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[CAUTION: What to Look For in Mortgage Documents Before Signing](#)

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Often potential home buyers are inundated with documents to sign at the last minute. Fearing they might lose their dream house or the favorable annual percentage rate, potential homeowners just sign the documents oblivious of the hidden perils in such documents. Let us analyze some of the provisions potential home owners in such transactions should take a closer look at.

A. HOME MORTGAGE DOCUMENTS

Possibly, there are TWO critical terms, prospective home buyers MUST understand in a home mortgage note. Their home mortgage note is often a 10-page document with lots of fine prints. The TWO points are:

1. Pre-Payment Penalty

This provision is the fee or rather penalty for paying off your mortgage early. The rationale is you deprive the lender of interest over the life of the loan if you pay the mortgage off early. The pre-payment penalty range varies anywhere between 1% to 3% of your whole mortgage. This translates into *at least* \$4,000 more on a \$400,000 mortgage.

If you look at the loan documents and find it, seek to have it removed. This is ESPECIALLY important if you were not told about such penalty, in advance.

2. Adjustment of Adjustable Rate Mortgages

The first word of caution is to avoid adjustable rate mortgages and instead take advantage of [fixed-rate mortgages](#).

If you are still pursuing ARM, then you should be mindful of how much your loan adjusts when it becomes adjustable. The most common adjustable rate mortgages start adjusting after five

years or so. This means if you do not know how much your loan adjusts, you could find your loan rising so that you cannot afford it. This information could be found, often, on the second page of your mortgage note. The adjustment rate or "margin rate" should be between 2.5% - 3%. If yours is higher, then you should have your attorney negotiate the deal or advise you on what you should do. This is important to note, even a 1% difference could translate into thousands of dollars over life of your home mortgage.

B. CLOSING DOCUMENTS

There are various IMPORTANT provisions to look for before signing 100 pages or so of documents at a real estate closing. Here are *SOME* of those provisions:

- **Comparing Closing Statement with Good Faith Estimate:** You should be given a closing statement at least 24 hours before closing. You should compare the closing statement with Good Faith Estimate. In particular, look for any fees including mortgage origination fees, appraisal fees, credit report fees. If the numbers with what you have on the Good Faith Estimate do not match, respectfully yet adamantly insist the numbers reflect the ones given to you on the Good Faith Estimate.
- **Removing "Hold Harmless Agreement" Clause:** Hold Harmless Agreement clause absolves lending company, closing agent and lending officer of *any* liability for defects such as mold or Chinese drywall. In other words, the buyer becomes totally responsible for costs of such repairs. Therefore, it behooves the buyer or its representative to look for such clause and seek to remove it, if possible.

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