

# Conditions of Financing in Real Estate Transactions

Guiding Buyers Through the Essential Steps to Secure  
Financing.



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# Condition of Financing

A condition of financing (sometimes called a financing condition or mortgage condition) is a clause written into an Agreement of Purchase and Sale that **makes the offer dependent on the buyer securing satisfactory mortgage approval**. Until that condition is fulfilled (or “waived”), the buyer is not legally obligated to complete the purchase.

## What a Condition of Financing Is

A condition of financing gives the buyer a set period of time - typically 3 -7 days - to obtain **full mortgage approval** from a lender. During this time, the lender reviews:

- The buyer’s income, credit, and down payment documentation
- The property itself (value, condition, marketability)
- Any additional risks that may affect approval

**\*\*Only once the lender confirms they are willing to lend on both the borrower and the property can the buyer safely remove the condition.\*\***

# Why It's Recommended

Even if a buyer is pre-approved, a financing condition is still strongly advised because:

**Pre-approvals are not full approvals.**

- A lender has not yet reviewed documents, the property, or the full application.
- The property must meet lender standards.
- Issues like structural concerns, zoning, condo financials, or appraisal value can affect approval.
- Rates and lending rules can change.
- A financing condition protects the buyer if the lender's final terms differ from what was expected. It prevents buyers from being legally bound without financing.

**Without this condition, a buyer could be forced to close even if a lender declines the file.**



# How It Protects the Buyer

- Allows the buyer to walk away without penalty if financing cannot be secured
- Prevents loss of deposit
- Ensures the buyer is not forced into high-risk or last-minute lending options
- Gives time to obtain an appraisal or additional documents if required

In short, it ensures the buyer only proceeds once they know the lender is fully on board.

# How It Protects the Seller

Although it may seem like a buyer-focused clause, it also protects the seller by:

- Reducing the risk of a failed closing, which can be costly and time-consuming
- Ensuring the buyer is financially capable, increasing the likelihood of a smooth transaction
- Avoiding legal disputes if a buyer cannot close due to financing issues

A deal that closes cleanly is in everyone's best interest.

# The Bottom Line

A financing condition is a **risk-management tool**. It ensures the buyer is **not legally committed** until a lender confirms financing, and it **gives the seller confidence** that once the condition is removed, the buyer is solid and the deal is likely to close.



# Condition of Financing

## Conditions of Financing in Real Estate Transactions

In real estate transactions, financing conditions are essential for protecting buyers, sellers, and lenders, ensuring all parties meet specific requirements before finalizing the sale. Understanding these conditions and the necessary steps to remove them is vital for a smooth transaction process.

## Common Financing Conditions

1. **Mortgage Approval:** Buyers must secure a mortgage approval from a lender, typically accompanied by a formal commitment letter outlining the mortgage's terms and conditions.
2. **Appraisal:** Lenders may require an appraisal to confirm that the property's value meets or exceeds the loan amount. Should the appraisal fall below the purchase price, the buyer may need to renegotiate terms or provide additional funds.
3. **Inspection:** While not always a financing condition, inspections can significantly impact financing. Any issues found may lead lenders to require repairs before approving the loan.
4. **Insurance:** Buyers must obtain homeowner's insurance as a condition of most mortgages. This insurance protects both the buyer and the lender against potential property damage.

## Steps to Remove Financing Conditions

### 1. Obtain Mortgage Approval

After submitting an offer, buyers should forward the Agreement of Purchase and Sale to the Broker immediately to begin the mortgage approval process.

# Condition of Financing

## 2. Providing the Lender with Financial Documentation

Once you obtain mortgage approval, specific conditions must be satisfied by providing the lender with necessary documentation. These may include:

- Income Statements: Proof of your financial stability.
- Down Payment Confirmation: Documentation verifying the source and amount of your down payment.
- Employment Verification: Confirmation of your employment status and income.

