

Why Builders Want Buyers to Use Their Lenders

They are assured of a commitment on a mortgage.

By Diana Shaman

When Brian Gill and his wife, Karen, signed a contract last February to purchase a 4-bedroom, \$425,000 colonial in the Villages at Huntington in Melville, they needed an immediate mortgage commitment even though delivery of the house was more than a year away.

They got the commitment for a \$303,000 adjustable mortgage from the **Long Island Savings Bank**, the construction lender on the project, along with a guarantee that the mortgage would be available to them when they moved in no matter how long it took to build the house.

The financing was arranged through Lane Realty of Great Neck, the mortgage broker as well as the marketing and sales consultant for the Melville development.

When the foundation was poured last September, the bank, at no additional cost to the Gills, locked in a 7.25 percent interest rate on the five-year adjustable loan. The guarantee stipulated that, while the interest rate could move downward, it would move no higher for 12 months no matter how high the bank's rate moved in that period.

Had the Gills applied for a 30-year fixed-rate loan, any interest rate increase would have been limited to one percentage point.

The closing is scheduled for April. And now with mortgage interest rates dropping below 7 percent, the Gills will probably get a better interest rate than 7.25 percent, depending on the bank's lowest prevailing rate when they close. They also have the option of switching from an adjustable loan to a 30-year fixed-rate mortgage.

"The certainty of knowing what your payments are going to be and less risk in buying a house that is going to take a year to construct were very important to us," Mr. Gill said.

With the rebound in the housing market, banks are once again providing construction financing for what they judge to be sound projects. And as the construction lender, a bank often is willing to offer better mortgage terms to buyers than those offered by outside competitors.

Typically, the buyer gets a mortgage commitment for the time it takes to build the house, whereas an outside lender is likely to make a commitment for only a short period. And by capping the interest rate over a long period, the bank protects the buyer should rates rise sharply.

"A 90-day commitment is no use for a new house," said Susan Barbash, principal partner of McGovern-Barbash Associates of Babylon, the developer of the Villages at Huntington.

"The construction lender is, in a way, your partner, because they have written the building loan," she said. "They want the job to be successful so they want to accommodate the buyer as well as the builder."

Since sales began a year ago, 120 contracts have been signed on the 248 houses planned for her project, Ms. Barbash said. The 3- to 5-bedroom houses sell for \$315,000 to \$415,000. **About 60 percent of buyers there are getting mortgage commitments from Long Island Savings Bank**, said Marilyn Larsen, owner of Lane Realty.

Although builders in projects where she is the mortgage broker allow buyers to use any lender they want, contracts usually stipulate that the deal is not contingent on the buyer's getting mortgage financing unless the lender designated by the builder is used, she said.

"It's a two-way street," she noted, explaining that the builder "has put his money into the ground" and must be sure that the buyer can close when the house is ready. And the buyer needs the same assurance.

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Pictured at the Villages of Huntington construction site are Susan Barbash, principal partner of McGovern-Barbash Associates of Babylon (left), and Bruce Barnet, executive vice president of real estate and development for The Long Island Savings Bank.

Why Builders Want Buyers to Use Their Lenders (Continued)

Michael P. DeNoto, head of the real estate department at the Siben & Siben law firm in Bay Shore, which represents many home buyers, said he tells his clients to evaluate such contracts on a case-by-case basis.

"I would tell the client to comparison shop, and if the builder's terms were onerous, I would tell the client, 'Don't do that,'" he said. "But I have not run into that situation because the builder really wants to sell the house and so the lender is competitive."

Banks view projects where they already have a relationship with the builder as a lucrative source of mortgage loans in a very competitive market, even though they risk writing some loans with below-market interest rates. "We want to make the borrower a bank customer, and a mortgage loan is one of our best entrees to them," said Bruce M. Barnet, executive vice president of real estate and development at Long Island Savings Bank, a leading residential mortgage lender on Long Island.

