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Real Estate Q&A – What is Seasoning?

By Norman Rosskothén

Q: What is Seasoning?

A: Seasoning refers to two items, assets and the subject property:

A) Asset Seasoning - On loan programs where the assets of the borrower are verified, generally only the past two months of asset statements are required. Therefore, any funds previously in the account would be considered the borrowers as they are "seasoned." Any large deposits of "magic" money listed in the two months statements would need to have a satisfactory source proving that these deposits belong to the borrower and are not from a loan. These large deposits are "not seasoned".

B) Property Seasoning - There is a type of loan fraud known as "loan flipping" that affects the seasoning of the property. Loan flipping is the repeated refinancing or sale of a property for higher amounts, to extract money out of a property before finally letting it go into foreclosure. Due to this type of fraud, many loan programs will not use the current market value of a property sold or purchased within a year. Instead of the current market value, the recent purchase/sales price will be used.

Generally, the more risky a mortgage program is, the more likely there will be seasoning issues with the property. For example, a buyer wishes to purchase a property that a contractor purchased at auction three months ago and then rehabbed, for a purchase price of \$150,000 more than the contractor just purchased the property for. The buyer wants a stated income, 100% financing program. As this is a risky loan program, there will be seasoning issues as a result of the large increase in value over a short (less than a year) time span. The property is not "seasoned".

When reselling properties that have been purchased in the past year for a much higher sales price, it is important to realize that you may have seasoning issues with buyers purchasing with a high-risk loan program.

Seasoning also comes into play on refinances. For example, a borrower purchases a property with 100% financing. Six months later they wish to take cash out in a 100% refinance claiming that the property is now worth more. As the property is not "seasoned" for one year, it will be difficult to take money out. The recent purchase price value versus the current market value will be used.

What can you do if your property is not seasoned? There are a number of loan programs that have six months or no seasoning. If improvements were made to the property, receipts can often be used to boost the "unseasoned" purchased value of a property.

About the Author:

Norman Rosskothien is the Branch Manager of Mortgage Trust Group, Inc. in Waltham, MA. He has over 14 years of real estate and mortgage experience. Before entering the mortgage industry, he sold real estate under the Century 21 and RE/MAX systems. He can be reached at norman@mtgmortgages.com For more information and articles, go to www.mtgmortgages.com.