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THE LOAN PROCESS

If it has been a while since you took out a real estate loan, or if this is your first go at it, you will be relying on the knowledge and expertise of your mortgage consultant to guide you through the process of obtaining a mortgage. There are many steps to get through between contacting a mortgage consultant to get “pre-qualified” and applying for the loan and finally signing documents at the title company finalizing your purchase.

So let’s take a tour through the necessary steps. After all, knowledge is empowering and in the loan process, knowledge will give you some peace of mind, and help everyone breathe a little easier as you go along. This understanding will give you a better appreciation of the skills and knowledge a mortgage professional will provide for you.

The following may generate as many new questions as it answers. You should keep track of questions and ask for clarification from your mortgage consultant. A complete description would be too lengthy for this article.

Getting started:

If you do not have a trusted mortgage consultant, talk with friends, acquaintances, and/or your Realtor to get good references. Interview the recommended consultants and decide who to work with. The most important component in this new relationship is trust. You should feel understood and comfortable with this person. You will be talking and working with this person throughout the process of completing your loan. If the relationship does not feel trustworthy you really should find another mortgage consultant to work with.

Questions to ask in conjunction with getting the trust part solid:

1. Does consultant work with many lenders (banks and loan brokerage companies), and will he shop for the best rate and terms for you?
2. Does the consultant have systems in place to track mortgage rates, and are they able to use this information to help you get the most appropriate loan program and the best rate?
3. Do you feel comfortable with the interactions with this person?
4. Does the consultant have solid procedures in place to efficiently handle your transaction?

Application:

You will need to provide documents so the consultant can pre-qualify you for a loan.

This means you must bare your financial situation to the consultant. You will need to provide:

1. 2 years Federal tax returns If you are a self-employed person you will also need to provide a year to date profit and loss statement or/and what is called a personal financial statement
2. Your two most recent pay stubs
3. If you have pension income, or Social Security, provide a copy of your award letter for the current year
4. Your two most recent bank statements (all numbered pages even if blank)

5. The most recent statements for your savings or investment accounts (IRA's 401k, SEP, etc.) Again all numbered pages even if blank
6. A copy of 2 forms of identification (state driver's license, passport, SS card, or state identification card, non-resident alien card, etc.)
7. If you have a business or own investment real estate you will have to provide items 1 & 3 for these businesses or properties and all forms used for your federal tax return

Important: *Imagine you are considering loaning your own money to a stranger and wanted to be sure they were capable of repaying this loan. This thought may clarify why so much detailed information is required.*

You will be requested to sign a document entitled "Borrower's Authorization" which allows the consultant to access your credit report. Your scores in this report will impact your ability to get a loan, and also the scores effect what the lender may charge for the loan. The lower your credit score the more risk seen by the lender, and therefore the more money they will charge to offset the risk. Conversely, the higher your score, the less they will charge for the reduced risk. (Your mortgage consultant can provide insight into these fees.) This form also gives the lender permission (at some point) to access your bank account information and other financial holdings information, and to check your past and present employment records.

Now the mortgage consultant, after careful evaluation of your supplied documents, will create for you and your Realtor a pre-qualification letter. A further step would be to complete a full loan application, and submit this to a lender. The lender would evaluate the application, and they will pre-approve you for a specific loan amount. In today's market this letter gives you more clout when making an offer to purchase. Your Realtor and the property seller both then know that a lender will loan you money to buy a qualifying property. If you are just beginning your property search and have a few days to go thru this process, getting the pre-approval letter would be advisable.

Find a property.

Make an offer to purchase. Now we get moving with the loan in earnest, focusing on getting your loan funded and closed, according to the closing date set in your purchase contract.

Complete the loan application:

The mortgage consultant will complete the loan application to include the property address, the purchase price and multiple state, federal and lender required information disclosures. These disclosures are mandated to be given to you as a borrower. They provide you with information about the lender's and your rights and obligations under current law. You must sign these. They will accompany the completed application package that is sent to the lender. You will also be given a Good Faith Estimate (GFE) from the mortgage consultant. This will detail the costs for your new loan. These costs and fees include the mortgage broker's fees, title fees and costs, and the lender's fees and projected pre-paid costs to be collected at closing.

The signed Purchase Agreement and copies of the completed application and the disclosures, are given to the lender for their instruction, and to start their formal underwriting (approval) process.

The mortgage consultant will order a preliminary title report for the subject property. This is a search for all information on record about the subject property. This report includes a legal description, easements of record, any liens existing against the property, etc.

After all required property inspections are completed and contingencies in the purchase contract are satisfied and removed, an appraisal is ordered. This is ordered through the lender, using their Appraisal Management Company. This appraisal cost (\$375-\$450 for a single family residence) under today's lending rules is borne by the buyer, paid up front and is non refundable.

Loan processing:

After initial review of the complete loan package, the lender will issue a list of "Prior to Documents" conditions. Your mortgage consultant and his loan processor will be working behind the scenes, and with you to ensure timely and accurate delivery of all necessary documentation to satisfy these conditions. Depending on the situation, you may be asked to update all financial documents, latest pay stubs and bank statements, etc. Any changes to your financial situation will be scrutinized. {Don't buy any big ticket items or open new credit accounts during your home buying process without prior discussion with your mortgage consultant. This isn't the time to increase your monthly payments or to decrease your savings without understanding how these changes may impact your ability to qualify for the loan.}

Locking your loan:

Very early in your loan process you and the mortgage consultant will discuss locking your interest rate. Locking the rate means that you are asking the lender to guarantee a certain interest rate for your new mortgage for a predetermined time period. The interest rate must be locked 7-10 days before closing. In today's market, rates are changing sometimes several times a day. Every hiccup and rumor in the economy creates a reaction from traders and market speculators. Their actions cause mortgage rates to move up or down. Depending on the existing market volatility, your risk tolerance, and your mortgage consultant's evaluation of market trends, you may choose to ride with the market a while and hope to catch a rate improvement. You may also determine that rates are at a good point and ask the lender to lock you into a rate. This eliminates further concern or worry for you as the loan moves to closing. Having a mortgage consultant who has minute by minute information about mortgage rates and access to skilled professional evaluation of the market trends can save you thousands of dollars in future interest cost.

Closing:

If the appraisal comes in and supports your offered purchase price and the title search comes in clean, and all the lender's conditions have been satisfied, the mortgage consultant will be able to "order closing documents" from the lender and the title/escrow company. Within a couple of days you, your Realtor and mortgage consultant will set a time and date to meet at the title company to sign your loan documents. You can arrange to sign documents at home or even out of town if necessary or desired.

The title company prepares and gathers all essential documents to complete your purchase transaction. After signatures by the seller(s) and buyer(s) title will request and receive a funding check from the lender. The title company will then pay off all required liens that exist against the property, record the new note and title documents with the county/city and issues check(s) to the seller(s) your Realtor, the mortgage broker, etc.

Now it is your property.

The process from your initial Purchase Agreement to the transfer of title will take about 30 days. There are many variables that lengthen or shorten this time frame. The process between your initial offer to purchase and when title transfers to you is packed with processes and details most of which may be unfamiliar to you. This is where trust and cooperation between you and your Realtor and mortgage consultant is essential. A clear communication process between all parties will make this process more enjoyable and also quicker.