

TALES FROM THE TRENCHES™

BY BARRY C. MCGUIRE

October, 2013

TIMING AND THE LENDER'S SANDBOX

There are two things you always have to consider in any new deal. The first is timing. The second thing is to understand that if you want a mortgage, you are playing in the lender's sandbox and you have to play by the lender's sandbox rules.

I had a brand new client who was really worried. He had applied for a mortgage and fudged his income figures, including a promotion he did not yet have. He also told the lender that he wanted a 5% down mortgage because he planned to move in. The lender discovered the job promotion did not take effect for a couple of months and became aware that my client-borrower intended to rent out the property. The lender quickly declined the loan.

Now the client was into see me with a brand-new offer. His friend was going to provide the downpayment but did not want to go on title or mortgage or tell anyone he was involved. The deal was written with a completion date 10 days after removal of final conditions. His realtor and mortgage broker both told him he needed to have a short closing because it is a seller's market. There is lots of competition for properties and sellers won't give you more than 10 days. I insisted he change the completion date (or the 'closing date' as it is often called) to 30 days after removal of final conditions.

The contract also contained a clause giving the buyer a \$12,000 repair credit for shingle replacement and electrical upgrade. My client-buyer was now ready to apply for his mortgage.

Did I have any comments? You bet I did!

Lessons Learned:

1. Timing is so important. You have to leave yourself sufficient time to accomplish your diligence. Once your diligence is completed, you need sufficient time to close the deal. You will be pressured to set a closing date earlier than 30 days after removal of final conditions. Yeah, there might be lots of competition for the property and yeah, sellers might want to close earlier. But, resist that pressure. Set your closing day at 30 days or even 45 days after removal of final conditions. Let the seller amend the contract and tell you he needs to close sooner.
2. Do not lie to your lender. Any inaccuracy or untruth is grounds for the lender to refuse your mortgage application, or if approved, withdraw that approval. Full disclosure is always the best policy.
3. Lenders do not like cash-backs, repair credits, or repair holdbacks. Lenders view all these items as price reductions and they will only give you a mortgage on the reduced price. You may, and note I said *may*, be able to work these into your contract but they are tricky. Don't write these in your offer to purchase without consulting your lawyer or broker/lender.

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