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Mortgage 101 – steps in the mortgage process

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Disclaimer

Materials and presentation based upon industry practice and lender expertise. It is meant to serve as an educational tool only and not intended to provide legal advice.

- Getting started
  - Educate yourself
    - Homebuyer seminars
    - Work with reputable homebuyer counseling program
    - Real estate agents
    - Financial Institution
  - Understand your credit score
  - Budget
  - Understand the mortgage process

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What is a Mortgage?

- Mortgage is a lien on a property that secures a promise to repay the loan to the lender.
- There is a security agreement between lender and borrower in which the property is used as collateral for the loan.
- The mortgage is held by the lender and gives rights to collect payments on the loan and to foreclose if the loan obligations are not met.

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Before You Apply

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- Establish credit and maintain a good credit rating by ensuring your bills and loans are paid on time
- Save for your down payment - typically 5% to 20% of the purchase price plus closing costs
- PMI will be required with less than 20% down payment
- Assets will need to be in an account for 2 months
- Provide all documentation when applying to avoid delays
- Be cautious when applying for other new loans as your current levels of debt will be assessed as part of the application process

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Mortgage Process Cycle

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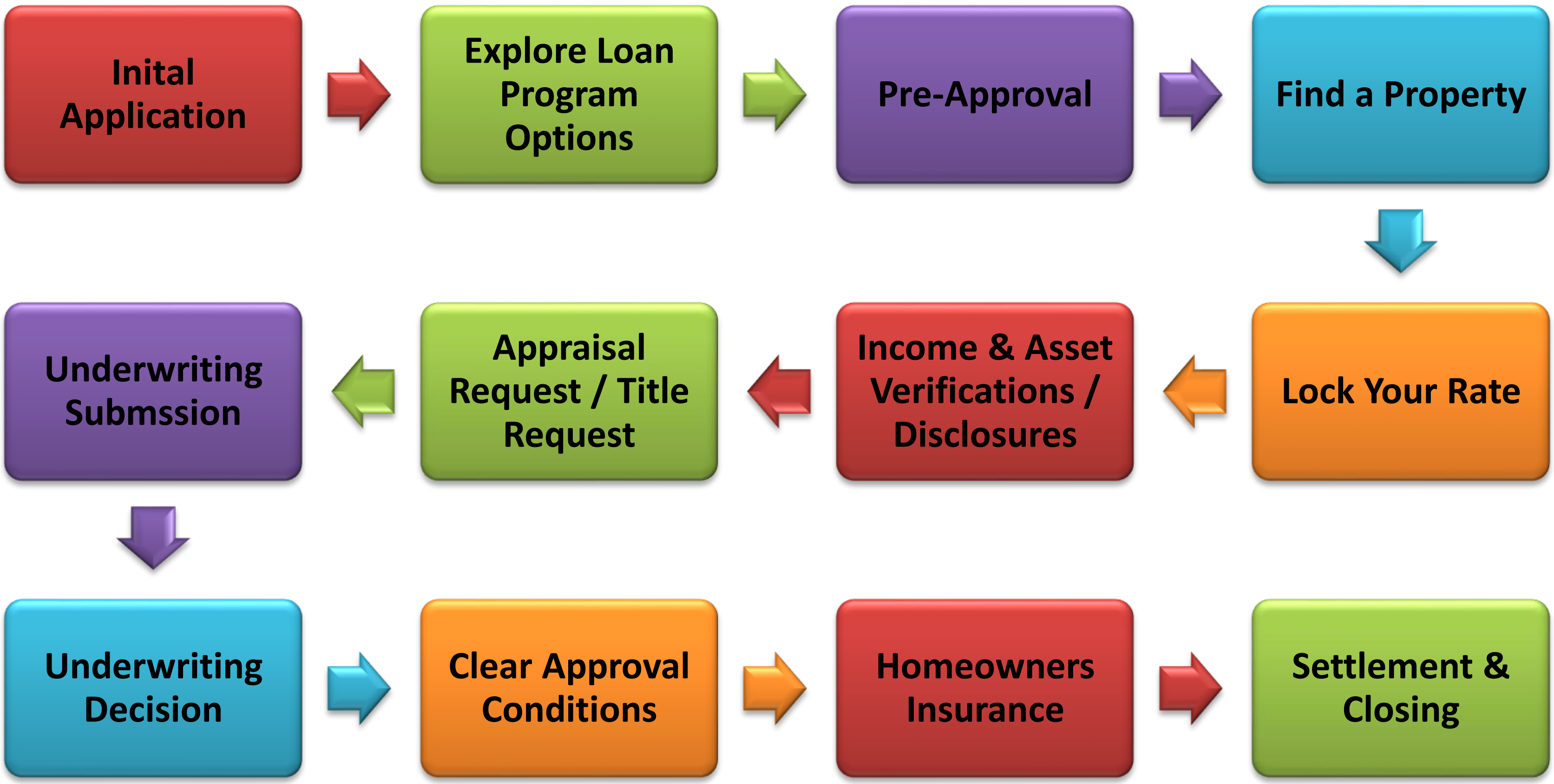