## 3. Conduct a Property Appraisal

The requirement for a property appraisal is at the lender's discretion. If an appraisal is necessary as a condition of your financing, your Mortgage Agent/Broker will schedule it with an appraiser approved by the lender.

Please note that the cost of the appraisal is typically borne by the borrower. If the appraisal value is less than the purchase price, consider negotiating with the seller or discussing alternatives with your lender to address any discrepancies. If you amend the purchase price or any other aspect of the agreement, please be sure to notify your Agent/Broker immediately of the changes and forward the amendment document.

## 4. Finalize Mortgage Approval

Your Mortgage Agent/Broker will collaborate with your lender to finalize the mortgage conditions. This includes:

- Reviewing and signing your mortgage commitment letter.
- Confirming that all conditions have been met.

It's important to understand that **signing the commitment letter does not guarantee that your financing is secured or that conditions can be waived.** A signed commitment letter is just one step in the approval process. Your Mortgage Agent/Broker will keep you informed about all approval conditions, when they are satisfied, and when it may be appropriate to consider waiving conditions.

# Condition of Financing

## 5. Receive Financing Condition Removal

After fulfilling all conditions, formally request the removal of the financing condition from the contract. Your real estate agent or attorney will prepare the necessary paperwork to update the contract status, ensuring that all parties are aware of the changes.

## Mortgage Approval Conditions

Conditions for mortgage approval can vary by lender but typically include the following:

1. **Verification of Employment and Income:** Lenders require proof of stable income and a reliable employment history to assess your financial stability.
2. **Down Payment:** A specified percentage of the property's purchase price must be paid upfront. For further details, please refer to the attached Down Payment Confirmation info sheet.
3. **Appraisal:** Approval may be contingent upon an appraisal report that verifies the property's actual value aligns with the purchase price.
4. **Separation Agreement:** If the borrower has been previously married or is responsible for child support or alimony, documentation outlining support arrangements and the division of shared assets will be required. A finalized separation agreement is necessary to obtain mortgage financing.
5. **Debt Payments:** If your application indicates that existing debts will be paid off before closing, you must provide documentation proving those debts have been settled in full.

By understanding these conditions and proactively addressing each one, buyers can enhance their chances of securing financing and successfully completing their real estate transactions.

# Down Payment Confirmation

Down payment confirmation can be extensive. To comply with anti-money laundering legislation, all lenders are required, by law, to verify your down payment funds and where they originated from, going back 90 days. This can include the following:

- Bank Statements:** 90 days of complete, unredacted statements from ALL accounts that are holding funds that will be used for down payment and closing costs. If the funds are not in accounts bearing the borrower's name(s), these will be considered gifted funds (see below).
  - must clearly show: name(s) of borrower(s) as account owner, address of account owner(s), name of financial institution, account number
  - must provide documentation for any large deposits
  - all investments should be redeemable
  - it is strongly advised to minimize unnecessary transfers between accounts as much as possible until the lender has signed off on down payment verification
  
- Gift Letter (if applicable):** any funds being gifted to you must be verified via a gift letter (supplied by us/lender) which will be signed by the giftor stating that the gift does not need to be repayed. If any funds are being gifted, this needs to be clearly disclosed to your broker and lender prior to application.
  - giftor may need to supply bank statements showing that they have access to the funds
  - funds should be gifted via bank draft and a copy/photo of the draft provided
  - will need to show receipt confirming gift has been deposited to the borrower's account a minimum of 15 days prior to closing
  
- Separation Agreement or Will (if applicable):** if funds are from a separation or inheritance, a letter from a lawyer verifying the source of the funds and a trust ledger will be required

If the funds you intend to use **have not been in your possession for at least 90 days**, this must be disclosed to the lender on your application. Likewise, if the **actual source of funds differs from what is stated on your application**, your approval may not be honoured.

Please also note, it is up to the lender's discretion what will be required to verify down payment.

As such, this is not an exhaustive list.