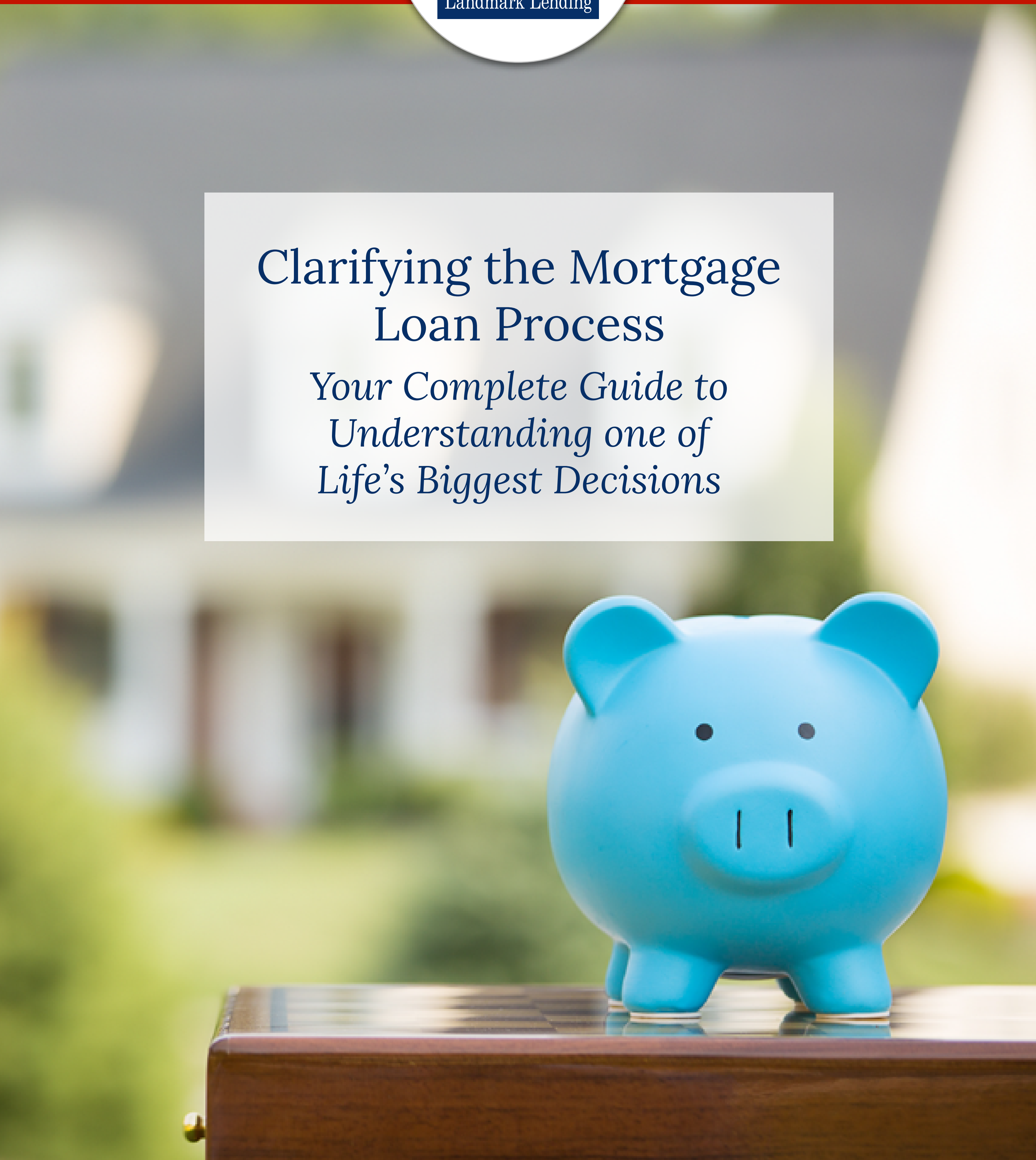
Landmark Lending

Clarifying the Mortgage Loan Process

Your Complete Guide to Understanding one of Life's Biggest Decisions



Thanks for downloading Landmark Lending's eBook, "Clarifying the Mortgage Loan Process - Your Complete Guide To Understanding One of Life's Biggest Decisions"!

Here at Landmark Lending, we know that buying a home is indeed one of the biggest decisions you're going to make, as well as a life-changing experience. But we also know that it can be an overwhelming and even frightening process. In particular, getting a mortgage is often seen as the scariest part of the process, but we don't think it needs to be as painful as getting a tooth pulled. We want to help you understand the process, so you can experience all the joy and excitement of the transition into your new home.

