

# the Mortgage Bulletin

Week of January 17th, 2011

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## Make an offer without loan pre-approval?

Let's say you have found a home that fits your needs and desires and you want to make an offer, but you have not made application for mortgage pre-approval. You call your Realtor and convince him or her to make an offer on your behalf even though you are not pre-approved.

One of two things will happen.

One: You will not be successful for one of two reasons: the offer is too low or the seller rejects it because you have no mortgage pre-approval.

Or.

Two: Your offer is accepted, in which case one of three things will happen.

One: You'll sail through the mortgage loan process without a hitch, your application will be approved and you'll close on time.

Two: You'll stagger through the loan process under great stress as you gather a seemingly endless number of documents supporting your income and assets, your interest rate will be higher than market because of a credit blemish that cannot be removed in time, and since you did not start the loan process in time, you'll have to pay the seller extra for an extension of escrow.

Three: After a stressful and time consuming struggle, you'll fail to secure the financing you need for any one or more of a variety of reasons.

You need an 80% loan, but your credit score qualifies you for only a 75% loan and you do not have the extra 5% down payment.

You thought your income was adequate and it is, but the lender cannot count your bonus income -- for a variety of reasons: you have only one year of bonus income, or the twenty-four month average is not high enough, or last year's bonus is lower than the previous year so the twenty-four month

average doesn't count -- they use the last year figure.

You had planned to get a personal loan from Uncle Fred for a downpayment. Then you learned that lenders do not allow personal loans for down payment.

You own a business and had planned to get downpayment from company funds. Lender required a letter from your CPA saying that withdrawing the funds will not hurt the business. Your CPA will not write such a letter.

You changed from a salaried job to a commission job, and you are making more money, but since you changed only ten months ago, the lender cannot count commission income. You need a two year history.

The list of reasons for denying a mortgage loan is endless, but the point is made: all of the above reasons and any others would have been flushed out in the pre-approval process.

And to the extent the problems are solvable; they could be solved before making an offer. It might take some time to work through the problems but it is far better to do that, and delay making an offer than to make the offer only to discover problems later.

You may have heard horror stories about the loan process these days -- how unreasonable lenders are -- how they ask for tons and tons of documentation, etc. And to some extent the stories are true. But far better to face the gauntlet in advance rather than during a transaction with the added stress created by a contractual requirement to close by a certain date.

Obviously our strong recommendation is that buyers contact their loan consultant way in advance. Get pre-approved. Then relax. You're ready to buy.



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