



Mortgage Financing for Today's Relocations

History

For years, most lenders have accepted the guaranteed buyout (GBO) process as a certainty – meaning the lender will assume that once a GBO is given to a transferee, an acquisition will take place in the future. The pre-approval process would move forward based upon this guaranteed offer amount.

Trend

Increasingly, lenders/investors are changing their stance and not automatically assuming a GBO will take place until it is finalized, as evidenced by a signed contract of sale. The same is holding true for buyer value option (BVO) offers, too.

- ◆ The mortgage market, because of the challenging economy, is still seeing tightening of standards as it relates to underwriting. This suggests that the trend of investors/lenders requiring a GBO or BVO to be executed is likely to continue, and become more pronounced. Banks and other investors have lost billions of dollars and are continuing to lose billions on mortgages extended over the past 10 years. As a result of this, there is still extreme caution being used when extending monies to borrowers.
- ◆ Many loans by investors will require the GBO/BVO to be executed and equity disbursed prior to approval.

Relocation Effects

For example, if a transferee receives a buyout offer on May 1 and has a mandatory 60 day marketing period before they can accept the offer, unless there is an outside offer, the transferee can't accept the buyout until June 30. However, with the GBO in hand, they go on a homefinding trip, find a home, and have a close date of June 1. Since the lender/investor is not automatically assuming the GBO will come through, they see the potential borrower (EE) as having 2 loans (old home and new home), and will only qualify them assuming both housing payments. Effectively, the transferee has 2 options: 1.) Close on the home after the GBO is accepted or 2.) Qualify with two home payments (not very likely).

The bottom line for transferees is the potential for increased difficulty in being able to close on a new home prior to approval.

About Paragon Relocation

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