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 Rates

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 looking 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.

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 to 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 insuranc e 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

How FHA and VA Loans Affect Your Offer

Extra Costs to the Seller

If you are obtaining a VA or FHA loan in order to finance your purchase, you must include that information in your offer. This is because government loans place additional financial and performance obligations on the seller.

Non-Allowable Fees

First, VA and FHA loans prohibit buyers from paying certain types of fees that are often charged by lenders, escrow companies, settlement agents, and title companies. They are called "non-allowable" fees. They still get charged anyway, but as the buyer, you are "not allowed" to pay them. The result is that the seller ends up paying them instead of you.

Most of these "non-allowable" fees come from your lender. By the time you are making an offer you should have already been pre-qualified by a loan officer, so you or your real estate agent can ask how much the lender's non-allowable fees will be. Experienced agents should also have an idea of what non-allowable fees will be charged by the escrow or settlement agent and the title insurance company.

Since these are fees the seller would not pay on an offer with conventional financing, this information must be included in your offer. You should also realize that since the seller will be paying these additional fees, they may be a little less negotiable on the price.

VA and FHA Appraisals

Home appraisal inspections on FHA and VA loans are a little more detailed than on conventional loans (and more expensive). The appraisers are required to perform certain minimum inspections as well as evaluate the market value of the property. Although these inspections are not as detailed as a professional home inspection and should not be considered a substitute, sometimes repairs are required.

These are additional costs the seller would not be obligated to pay for someone obtaining conventional financing, so your offer should include a maximum figure for these repairs. Otherwise the seller is signing the equivalent of a blank check, and they do not want to do that.

At the same time, whatever figure you put in will most likely affect the seller's willingness to negotiate on price. If you put $500 as an estimate, the seller may be $500 less negotiable on their price. If no repairs are required, you may have been able to get the house for $500 less than what you and the seller agreed on as the price. The solution is to add a clause to your offer that goes something like this. "If required repairs cost less than the maximum amount allowed, the excess will be credited toward buyer's closing costs."

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