

TALES FROM THE TRENCHES™

BY BARRY C. MCGUIRE

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UNCONDITIONAL MORTGAGE COMMITMENT, ARE YOU SURE?

This Tale starts in 2014 when my client was moving from Airdrie to Edmonton. Married with a couple of kids, the Airdrie property was in her husband's name. This was a good job transfer for her and her husband. They came up to Edmonton on a couple of weekends and looked around. It didn't take long to find their dream home at a price of \$690,000.

They put an offer in at \$680,000, which was accepted. They were pre-approved for an 80% mortgage. Once they had an actual real estate purchase contract to look at, the bank reviewed that contract and quickly gave them an unconditional mortgage on their new home. With that unconditional approval in hand, they removed their financing condition. They had not yet removed their inspection condition.

Their dream home took a big kick when the inspector said that the home had foundation issues. They hired a contractor who told them the repair would be about \$80,000. A second opinion confirmed that number. Back to the seller they went with the inspection in hand. After much negotiating, the price was reduced from \$680,000 to \$600,000. Whew, problem solved! Enough of a price reduction to allow for fixing the foundation and they breathed a sigh of relief as they removed their inspection condition... not so fast!

As part of full disclosure, their mortgage broker provided the big bank lender with a copy of the revised offer showing the price reduction. The bank wanted to know, "why the reduction?" After being provided with the inspection reports. Guess what? The bank did not like the situation and yanked the financing.

Closing was only five days away and they had an unconditional deal and no financing. Their \$60,000 deposit was at risk. The seller gave them a one-week extension, but they couldn't get new financing approved in that short time frame. The seller refused further extensions.

With only a few days to close, they were frantic. The only lender who could work with such a short time frame was a private lender. Private lenders charge big interest rates; in this case it was 10% for a one-year term. However, the alternative was losing their dream home and their \$60,000 deposit, as well as potentially being sued by the seller. So, they signed up with the private lender and closed the deal.

LESSONS LEARNED:

1. It's *very* rare but, lenders can cancel fully approved, unconditional financing
2. Foundation issues are always trouble; they can cause bigger, more influential problems than the repair itself
3. Revisit approvals when serious issues arise
4. Private lenders can be a valuable resource

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