In this guide, we aim to give you the knowledge you need, so that you can get past all the technical terms you're probably hearing, and really understand what's involved in the mortgage process. We believe that when we help you become an educated borrower and simplify the process for you, you'll be able to put your energy into planning the things that are really important, like finding a home you're going to love living in, and how to furnish and decorate it the way you want.

We're going to help you understand:

- How to shop for the mortgage that's right for you
- What lenders are really looking for when they qualify you for a mortgage
- What information is on that credit report?
- What's an LTV?
- What documents will I need to provide?
- What really happens during that mysterious mortgage process?
- What to expect at the closing table

How to shop for the mortgage that's right for you

Starting to shop for a mortgage can be quite a daunting task. There is no shortage of mortgage companies out there, all vying for your business. Each one advertises the best rates and programs. So how can you muddle through all the ads and decide which is actually right for you?

Our first piece of advice is to shop for a mortgage in the same way you shop wisely for any other product or service. You want to get:

1) The best product (for you)
2) The best price
3) The best service

Let's look at each one of these point as they relate to mortgages.

Mortgage Products (Programs)
What's the Best Product?

There are an awful lot of different options available when it comes to mortgage programs, but they all boil down to three basic types: Fixed Rate Mortgages, Adjustable Rate Mortgages and Reverse Mortgages.

Fixed Rate Mortgages are the most "vanilla" type of mortgage you can get. As the name suggests, the interest rate is "fixed" and will not change for the entire life of the loan, and neither will the monthly payment you'll be making. Adjustable rate loans, on the other hand, are set up to allow the interest rate and payment to change with fluctuations in the financial markets over time. While at one time, Adjustable Rate Mortgages (also known as ARMs) were extremely volatile and could change wildly and unpredictably, modern ARMs offer some degree of protection by limiting how often and how much the rate can payment can change over the course of the loan.

Which is best for you? That's going to depend on a few factors, mostly how long you think you're going to stay in the home, and how much of a risk you're willing to take regarding changes in monthly payments.

With a fixed rate loan, you'll be guaranteed to keep the same payment for as long as you keep the loan, so these tend to be preferred by people who plan to stay in the house for a long time, and those who take a more "conservative" approach to their budget. ARMs generally start with a low introductory rate, known as the starting or base rate, so if you're only going to be in the home for a few years, you'll almost always come out ahead. But there is definitely some degree of risk, as you can expect that the rate and payments will change over time. So don't get yourself into an ARM unless you're either you're sure you'll be in your home a shorter time than when the rate starts to adjusts or you fully understand and are comfortable with the rate potentially adjusting higher in the future.

You'll also need to consider the length or term of the loan. Most mortgages are based on either a 30 year, 20 year, or 15 year repayment schedule. The longer the term, the lower the payment, but the interest rates are generally lower on shorter term loans, and of course you'll pay much less interest, for example, over 15 years than you will over 30 years. Most people do end up taking 30 year mortgages, since almost all residential mortgages have no penalties for prepayment, meaning that you can always accelerate the payments to pay the loan off early.

Price

Price shopping for mortgages can be very confusing, and sometimes it seems that lenders want to keep consumers in the dark about what the numbers really are. Years ago, the federal government stepped in and created something called the Truth In Lending Act, which requires lenders to disclose what loans will really cost, so as to protect you, the consumer. But honestly, in many cases the Truth In Lending Disclosure lenders are required to give you can actually make things even more confusing.

To understand what the costs will really be, you'll want to compare three things when you compare lenders and their programs: Interest Rates, Loan Related Closing Costs, and any Lender Credit given to you in the transaction.

Interest rates are fairly straightforward, and determine the amount of the monthly payment. If you're looking at ARMs, make sure you understand what the potential changes are. In particular, ask about the caps on adjustments - the limits on how much the rate can go up or down. Be sure to look at both the adjustment cap (how much the rate can change with each adjustment) as well as the lifetime cap (how much the rate can change over the life of the loan).

Closing Costs include everything you'll be required to pay, from the day you apply for the mortgage, right up to the moment when you take ownership of the home on closing day. These actually include a number of fees which are fixed, and are not charged by the lender, like title insurance, recording fees, and so on. But there are a fair number of costs which can vary from lender to lender, such as origination fees, application fees, and underwriting fees, so be sure to compare these carefully.

