

The Mortgage Loan Process

Understanding the basics of one of the most important elements in the home buying process.

Process Basics



Organize your Information



Get Pre-Qualified



Shop for Loan Programs and Rates



Apply for Loan



Obtain Loan Approval



Close Loan

What types of Loan Programs are out there?

- **Standard programs** – typically 80% Loan-to-Value or less. Can be done as an 80/15/5 or an 80/10/10 to avoid PMI.
 - **Fixed Rate** – typically available in 15 & 30 year terms.
 - **ARM** – Adjustable Rate Mortgage. These are usually fixed for the first 3, 5, 7 or 10 years and then adjust each year after that. They are based on a 30-year amortization schedule.
 - **Balloon** – provides a fixed rate loan for 5 or 7 years, then the loan must be paid off at the end of the 5 or 7 year term. These are also based on a 30-year amortization schedule.
 - **No Closing Cost Loans** – Avoids closing costs for the buyer (typically \$2500 and up) in exchange for a slightly higher interest rate.
- **Important Points**
 - Balloons and ARMS typically provide lower initial rates than fixed rate mortgages. The shorter the fixed term, the lower the rate. Once the fixed term is over, the rate can go up.
 - Nationally, the average length of time a person stays in a home is around 7 years. The average length of time a person keeps a specific home loan is around 4 years.
 - The type of loan which is right for you depends on your personal situation. Is this your first home? Could your job require you to move? Will your family be growing? Are interest rates high or low? How much risk can you tolerate?

What types of Loan Programs are out there?

- High Loan-to-Value Programs - typically for first time home buyers
 - **Conventional Fixed Rate** (Seller can pay up to 3% of CC's)
 - 97% Loan – Only 3% down payment required
 - 100% Loan – No down payment required
 - 100% (80/20) Loan – No down payment, no PMI
 - 103% Loan – Not recommended, as it puts you in a negative equity position on your house.
 - **FHA Loans** – 3% down, seller can pay up to 6% of CC's
 - **VA Loans** – 0% down, seller can pay up to 4% of CC's

RENT vs.

Example: \$150,000 Purchase price with 100% financing (80/20 Loan Structure)

BUY

Sales Price:	\$150,000.00
Down Payment:	\$0.00
First Mortgage:	\$120,000.00
Second Mortgage:	\$30,000.00
Estimated Taxes:	\$1,400.00
Estimated Insurance:	\$450.00

Monthly Payment Breakdown:

1st Mort. Monthly Pay. @ 6.875%	\$788.31
2nd Mort. Monthly Pay. @ 6.75%	\$168.75
Monthly Taxes	\$116.67
Monthly Insurance	\$37.50
Monthly Homeowner's Dues	\$20.00

Monthly Payment \$1,131.23

Tax Benefits (First Year)

Loan Origination Fee	\$1,200.00
Interest Paid on First Mortgage	\$8,211.14
Interest Paid on Second Mortgage	\$2,025.00
Real Estate Taxes	\$1,400.00

Total Deductions \$12,836.14

Combined State & Federal Tax Rate of 28% yields
Annual Tax Savings of -----> **\$3,594.12**

Monthly Payment:	\$1,131.23
Less monthly Tax Savings	(\$299.51)
Effective Monthly Housing Expense	\$831.72

What is Pre- Qualification?

- Pre-Qualification is a process that a lender takes a look at a buyer's financial information to determine what loan programs you may be eligible for, and what price range home you can afford.
- Most Real Estate agents will require a buyer to get pre-qualified before beginning to look at houses.
 - This allows the agent to know what price range home to look for.
 - Pre-Qualification also allows the sellers of a home to know you are a serious buyer if you decide to make an offer.
- Most lenders require the following information for pre-qualification:
 - The buyer(s) gross monthly income
 - Employment status: including if the buyer is salaried or paid on commission
 - Employment history (If current job has been held less than 2 years)
 - Your credit score
 - Your liquid assets (checking, savings, mutual funds, etc....)

Note: With the creation of automated underwriting, many lenders can now take the above information and obtain a actual pre-approval for the buyer. This means that the buyer is actually approved for a given loan amount, subject to verification of the information provided, and appraisal of the property being purchased.

What is my Credit Score?

Your **Credit Score** is a numerical rating based on the data in your credit report. This Score indicates how likely a given individual is to repay a new loan based on experience with millions of consumers. Scores can range from 300 to 900. Below are some general guidelines for how your score impacts your ability to get a home loan:

- **720 & above** – provides access to all loan products at the most favorable interest rates.
- **660 to 720** – provides access to the vast majority of loan products at the most favorable interest rates. (Example: A true 100% loan may not be available without at least a 720 score, but an 80/20 might).
- **620 to 660** – provides access to many loan products at good interest rates
- **580 to 620** – loan products are becoming limited, rates are not as good
- **520 to 580** – difficult, but not impossible to find loan products, rates are high
- **Below 520** – Extremely difficult to find loan programs, terms of the program are often not consumer friendly. Consumer should focus on raising their credit score.

Remember: While your credit score is very important, other elements such as your employment status, income, and assets are also taken into consideration. Therefore, the above information should only be used as a general guideline in determining your eligibility for loan programs.

Loan Application and Closing

- Once a property has been decided upon and a sales contract is in place, the lender will work with the buyer to schedule the appraisal and to complete the formal loan application.
- Once the loan application and appraisal are complete, the file is sent to underwriting for approval.
- Once approved the lender forwards the loan and closing information to the attorney.
- The attorney will work to gather the necessary insurance, tax, and title information on the home to prepare the closing package.
- Close on the Home.
- Move In.

Appraisals vs. Home Inspections

- An **Appraisal** is performed to determine the market value of your home. Appraisals are important because:
 - Most lenders require the house to be appraised before making the loan.
 - It helps the buyer to know that he or she is not paying too much for the home.
- A **Home Inspection** is performed to determine any major or minor problems which may exist with the home. The home inspection is not required by the lender, but is important for the home buyer for the following reasons:
 - Most home buyers cannot readily identify problems which may exist in a home.
 - It provides the buyer with leverage to get the needed issues fixed prior to closing.

Home Inspections will be covered in more detail in a later presentation.

As the home buyer you should get copies of both the Appraisal and the Home Inspection report.