Auctions

I have noticed this trend and to be honest, unless you are a gold brick with your bank, buying at auction without finance approval (for the property being purchased) in place, can be a recipe for disaster. A couple of reasons why:

1. No cooling off and no contract conditions – a person's name on contract must be correct and in line with what approval is needed (ie: qualifying for loan amount, sufficient time in employment etc) – hopefully most clients have a preapproval at least.

2. Auction contracts are usually 30 days settlements with a substantial deposit payable on fall of hammer – if a buyer is needing to get finance approved (including valuation) and certified for settlement, this can be dependent on the volume of work the bank has – they don't treat auction contracts any different than a standard REIQ contract.

3. The seller is not obligated to allow the bank access for valuation purposes as finance is not a condition of the contract – if the bank can't access the property to do a valuation, finance approval will be unlikely, especially if mortgage insurance is involved.

4. Should the finance approval not be "sufficient to complete" the contract and the buyer can't find the additional money needed, the buyer is in breach, seller can forfeit the deposit paid, sue for damages to recover costs PLUS in the event of the next sale being less in price than the contract that didn't proceed, the buyer can also be liable for the difference.

We don't obviously live in a perfect world, however, I for one wouldn't buy in an Auction, if I was requiring finance to complete UNLESS the bank has been out to value the property and the approval for the property being purchased, is in place prior to the auction. This often doesn't happen as the buyers would be uncertain as to whether they will be successful however, a prudent buyer would have all their ducks in a row – also with obtaining a Building and Pest inspection report.