A Lender Credit is often used to offset the loan related closing costs that must be collected at closing. Depending on the interest rate you choose, sometimes the lender credit can actually be larger than the loan related closing costs so you're not actually being charged anything for the loan and the excess credit is applied to your prorated interest, property taxes, and home insurance that is due at the time of closing.

Service

As we said earlier, there are thousands of mortgage companies to choose from. While products are prices are important, none of the numbers matter if the lender doesn't deliver what it promises. You want a company that not only offers the best rates, but one who will provide efficient, effective service, getting your loan closed as quickly as possible, and most importantly, one which you can trust. You can search the web for information and reviews of the companies you're considering. We also always recommend speaking directly to, and if possible, meeting the mortgage professional who you'll be working with. Choose someone who you can feel comfortable with and trust to help you navigate through the process.

Normally the biggest complaint people have after obtaining a home loan (after not getting what they were promised at the beginning) is being dissatisfied with the communication (or lack thereof) during the process. The best tip we can offer here is when you make the initial contact with the person helping you do they give you clear answers to all your questions and take the time to make sure you're comfortable with moving forward in the loan process? If either they can't explain to your satisfaction what you're wanting to find out OR they PUSH you to make a decision you're uncomfortable with the red flags should start to go up about working with that person. Two good questions to ask that person at the beginning is, 1. How long have been working with people to help them with their loan? And 2. "Will you be helping me throughout this process or will someone else?" If you are going to get passed along on the "assembly line" to get your loan you might want to re-think working with someone who actually stay with you to help you throughout the process.

What do lenders really look for when they qualify you for a mortgage?

Now that you've identified a lender who you're going to work with, and are hopefully narrowing down the list to a few options of mortgage programs, it's time to look at another mystery: how lenders qualify you for a mortgage.

Real estate agents traditionally like to tell prospective homebuyers that you can afford a mortgage amount roughly equal to three times your annual income. But that doesn't really tell the whole story. There are a number of other factors that lenders include in their calculations. How do they actually evaluate your ability to qualify?

While there's some variation between qualification guidelines for different mortgage programs, they all have one thing in common. Lenders want to be sure you make enough money to cover your monthly carrying charges on the home, as well as any other recurring payments you'll need to make. As a general rule (and there are exceptions), lenders will want your monthly payment (including your Principal & Interest payment on the mortgage, plus one month's worth of property taxes and one month's worth of homeowners insurance) to be no more than 36% of your monthly gross income. Additionally, they'll factor in the monthly payments on any other loans you're carrying, and the minimum required payments on any revolving credit cards on which you carry a balance. They'll want to keep the total of Principal & Interest, Taxes and Insurance (PITI) plus all your other payments at 45% of your monthly income.

Creditworthiness

Every bit as important to a lender as your income is your history of paying your bills. So every mortgage company is going to run a credit report, to get all the information that's on file with the three credit repositories: Transunion, Equifax, and Experian. These repositories collect information reported by banks and other lending institutions, and make that available to lenders who to whom you give your authorization.

The information on the credit report includes the balances on your loans and credit cards, your monthly obligation on each, and your payment history on those accounts. It also includes another mysterious number called a FICO score, named after Fair Isaac Corporation, the company which produces these scores. The formula used to calculate these scores is in fact a closely guarded algorithm which is not available to the public. But we can tell you that it's based on a number of factors, including your total debt load, how long you've had credit, what types of credit you have, and of course, your payment history. These scores range from 300 to 850, with higher scores indicating that you're less of a risk, or in other words, a better borrower in the lender's eyes.

Some mortgage programs have minimum FICO score requirements. And in many cases, your score will be used to determine your interest rate. Riskier borrowers will typically be charged higher rates. The three credit bureaus mentioned above will all provide you with a free copy of your credit report once a year, so it's not a bad idea to take a look at your before you start shopping for a home, to get an idea of what the lenders you apply to are going to see.

Something that has become popular lately are consumer reports offered as "Free" by a number of companies through the media. Keep in mind that often the score you get from a consumer report is lower than the actual score that you would get for the purpose of obtaining a home loan where all three bureaus are pulled together in a 'Tri-Merge" report that is done by a bank or mortgage broker.

