Fla., for approximately \$700,000 (U.S.).

It's a situation becoming more common as U.S. lenders slammed by the subprime crisis tighten the rules for borrowers. Foreigners shopping for bargains are now being encouraged to bring cash for their purchases, rather than look for financing in the United States.

"My clients are still getting mortgages, but it's getting a lot tougher to qualify. You're looking at a lot more documentation, longer application times and higher down payments," said Patti Bosco, a Sarasota, Fla.-based agent who runs seminars for Canadians looking to buy property in Florida.

"I'm telling people, if they can, to bring cash."

When obtaining a mortgage in the U.S., Canadians must deal with a qualified lender, including a bank headquartered there or the U.S. subsidiary of a Canadian bank, said Jack Sandelman, mortgage specialist at Sarasota-based Fidelity Management.

But the choices are shrinking. Many U.S. lenders have been burned by lax lending standards and falling home values, two key catalysts of the subprime mortgage crisis.

Until the housing bubble burst, loans were being made to buyers with shaky credit, including adjustable products with low introductory rates that reset much higher and so-called NINJA loans (no income, no job or assets).

Mortgage defaults, as a result, have hit record levels. One in every 171 U.S. households was in foreclosure in the second quarter of 2008, a 121-per-cent increase from the year before, according to RealtyTrac.

At the same time, prices are tumbling in many parts of the country, leaving some homeowners with mortgages higher than the value of their houses.

Now hundreds of lenders have closed their doors, and others have stopped giving loans through third parties such as mortgage brokers in order to focus exclusively on customers with whom they have retail banking relationships.

There has been a general crackdown on loan requirements for both foreign and domestic borrowers, particularly in declining markets where foreclosures are up and property values are down, said Jim Pair, president of the National Association of Mortgage Brokers.

Those markets where lenders are cautious include states such as Florida, Nevada and Arizona, where foreigners are likely to be looking for property, he said.

"We've gone back 20 years as far as documentation is required. It seems like the old days," Mr. Pair said.

"However, for people who have a good credit score and are not in a declining area, money is still available to them."

People with higher down payments are still able to get mortgages in declining markets, but face a much more involved process than they did a couple of years ago.

Foreign buyers, for example, should be prepared to provide detailed financial records – including two years of tax returns – when applying for a mortgage, Mr. Sandelman said.

Foreign buyers should also be prepared for long waiting periods before their applications are processed, and will likely be required to deposit their down payment funds in a U.S. bank account for at least 30 days, Ms. Bosco said.

Her clients are typically being asked for down payments of as much as 45 per cent, much higher than the 10 to 25 per cent of a few years ago, she added.

Mr. Lee and his parents decided to buy a new, 2,300-square-foot condo, but he said their first mortgage provider made a number of errors.

This, combined with a steep and unexpected document handling fee, prompted the family, who are buying the unit as a vacation property for his parents, to switch lenders, Mr. Lee said.

Things went smoothly at first at the next bank, which required the 45-per-cent down payment for a 30-year, fixed mortgage.

But the bank also wanted the funds to be parked in one of its accounts for 30 days, and unexpectedly refused to count the 10 per cent Mr. Lee and his parents had already deposited with the condo builder as part of that amount.

That left them scrambling to transfer another 10 per cent to the U.S., meaning they actually had to come up with 55 per cent of the condo's value.

It also delayed their closing by three weeks.

Mr. Lee also has an offer in on a less expensive unit in a gated community near the Walt Disney World Resort in Orlando and said he plans to pay for this purchase in cash to save himself the expense and hassle.

"I'd caution people to be very careful. Do your homework. See the properties. Have an expert read over your mortgage documents. ... If you want to rent, make sure it's allowed," he said.

But Mr. Lee also said he saw so many attractive properties that he is planning a return visit to southwest Florida in the near future.

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