Andy May, 919 771 3379, Owner and Senior Loan Officer at ADRMortgage.com, NC and Virginia Licenses 88010, 103418, 169812. 148020.

Mini-Mortgage Book by Andy May

<u>What is the process to get a mortgage loan?</u>

I've been in the mortgage business for about 30 years and the more things change the more they stay the same - except with more paperwork and higher risks to the buyer. Currently the process has been extended from 3 days to get a mortgage (In 2010 I closed a consumer in 3 days from start to finish) to about 30 days. Now we have closed consumers in as little as 2 weeks - but they are well prepared with proper documentation. The new laws changed the timing of purchasing a home or refinancing and prohibit consumers from closing any faster then 10 days (approximately). So, from a timing perspective you can expect the mortgage process to take 30 days on average. Buyer beware. Buyers are at a distinct disadvantage under the new mortgage laws then even six years ago. For example, the buyer will be pursued if they are foreclosed upon and may lose their personal property. Another example, the buyer has to write due diligence and earnest money checks that the buyer loses as time goes by, after an offer is made.

This is the process in a nutshell (call me and I'll be happy to go into details. My calls usually last anywhere from 5 minutes for the savvy to 45 minutes for first time home buyers):

Step 1 - Determine whether you want to work with the highest cost approach or a lower cost approach. The highest cost approach is also the lowest quality in that you will typically get an unlicensed mortgage loan officer. High-cost is a one stop shop with a "big-box" Realtor that foists you onto newbie Real Estate Agents and an unlicensed mortgage loan officer and charges you full price++ (Consumers typically pick these big-box Real Estate Agents by looking online for someone that looks Trustworthy). Do not use a friend or neighbor, look for the best and brightest (not necessarily a high transaction volume, and definitely not someone advertising a ton).

The low cost approach is working with independent professionals that are not paid to send leads to in-house staff, etc. Studies have shown that the highest cost method of obtaining a home is simply to pick a one-stop-shop Realty firm that handles everything. DO NOT DO THIS. I've seen people lose hundreds of thousands of dollars, don't do it. The Realtor shuffles you into the "lender" (it's really part of the Realty firm - in that the Realor-Owner gets the lender check) and don't even ask about Attorney independence. You get no independent opinions in the transaction and everyone denies it when there is invariably a problem. I have many stories to tell here. Ask me.

Step 2 - Fill out a full loan application online. You'll be signing a lot of documents online and it's super easy to get through the roughly 100 pages of documents that you'll see over the course of a mortgage note and mortgage deed being put in your name. If you do this through a bank make sure you know that the bank may simply withdraw $500 or $1,000 for the privilege of filling out an application (yes, sad isn't it).

Step 3 - Now that you're through the initial step of determining what you want to borrow, you'll need to get pre-qualified. The Pre-qual letter (contrary to what many Realtors tell you) is simply a piece of paper. Regardless of what it is called (guaranteed qualification letter, prequal, etc.) it's only worth the paper it is written on. In Virginia, the law requires that we send you a second sheet of paper retracting the prequal letter and stating that this entitles the consumer to nothing. It is simply a review of what you've told us, and an estimate of whether you'll close based on what you've put in your application. Legal worth = nothing.

Step 4 - Sign the Broker Agreement with the Realtor you've selected (after you know what you are qualified for and determine your price range). This is only for purchases (refinances this step doesn't happen). Do not go with a Realtor that immediately pulls a Broker Agreement out of their pocket. You have time on your side. But be ready and understand what a Broker Agreement is, as your Realtor will eventually have you sign one and you'll want to know your rights.

Step 5 - Review the Closing Disclosure with the mortgage loan officer (and all paperwork) and understand the timing of your closing (rate lock, appraisal, title insurance, homeowners insurance, mortgage insurance if necessary, etc.). Review the purchase and sales contract with the mortgage loan officer (and obviously the Realtor). Do not, "put your best foot forward and over-pay" which is what some Realtors will recommend. State licensed loan officers have tools that can help you understand what you are doing. Also, don't fall victim to the lender that asks for your credit card without telling you when it will be used, and for what. This is a big red-flag.

Step 6- Make an offer. Hand over the due diligence check for the seller to cash and keep. Yes, this gets expensive if you make multiple offers on homes that you back away from….and also, make out the earnest money check. Your Realtor should tell you about this, but often times they don't. We're here to explain it. Ask us. I've written many articles on this that you can also Google. My favorite is to write the due diligence check to be cashed a week after you've done the inspection - saving you a lot.

Step 7 - Deliver (to your loan officer via secure internet) your tax returns (2 years), paystub (most recent 2 months), bank statements (most recent 2 months, but perhaps up to a year depending on qualifications), and order your appraisal upon acceptance of the offer (typically takes 10 days but depending on market dynamics can take 3 weeks or longer). You'll likely spend 1% of the purchase price on due diligence and earnest money checks (have your Realtor make a copy of the front <u>and back</u> of these checks and put them in an escrow account - as we'll need proof of these funds for the underwriting of your loan). Sign all documents digitally (ADRMortgage.com did the first Consumer android mortgage without the use of a computer - simply by smartphone in the early 2000s and one of the first all electronic signature mortgages).