Downpayments and LTVs

There's one other major factor that comes into play in determine what mortgage programs and rates you qualify for - your down payment, which represents your equity stake in the home. History has shown that the greater of an investment you make in the property, the less likely you'll be to default on the loan. So buyers who make a larger down payment often from lower interest rates and in some cases, more lenient qualification guidelines.

How much money do you need to put down to buy a home? Optimally, mortgage lenders want to see you make an investment of at least 20% of the purchase price of the home (though again there are exceptions for certain programs). They call this an LTV (Loan To Value ratio) of 80%. If you have the ability to make a larger down payment, you may want to ask your loan officer if that will get you a better rate. Lenders will allow you to put less down payment – as little as 3% - depending on your credit and the type of program, but remember that in putting down less than 20% (unless you are obtaining a VA loan) you will have some form of mortgage insurance.

Documentation

We can't lie to you about this one. You're going to need to produce quite a bit of documentation in order to get your mortgage approved. The lender needs to verify all the information they used to qualify you for the loan, and see that you'll have enough funds to close.

Here's a quick overview of the documents that most applicants will need to provide:

Income - The lender will want to see that you make as much as you told them you did. So, assuming your income comes from being an employee at your job, you'll need to provide copies of your last month's paycheck stubs, and your W2 forms and possibly federal tax returns for the last two years. The lender will probably also want to obtain a written, or at least a verbal verification of that information from your employer too. If you're self-employed, or work in a position that includes commission or bonuses, or if you have other sources of income like investments, be prepared to provide your full tax returns for the past two to three years.

Assets - The bank wants to see that you have sufficient funds to close the sale. This will include the balance of the price of the home (after the amount of your mortgage), plus any closing costs and related expenses. They'll also want to see some amount of "reserves," typically a cushion of 3 to 6 months worth of payments. So, they'll ask you to supply them with the last two months of statements on any checking, savings, or investment accounts. If those balances have increased significantly in recent months, be prepared to explain and document the source of any large deposits. Large deposits are usually defined as more than 25% of your monthly income. Banks won't feel comfortable if you've taken another loan for the down payment. Gifts from family members are generally acceptable, however.

You'll also need to give the lender a copy of the Contract of Sale on the home you're purchasing.

What really happens during the mortgage process?

So now you know how to find a loan, and what it takes to qualify. But what really happens during that mortgage process. Let's look at an overview of the timeline.

Pre-approval - It's a great idea to start getting approved for a mortgage before you start shopping for a home. This will give you, your real estate agent, and potential sellers some comfort level as to what you can really afford to buy, and narrow the field of houses that you look at to those in the range you can qualify for.