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Initial Application

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The **first step of applying for a mortgage** is to place a mortgage application with your lender.

To receive a Loan Estimate, you need to submit only six key pieces of information:

•Your name

•Your income

•Your Social Security number (so the lender can check your credit)

•The address of the home you plan to purchase or refinance

•An estimate of the home's value

•The loan amount you want to borrow

Although you're not required to provide documents in order to get a Loan Estimate, it's a good idea to share what you have with the lender(s). The more information the lender has, the more accurate your Loan Estimate will be.

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Documentation Needed

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- Pay check stubs for 30 days
- W-2s for the last two years
- Tax returns for the last two years
- Driver's license or State ID
- Bank statements for last two months (all pages)
- Purchase agreement – if available – we can use TBD for the property information

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Explore Loan Program Options

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- FHA
- USDA Rural Development
- Conventional
- VA
- Community Reinvestment Mortgage
- Adjustable Rate (ARMs)
- Construction Loans
- Renovation Mortgage Loans

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Explore Loan Program Options

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Fixed Rate Advantages – a fixed-rate mortgage ensures that your interest rate will remain the same for as long as you have the loan. A fixed-rate mortgage offers you security against rising interest rates and easier budgeting of your monthly debt.

Adjustable-Rate Mortgage Advantages - offer lower initial interest rates. Since initial monthly payments will be lower, you may be able to qualify for a larger mortgage amount. If you plan on being in the property for less than 10 years, an ARM may be right for you.

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Pre-Qualification vs. Pre-Approval

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- **Pre-Qualification** – preliminary determination of what you can afford:
    - Cursory review of your income and assets
    - Does not take into account credit profile
    - Pre-Qualification Certificate provided

- **Pre-Approval** – formal application with all documents submitted:
    - Submission of a mortgage pre-approval application
    - Review of your income & asset documents and credit history
    - Formal pre-approval letter issued
    - Preferred by realtors and sellers

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Find a Property

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- Agents are a good source of valuable information
- A good agent will assist in determining the market value of a property and developing a bidding strategy
- Choose an agent who works in your target neighborhood or town
- Commission to the buyer’s agent typically is paid by the seller

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Property Types

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- Single Family Detached
- Single Family Attached
- PUD (Planned Unit Development)
- Condominiums
- Manufactured Home
- Unimproved property

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Underwriting Submission

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What is Mortgage Loan Underwriting?

Underwriting is the process of thoroughly inspecting your loan application and financial situation to ensure you meet the specific criteria for your mortgage loan. In simpler terms, it's the mortgage lender's way of assessing the risk of providing you with a large home loan.

If you've been pre-approved, a portion of this inspection will already be complete. When your loan goes to underwriting, it will just be a deeper dive to give the final seal of approval.

Many mortgage lenders use an automated system to underwrite loans. However, we still have a talented team of underwriters who ensure all information is provided and use their expertise to assess each situation. They evaluate things such as your debt-to-income ratio, income verification, credit history, and more.