"Then we can talk to them about our credit card, about taking out a savings and checking account, about mutual funds, financial planning and hazard insurance, which we also expect to start selling this year," Mr. Barnet said.

"Today, there is so much competition in the banking world that banks will use the construction loan, which is the biggest risk for the bank, to get a developer to basically give them an exclusive for the end (mortgage) loans," said Peter C. Lewis of the Wharton Development Corporation of Manhattan. Mr. Lewis, with a partner, David E. Eisenberg, is building a 19-house development in Glen Cove called Lattingtown Preserve, where Long Island Savings Bank is also the construction lender.

Buyers of the houses, which sell for \$500,000 to \$750,000, are required to apply to Long Island Savings for a mortgage, though they can apply to another lender of their choice at the same time.

"If they have a special relationship with another bank, or if they want to shop around for a better deal, that makes it fair for them, but protects me from losing the deal as well," Mr. Lewis said. Without that requirement, buyers could get out of a contract by saying that they were turned down for a mortgage, he noted.

At another Melville development called Country Pointe, where town houses sell for \$220,000 to \$265,000 and detached houses sell for \$270,000 to \$335,000, the developer, the Beechwood Organization of Williston Park, gives buyers a choice: They can apply for a mortgage either to Residential First, the mortgage subsidiary of the Roslyn Savings Bank, which is the construction lender on the project, or to Long Island Savings Bank.

Buyers are free to go to any other lender, but the contract then stipulates that the buyers agree to pay all cash if mortgage financing is not available at the closing.

"Going to Roslyn or Long Island Savings Bank becomes much more efficient for a buyer because those two lenders have an understanding of the project," said

Michael Dubb, who builds under the Beechwood name with a partner, Leslie A. Lerner. He cited the example of an outside lender chosen buy a buyer which wanted documentation that the new house had been inspected for termites.

"We encourage buyers to go to our banks because they create mortgage products specifically for our projects," said Charles B. Mancini, vice president of the Park Ridge Organization of Ronkonkoma, which currently has six

new developments under construction in Suffolk.

Favorable mortgage loans are offered to his buyers by Chase Manhattan Bank and by Residential First, Mr. Mancini said.

The standard mortgage commitment is only good for 60 days, said Anthony F. Panza, the president of Residential First, which has special programs for buyers of new houses.

"What we do is guarantee a buyer a range of interest rates over an extended period, because it is very important for buyers to know ahead of time what they will be getting involved in when they close," he said.

Last Thursday's interest rate on a 10-year adjustable mortgage, for example, was 6.85 percent, Mr. Panza said. The buyer locking into that rate would be assured that the interest rate at a closing held within nine months would be no higher than 7.35 percent, he added. Should rates drop to 6 percent by the time the buyer closes, the buyer would pay 6.25 percent in interest. Steven A. Klar, an East Meadow developer, has projects under way in Hauppauge and in St. James, where mortgages are available from EAB, a Uniondale bank, and North Fork Bank in Melville.

In the Hauppauge project, called Willow Wood, 2- and 3-bedroom town houses sell for \$195,000 to \$225,000. At the St. James development, called Mills Pond, 3- to 5-bedroom colonials sell for \$350,000 to \$450,000.

We like to come up with the best possible mortgage arrangements for our customers," Mr. Klar said.

He tells buyers they have the right to go to any lending institution, but if they elect not to go to EAB, the construction lender for Willow Wood, or North Fork in the case of Mills Pond, they must agree to buy the house for cash should outside financing not be available when they close.

Otherwise buyers could get out of the contract by claiming they were unable to get a mortgage, Mr. Klar explained.

By going to his lenders, buyers are likely to get better terms because the banks are getting volume business without incurring any extra expense, he noted.

In the case of EAB, buyers are charged one point - one percent of the loan amount - to lock in a long-term interest rate for up to one year. But buyers still benefit because the bank reduces the points it charges at the closing by that one point, Mr. Klar said.

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