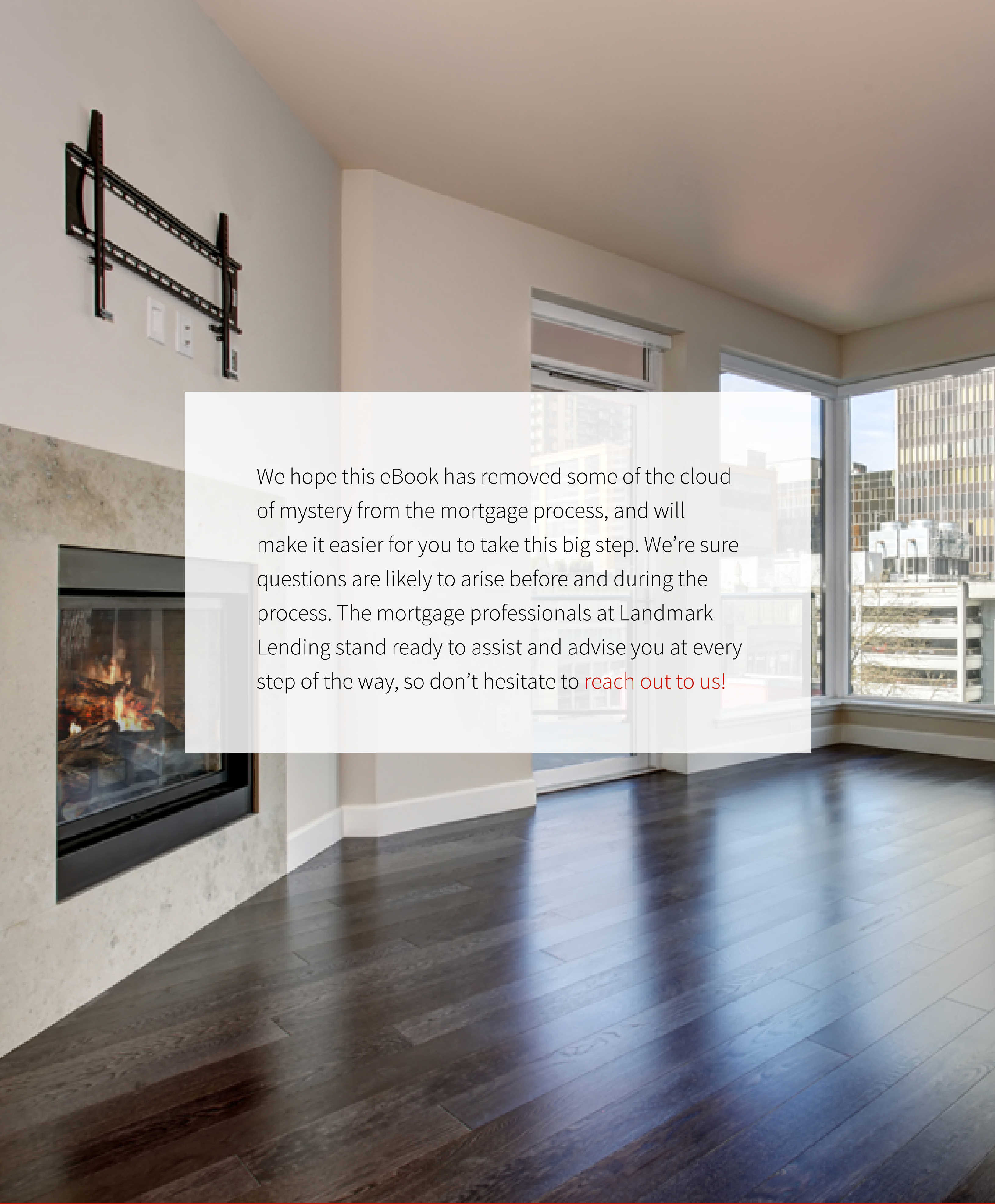
Application - This is the beginning of the formal mortgage process. You may fill out an application form on paper, online, or over the phone. You may even meet with your loan originator in person to complete the application together. However when you apply, be prepared to provide all of the income and asset information we mentioned earlier, and the documentation to back it up.

Disclosures - Once the lender has your application and begins the submission process, they're required to quickly give you disclosures in writing of the terms of the loan. There are so many forms that the government requires banks to give you, that people have jokingly suggested that it's the paper industry who's behind the disclosure laws. But seriously, the main forms to look for are the Loan Application itself, Truth In Lending disclosure (which we mentioned earlier when we discussed price), and the Good Faith Estimate of Closing Costs, which is the lender's best effort to estimate all the costs you'll incur in order to complete the transaction.

Appraisal - There's one thing we haven't really talked about yet, and that's the property itself. The house represents the collateral for the loan, and the lender wants to be sure that it's worth what you're borrowing against it. They'll send an appraiser out to look at the house, and do an analysis based on comparing it to similar homes that have recently sold in the immediate vicinity. The appraiser, though not an engineer, will also look for any obvious examples of needed repairs or structural flaws. If they find anything that seems significant enough, the lender may require the repairs to be made prior to closing, or to have an engineer inspect the situation to ascertain the structural integrity of the house.

Underwriting - When your lender tells you that your application is "in underwriting," you're getting close to the finish line. This means that they have all the documents they need, and your file has been passed to the underwriter who will be making the final decision on your application. Hopefully at this point, you'll soon be hearing the word "Approved."

Closing - Once your loan has been "cleared to close" you're only a step away from the closing table, the moment you've been waiting for! You'll typically sit down at a table with a notary. At the closing table you'll be hit with another flood of documents to sign. In particular, two things will happen. You're going to take ownership of the home, and you're also going to sign a Note (your agreement to repay the lender) and the Deed of Trust (the document which says that your home is the security for the loan). Funds will change hands, and you'll walk away from the closing table with your loan set to fund! Congratulations! Although there will be a stack of paperwork that you sign, the most important documents to make sure you identify and have for quick future reference are the HUD1 (Settlement Statement), Note, and Deed of Trust.



We hope this eBook has removed some of the cloud of mystery from the mortgage process, and will make it easier for you to take this big step. We're sure questions are likely to arise before and during the process. The mortgage professionals at Landmark Lending stand ready to assist and advise you at every step of the way, so don't hesitate to reach out to us!