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DON'T JEOPARDIZE YOUR NEW MORTGAGE BY TAKING ON OTHER CREDIT TOO SOON

By Rod Herman – All Rights Reserved

Buying a new home or refinancing can bring with it the temptation to splurge and treat yourself to one of life's lavish pleasures. But if you want to save yourself a lot of grief and anxiety, do yourself a favor and postpone making any major purchases, particularly if they involve credit terms, until after you close escrow.

Every so often, you hear about a borrower who's just about to close escrow, so he goes out and makes a large purchase -- perhaps a new car or several thousands of dollars worth of new appliances for the new home. And he pays for it on credit -- either by taking out a new loan or using an existing credit card.

Normally, this wouldn't be a problem, as long as the borrower knew that he could repay the loan. However, to a lender that's about to finance thousands of dollars, it can be of grave concern.

You see, as part of the loan approval process, lenders consider a number of factors in order to determine whether the loan makes sense. And lenders aren't too keen on unexpected bombshells.

Let's say, for example, that loan approval is granted on the condition that a \$4,000 Mastercard balance be paid off at close of escrow. However, two or three weeks before close of escrow, the buyer notices a great deal on kitchen appliances and, on impulse, spends \$2,500 -- all on credit.

If, after loan approval, the lender does some follow-up work and finds that lo and behold you might not be able to pay off the credit card account as originally required, you could be asking for major troubles.

The lender might very well insist that the borrower come up with another \$2,000 to pay off the credit card. A borrower who wasn't able to come up with the extra cash, as you can see, would be jeopardizing his ability to qualify for the new mortgage.

Similarly, what about the person who's refinancing and decides to take out an equity line from his bank at just about the same time? If the equity line records before the new loan, you can bet the lender on your new mortgage will adamantly insist that you pay it off before escrow can close.

To see why, look at the situation through a lender's eyes. He wants to be sure that you can make the house payments on your new loan. So, he requires that you pay off two or three other credit obligations. By doing so, let's say that you save \$250 a month. As a result, you've just qualified for a \$250 higher house payment. However, if at the last minute you take on an extra \$100 a month in expenses, the lender sees your ability to keep up with house payments reduced. And that causes worry, which lenders abhor.

Borrowers subject themselves to a lot of stress and anxiety right off the bat. Then when they hear that they're approved, a sense of relief often comes over them. And the natural

tendency is to think that you're home free; you know -- pretty much signed, sealed, and delivered.

Well, loan approval definitely is a major hurdle in the loan process. But until the deal's closed, it's best to keep your financial situation exactly the same as you've presented it to your lender in your loan application.

If certain accounts need to be paid off during close of escrow, don't let their balances increase. And by all means, don't take out any new loans. Chances are, your lender will learn about them before close of escrow.

And, even if they don't find out about it, if your title company is planning to pay off any existing loans, they'll order a preliminary pay-off demand from the creditor early in the process, along with a final one shortly before the close of escrow.

If the loan balance has increased and the title company discovers that it won't now have enough money to pay off the account and it's an account that the lender has required to be brought to a zero balance, then you can bet there will be problems.

So avoid the temptation. Even if you're certain that you can easily afford the added payments of a new car loan, wait until escrow has closed before taking the plunge. You'll be saving yourself a lot of grief and upset.

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