

HOW PEST REPORTS AFFECT HOME SALES

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Buying a home without getting a termite inspection is tantamount to diving into a pool without first checking to make sure it's filled with water. It just doesn't make a lot of sense.

Today, termite inspections are as much a part of a standard real estate transaction as closing costs, title searches, and escrow conditions. In fact, under some loan programs, the loan can't fund without a clear termite report from a licensed pest control company.

What's commonly referred to as a termite report actually goes far beyond simply reporting on those little wood-eating critters. Pest control companies look for evidence of wood that's decayed or damaged due to pests and or moisture damage.

In their reports, termite companies distinguish between items needing immediate attention and those which, if ignored, could, over time, lead to a serious problem. The immediate problems are known as *Section 1* items. Those that are less urgent are called *Section 2* items.

Such things as active pest infestation, fungus or dry rot show up as a Section 1 on a termite report. Such things as a leaky drain pipe, deteriorating caulking around a plumbing fixture or voids in tile counter grout would usually be classified as Section 2 items, as long as, in the inspector's opinion, they weren't contributing to an active wood-damaging or destroying situation.

Typically, most purchase contracts are written in manner that requires sellers to correct Section 1 matters. When it comes to Section 2, it varies from contract to contract. In some instances the seller is required to fix those too, whereas in others, the buyer accepts responsibility for Section 2 items.

On an FHA loan, for example, loan underwriters don't distinguish between Section I and Section II repairs. They review everything that appears on the report and then decide which items must be corrected or re-inspected prior to funding the loan.

To a large extent, loan underwriters base their decisions on the language the termite company uses to describe each problem.

Let's say that are a few specks of mildew on the grout in between the tile surrounding one of the bathtubs. One termite company might describe it like this:

“Evidence of surface mildew was noted in several small areas on tile surrounding tub in master bath. At the time of inspection, the affected area appeared to be mainly cosmetic in nature. However, in order to prevent an aesthetically unappealing and potentially damaging buildup, buyer is advised to periodically clean the tiled area with a household cleaning solution designed to eliminate bathroom mildew.”

Another pest control company's report, though, might read like this:

“Inspector noted deterioration to grout area in master bath.”

Most underwriters reading the first company's description would readily see that the inspector was simply pointing out a condition that was primarily cosmetic and which could be easily prevented with a little periodic owner maintenance.

The second company's description, however, is an entirely different story. It suggests an area where there might be large voids in the grout and where moisture penetration could damage the wall behind the tub area.

In many cases it gets down to semantics. A pest inspection company may interpret the word "deteriorated" as an indication that some of the material is simply just now beginning to show minimal signs of wear. Yet, when a loan underwriter sees the word "deteriorated," it takes on a much more serious connotation. An underwriter assumes that the affected area is in need of immediate attention.

As a result, discrepancies in the language used in a termite report can sometimes create situations which threaten to kill the entire deal.

Let's say, for example, that the seller has very little equity and the buyer has tapped every source of cash to get into the home. There are several thousand dollars in section 1 repairs, which, according to the contract, the seller is obligated to correct.

The two parties agreed that the buyer would assume responsibility for any section 2 repairs. Among the section 2 items appearing in the report are notations specifying that the gutters, tile counters, and bathroom flooring are all deteriorated.

All the termite inspector really meant to do was point out three areas which the owner should regularly maintain, either by re-caulking, touch-up grouting, or, in the case of the gutters, periodically scraping and painting with a rust-preventative.

However, the loan underwriter keys into the word "deteriorated" and assumes that the house needs new gutters, re-grouting, and a new bathroom floor. Replacing all three items might cost upwards of \$3,000, which, due to the financial situations of both parties, would most certainly cause the transaction to fall apart.

In order to prevent that from happening, the pest control company could issue a statement retracting the word "deteriorated" and instead clarifying what it really meant to say. Or, the buyer or seller could have a licensed contractor inspect the property and issue a statement saying that the affected areas are indeed in serviceable condition.

Failing either of those, though, the transaction would most certainly be in peril. And that's why it behooves buyers and sellers to consider these possibilities when the purchase contract and/or any subsequent repair work is negotiated.

That's especially true if the buyer is using a loan program where the underwriters don't differentiate between section 1 or section 2 items. If the seller has already negotiated every last penny away and suddenly finds himself pinned into an inescapable corner by a worrisome termite report, he may wish that he had left himself a "what-if" type of cushion during the initial contract negotiations.

Whether you're the buyer or the seller, be sure you take the time to find out just what your termite report means. It may be the difference between a deal that stays together and one which falls apart.

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