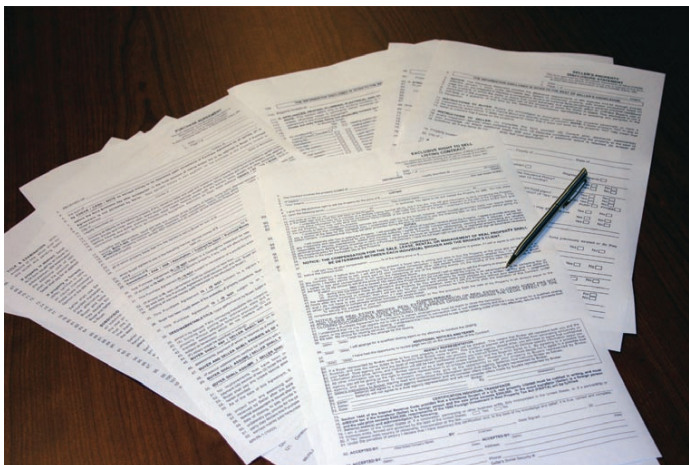


Buyer's Financial Disclosure Statement: A possible solution to the pre-approval letter catastrophe

Not all prequalification/pre-approval letters are bad, and not all transactions get disrupted due to financing considerations, but if a storm hits the waters of the real estate transaction, don't you want your client to know that you took the precaution of having a life preserver on the boat?

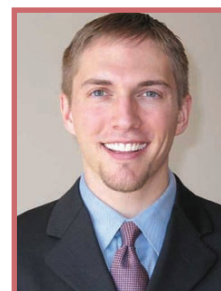
We've all seen that some pre-approval letters are solid, and that the lender has actually made a determination that the buyer could qualify for financing appropriate to the transaction. However some of these letters are the real estate equivalent of monopoly money – a tool used for lenders or clients playing the game, but of no value in the real-world. The MNAR approved Buyer's Financial Disclosure Statement helps secure the interest of your clients (both buyers and sellers), while adding more information to the financial aspect of the transaction and relieving the uncertainty of whether a pre-approval letter was printed without ever verifying the client's information. When financing goes sour, only to find out the pre-approval letter was issued because the loan broker was too hungry for business, without truly evaluating the buyer's creditworthiness, things can get ugly. Your seller is likely angry - at the buyer, the loan officer, and at you, for not preventing this outcome. You might even lose the listing, and possibly even the house the seller was going to purchase. In a hot market, you might think, "no problem, these things happen." However, wouldn't you be crazy not to try to prevent this if there were a tool available to help? More importantly, if the client knows this tool is available, and you fail to provide it, or don't know how it can help, are you representing your client to the best of your abilities?

There is a terrific resource available that may help you enhance your business, better represent your client, and move the industry toward establishing that lenders have done their due diligence. Last year the Minnesota Association of REALTORS® (MNAR) established an industry issues focus group, which recommended the Forms Committee draft a form that would address the buyer's financial qualifications, and replace the inadequate pre-approval letters. Your MNAR Forms Committee went through extensive research, deliberation, and drafting to approve a Buyer's Financial Disclosure Statement. This form is a tremendous tool - it's the real estate equivalent of a life jacket on a boat. You didn't miss not having it if the waters are smooth but when things get stormy you don't want to tell your client you chose not to have it available.



This form requires the lender to go through many of the steps we (and our clients) would expect them to go through –to pre-qualify a client for a home mortgage such as credit check, verify financial history, obligations, etc. Although it might not guarantee the deal is solid, it ensures you did your due diligence in getting sufficient info to your client, and the lender did sufficient investigation to make sure they know the position the client is really in. Although lenders have not universally accepted this new procedure, and have not uniformly agreed to its use, it is one of the best tools available to ensure they are going through the necessary checks they should complete prior to issuing a pre-approval letter. If the lender chooses not to use it or refuses to complete it, that's fine, so long as your buyer client knows they have the choice to use a lender who will provide it, and your seller client realizes that this tool may help evaluate the offer with more reliable information.

If banks, lenders, or loan officers decide this form isn't for them, the market will ultimately determine whether that was in their best interest. But you don't represent the lenders, you represent your client. If your client (whether that is the buyer or the seller) wants additional assurance in the transaction, and you have a tool like the Buyer's Financial Disclosure Statement available, you might be in an uncomfortable position to explain why you chose not to provide it to them.



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