

How Financing Details Affect Your Offer

Most buyers do not have enough cash available to buy a home, so they need to obtain a mortgage to finance the purchase. Since you will probably make your purchase contingent upon obtaining a mortgage, the seller has the right to be informed of your financing plans in order to evaluate them. That is one of the major reasons that financing details are included in your offer.

Down Payment

As part of your offer, you will need to disclose the size of your down payment. Once again, this allows the seller to evaluate your likelihood of obtaining a home loan. It is easier to get approved for a mortgage when you make a larger down payment. The underwriting guidelines are less strict.

Interest Rate

Another reason for including financing information in your offer is to protect yourself. If interest rates suddenly become volatile and rise quickly, as sometimes happens, you may look at a mortgage payment much higher than you anticipated. By putting a maximum acceptable interest rate in the offer, you are protecting yourself from such an occurrence.

At the same time, the seller will probably want to see that you have some flexibility in the financing terms you are willing to accept. If interest rates are currently at eight percent and you indicate this is the highest rate you will accept, you would be able to cancel the contract without penalty if interest rates rose past that point. The seller would suffer because they have lost valuable marketing time and may have made their own plans based on successfully closing the transaction.

Asking for Closing Costs and Financing Incentives

There may be times when, as part of your offer, you request the seller to pay all or a portion of your closing costs, or provide some other financial incentive. One common request is asking the seller to provide funds to temporarily buy down your interest rate for the first year or two. Such incentives can be especially effective if a buyer is tight on money or pushing their qualifying ratios to the limit.

Whenever you ask for incentives such as these, you will probably find the seller less willing to negotiate on price. After all, what you are really asking for is have the seller to give you some money to help you buy their house. The end result is that, for a little relief in the beginning, you are willing to pay a little more in the long run.

Seller Financing

Another occasional request is to have the seller "carry back" a second mortgage to help facilitate your purchase of their home. In cases when the seller does not need all the proceeds from their sale in order to purchase their next home, this is an option. The advantage to the buyer is that by combining your down payment and the second mortgage from the seller, you may be able to avoid paying mortgage insurance and save yourself some money.

If such a carry-back is part of your offer, you should include the terms you wish to pay on such a second mortgage. Keep in mind that your first trust deed lender needs to know this information so they can underwrite your loan, and they have certain minimum requirements. The minimum term of the second mortgage can be five years. The minimum payment can be "interest only." Longer mortgage terms and payments that also include principle are also acceptable.

Cash Offers

If you are one of those rare individuals making a cash offer to buy a home, it makes sense to provide some documentation with your offer that shows you have the funds available. A bank statement would be fine. If you have to liquidate stock or some other asset, your offer should give a timetable on when you will provide proof you have converted the asset to cash.

Other Financing Details in Your Offer

Your offer should also contain information on whether you are obtaining a fixed rate or an adjustable rate mortgage. It should also state whether you are obtaining conventional financing or obtaining a VA or FHA loan.

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