

MORTGAGE LENDING UPDATE

By David Griffin

Pre-Approval

When you visit a new or used car dealership to purchase a car, you normally select the vehicle before arranging for any needed financing. It's an exciting time and you anticipate that everything on the financing end will be just fine. Or maybe you know that your credit is a little spotty and you prepare yourself for bad news. The worst that can happen is they turn you down on the financing and you're not out anything but time. You can then either select a less expensive car on that lot or visit another dealership and hope for better luck there. Buying a home is also an exciting and stressful time. But, it is very important that you understand that the way you normally purchase a car is not the way you should buy a home. Do not select a home before you make arrangements for any needed mortgage financing!

When you decide to purchase a home, your Realtor® will ask for your signature and an earnest money check confirming your offer. Once the seller accepts your offer and signs the agreement, you've just entered into a legally binding contract to purchase. The particular form used for your offer will likely be The Georgia Association of Realtors® (GAR) sales contract. It is incumbent upon the buyer to become familiar with their obligations under this document before affixing your signature to one. The sales contract makes it very important for potential homebuyers to visit their lenders first before picking out a particular home to buy.

The GAR contract contains a "Financing Contingency Period". This designated period of time, often 10 days to two weeks, is when you are required to prove that you have "the ability to obtain" mortgage loan approval. A commitment letter or loan approval from your lender is evidence of your "ability to obtain" the mortgage. If you find out after the Financing Contingency Period expires that your loan request was declined, you will most likely lose any binder or earnest money you placed on your offer.

The actual language contained in the GAR contract: "The term "ability to obtain" as used herein shall mean that Buyer, as of the end of the Financing Contingency Period, is qualified to obtain the Loan(s) described above based upon the lender's customary and standard underwriting criteria. If Buyer does not have the ability to obtain either or both of the Loan(s) described above, Buyer shall cause a letter from the lender denying either of the Loan(s) to be delivered to Seller prior to the end of the Financing Contingency Period setting forth the Loan(s) described above for which Buyer applied and all of the reasons why Buyer does not have the ability to obtain said Loan(s). Except as may be provided below, this Agreement shall terminate without penalty to Buyer if the above-described letter is delivered to Seller in a timely manner."

"Buyer shall be deemed to have the ability to obtain the Loan(s), this Agreement shall thereafter no longer be subject to any financing contingency and the method of payment shall thereafter be deemed to be "all cash" if either: a.) Buyer does not deliver the above referenced letter to Seller within the time frame set forth above; or b.) Buyer delivers the above referenced letter but the basis upon which Buyer does not have the ability to obtain the Loan(s) is that Buyer: (1.) lacks sufficient funds to close; (2.) is required to lease or sell other property as a condition of obtaining the loan(s); or (3.) did not timely provide the lender(s) with needed information to evaluate whether Buyer had the ability to obtain the Loan(s). Buyer shall not intentionally make any material changes in Buyer's financial condition which would adversely affect Buyer's ability to obtain the Loan(s) during Financing Contingency Period. Buyer shall be responsible for obtaining and providing to the lender(s) all required loan documentation, Official Georgia Wood Infestation Report, structural letter, well tests, septic system certifications, flood plain certifications and any other similar information."

To learn more about the GAR sales contract, talk to your Realtor® or visit the Member Center tab at garealtor.com.

The bottom line: as a buyer, you should be forewarned and forearmed. The term 'caveat emptor', meaning "let the buyer beware", applies in many areas of a consumer's life, in particular the purchase of a home, which is normally the single largest financial transaction most people will make in their lifetimes. This financial transaction is too significant to trust to a nameless, faceless Internet lender in another state. To find a local, reputable mortgage lender for your pre-approval, including a face to face meeting and a cup of coffee, visit www.mbag.org, the website of the Mortgage Banker's Association of Georgia or The Georgia Association of Mortgage Professionals at gamb.org.

David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, mbag.org. For an archive of past articles visit the Consumer Information section of mbag.org. (10/26/10)