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MORTGAGE

Risks of Condition Free Offers

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RISKS OF CONDITION FREE OFFERS

What are the risks of Condition-Free Offers?

Great question. In today's market, buyers are often in multiple offer situations and want to submit a clean offer that has no conditions. This is never advisable, but we do understand that this is a very competitive market.

If you have been pre-qualified by a licensed mortgage broker, you may been vetted by one or more lenders, however, the property has NOT been vetted. Below are some issues that could affect a lender's willingness to lend on a particular property. Please note that this list is not exhaustive. There could be other issues impacting a lender's decision.

- Water damage, leaks in foundation
- Roof in poor condition
- Knob & tube or aluminium wiring
- Insulbrick
- Former use as a grow-op, meth lab, etc.
- UFFI
- Asbestos
- Low square footage
- Locks on bedrooms (suggesting home is/will be used as a rooming house)
- Previous use as a short term rental such as Airbnb or Home Away, etc.
- Below average condition
- Surrounding adverse influences (located downhill from a gas station, near a half-way house, etc.)
- Murder or suicide in the home
- Status certificate with low reserve funds, deferred maintenance or unresolved law suits
- Inability to arrange adequate home insurance
- Zoning other than residential

Properties that were formally used as grow-op, meth lab, murder/suicide DO need to be disclosed by the seller in advance. If there are no adverse influences, it comes down to whether or not the appraisal supports the purchase price. What if it doesn't?

Lenders provide mortgages based on the LOWER of the appraised value or the purchase price. If the appraisal is lower than the actual purchase price, you may be required to find additional monies (from a non-borrowed source) to increase your down payment. See the next page for an example of how things could be affected based on a low appraisal.

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Scenario 1	Scenario 2	Scenario 3
$1,800,000 Actual Purchase Price	**$1,300,000** Actual Purchase Price	**$850,000** Actual Purchase Price
$360,000 20% Downpayment	**$260,000** 20% Downpayment	**$85,000** 10% Downpayment
$1,440,000 Required Mortgage @ 80% of Purchase Price	**$1,040,000** Required Mortgage @ 80% of Purchase Price	**$765,000** Required Mortgage @ 90% of Purchase Price Plus Insurer Premium
$1,700,000 Appraised Value	**$1,200,000** Appraised Value	**$810,000** Appraised Value
$440,000 Required Downpayment	**$340,000** Required Downpayment	**$121,000** Required Downpayment
$1,360,000 Mortgage Amount @ 80% of Appraised Value	**$960,000** Mortgage Amount @ 80% of Appraised Value	**$729,000** Mortgage Amount @ 90% of Appraised Value
$80,000 Additional Funds Required	**$80,000** Additional Funds Required	**$36,000** Additional Funds Required

If you're confident that you're not overpaying and that there aren't any adverse influences, then you may want to consider a firm offer but keep in mind the associated risk and whether or not you can find additional funds in the event the appraisal is an issue. In working with a broker, one company may have issues with a given property, while another may not. You may find yourself with limited lenders and higher rates should there be an issue with the appraisal or the property itself. Only you can decide what your risk tolerance is.

In a high ratio insured transaction (less than 20% down), there may be a possibility that you could qualify with a higher premium using the same down payment. However, each individual's situation is different and it may not be possible. You may still have to provide further down payment.