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APPRAISAL –

•An appraisal is an unbiased professional opinion of a home's value and is required whenever a mortgage is involved in buying, refinancing, or selling property.
•A qualified appraiser creates a report based on an in-person inspection, research into recent sales of similar properties, current market trends, and the details of the home, including its size, condition, floor plan, and amenities.
•The borrower usually pays the appraisal fee, which averages $400 to $600.
•They work independently of the financial institution and are licensed by the state.

TITLE –

When you purchase a home, a title company conducts a title search to ensure that the seller is the sole owner of the home and no one else has any legal claim to or against the property. Lenders often require borrowers to purchase lender's title insurance as well, which protects the lender against loss for the loan amount if someone has a claim against the property.

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Income & Asset Verifications / Disclosures

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The following will be verified by the processing team –

*Pay check stubs for 30 days
*W-2s for the last two years
*Tax returns for the last two years
*Driver's license or State ID
*Bank statements for last two months (all pages)
*401K or any other Asset Statements (all pages)

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Lock Your Rate

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What is a mortgage rate lock?

A mortgage rate lock is an offer by a lender to guarantee the interest rate of your loan for a specified period of time. The lender may charge an extra fee or include the cost of the rate lock in the loan. The lock period usually extends from initial loan approval, through processing and underwriting, to loan closing.
Once locked, the loan's interest rate won't change — no matter what's happening with the economy — barring any changes to your application details.

How long can you lock in a mortgage rate?

Lock periods can be 30 days, 60 days or more for standard purchase mortgages. Construction loans have longer lock periods, such as 12 months. Select one that allows plenty of time to closing.

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Underwriting Decision

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Underwriter reviews the following –

•**Investigate your credit history**. Underwriters look at your credit score and pull your credit report. They look at your overall credit score and search for things like late payments, overuse of credit and more.

•**Verify your income and employment**. Your underwriter will ask you to prove your income and employment situation.

•**Look at your debt-to-income ratio (DTI)**. Your DTI is a percentage that tells lenders how much money you spend versus how much income you bring in. An underwriter examines your debts and compares them to your income to ensure you have more than enough cash flow to cover your monthly mortgage payments, taxes and insurance.

•**Verify your down payment and savings**. The underwriter also looks at your savings accounts to make sure you have enough savings to supplement your income or to use as a down payment at closing.

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Clear Approval Conditions

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•**Conditional Approval:**

•Mortgage approvals can come with conditions — usually, the need to furnish additional pay stubs, tax forms, proof of mortgage insurance, proof of insurance or a copy of a marriage certificate, divorce decree or business licenses. Typically, this is just a hiccup: You're almost home, but the lender just wants to confirm a few more things.

Once you clear any conditions and get your mortgage approved, your home purchase is almost complete. The final step is closing day, which is when the lender funds your loan and pays the selling party in exchange for the title to the property. This is when you'll sign the final paperwork , settle any closing costs that are due and receive the keys to your new home.

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Homeowners Insurance

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All lenders will require that you insure your home for 100% of its replacement cost. This is to protect the lender's investment in your home.

Homeowners Insurance provides coverage that will pay to repair or rebuild your home if it's damaged by a fire, storm, or any other covered peril. Since your lender has a major financial stake in your home, they can require you to carry a specific amount of insurance.

So how much homeowners insurance does a lender require?

Your lender will determine how much coverage you need based on a calculation of the replacement cost of the structure.

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Settlement & Closing

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The “closing” is the last step in buying and financing a home. The "closing,” also called “settlement,” is when you and all the other parties in a mortgage loan transaction sign the necessary documents. **You will receive a detailed loan estimate 3 days before your scheduled closing date.**

After signing these documents, you become responsible for the mortgage loan. Familiarize yourself with some of the key documents you will be signing so that you know what to look for when you get them.

If you’re purchasing a home with a loan, the closing of your loan (the time when your loan becomes final and the funds are distributed) and the closing of your home purchase (when you become owner of your new home) typically happen at the same time. Once the closing is complete, you are legally required to repay the mortgage.

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Loan Officer

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Meeting and speaking with a mortgage expert is the best way to navigate the mortgage and home buying process.

Questions?

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Mortgage Application

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