Step 8 - Wait. Remove conditions, review new conditions. Wait. After about 3 weeks of heavy lifting you will hopefully hear the words, “Clear to Close”. Until the loan funds, however, anything can happen. So, do not run your credit for a new car, house, boat, college education, timeshare or any other expense that is considered significant given your income and assets. Even on the day of the closing. Why? Because the underwriting process re-reviews your credit one last time to see if you’ve made the above mistake. Even looking at a purchase is recorded (particularly if you’re at a car dealership and they run a soft credit pull from just your name). I’ve never had anyone’s loan cancelled but I’ve seen some crazy things happen the day before or the day of a closing. Don’t make this mistake.

After all the effort, you’ll look back on the purchase of your home as more than a 3 day short effort challenge. It’s a lot of work, and I think that’s why Congress changed the laws. One law that hasn’t changed since 2007 is that your bank’s mortgage operations are not regulated by the state in which you live. This means that if you have a problem with your loan officer and they work with a bank or credit union you won’t have access to the local Banking Commissioner to complain. At ADRMortgage.com we’ve never had a BBB complaint and that says volumes, given that one local bank has over a million complaints (check out the Consumer Financial Protection Bureau website to see what the complaints are….they actually post them from real consumers on the sad and shady behaviors of banks that are not state-regulated).

Mortgage Do’s and Don’ts

Do List

1. Get your paperwork ready. ADRMortgage.com has a list and it includes 2 years tax returns, last 2 paystubs, last 2 bank statements, all financial statements used for underwriting (down payment). We send you the full list once conditions have been requested from the automated underwriting system.
2. Order your appraisal sooner rather than later; the earliest an appraisal can come back is 7 days, and often times longer.
3. Give your loan officer a copy of Earnest Money and Due Diligence checks - front and back.

4. Give your loan officer the purchase and sales contract (discuss with loan officer before making offer - in-house loan officers rarely do this, as they have a conflict of interest with their partner, the Realtor).
5. The list goes on, call me for the full list as it’s lengthy.

Don’t List

1. Don’t buy a car, house, boat, education payment, or other large drain (greater than $200 for some).
2. Don’t go on vacation and skip the documentation part.
3. Don’t hide properties that you own, including timeshares - that simply takes longer to process your loan once we obtain data that illustrates this.
4. Don’t go into forbearance on another property you own.
5. Don’t change jobs.

Mistakes made with Realtors -

1. Don’t sign a contract to purchase a home that is longer than 3 months.
2. Don’t assume your Realtor knows what they are doing. I had one Realtor ask to meet with me (and her client). The client was working off the books - and had no income. Therefore, no loan. They had already spent $150k in cash on building a $600k home (we call that extra builder profit).
3. Don’t assume your Realtor is your fiduciary. That relationship ends when you sign the broker agreement - and contract law takes over. Once you’ve signed the broker agreement, you may have to pay your Realtor even if you fire them. Know what your rights are, talk to a state licensed loan officer.
4. Your Realtor wants to move transactions quickly. It’s a business. Make sure you get the best, brightest and most trustworthy….after all it’s the same price if you hire the opposite.
5. Review the broker agreement, the purchase and sales contract and discuss Due Diligence and Earnest money risks with your Realtor and your state licensed loan

officer. I had one Realtor ask for $8k in Due Diligence and Earnest money (I don't work with this person and walked away from the transaction - but that's another story) - to ensure a closing.

Mistakes made with Lenders -

1. Banks and credit unions are not regulated by States. If you purchase one of their portfolio products that mortgage is not regulated the same way Fannie/Freddie and other federal government regulations provide. This matters. Think about when Countrywide called (required to be paid in full) several hundred thousand homeowners and required their HELOCs be paid in full immediately.
2. Tell your broker/Loan Officer everything. We find out eventually. You don't want to go through the whole process if you aren't qualified in the end. It's costly.
3. Don't guess. Everything must be validated.
4. Don't apply to multiple companies. We know, and it can lock you out of the market for a home loan.

Construction top 10 mistakes -

I've written extensively on this area, and have created many mortgage products that represented the number one product for the companies I've worked for in construction lending. This is complicated, and the top ten list starts with don't write your builder a bigger check then $20k to start. Call me if you are in the market for a Construction-to-Perm loan (CTP) and I'll go into detail. 919 771 3379. Andy May.

Ten other Real Estate Must Haves -

1. Make a list of the the items you should understand before hiring a Realtor.
2. Make a list of the items your should understand before hiring a state licensed mortgage loan officer. Remember, banks and credit unions are not regulated by your state in which you live. Therefore, you have no recourse with the State Banking Commission ….and will likely run into problems seeking recourse if your bank or credit union hammers you (yes, it still happens all the time).
3. Understand the taxes you will pay. This varies by up to double in some neighborhoods. For example, I live about 10 miles from the center of Raleigh. A friend of mine lives

about 5 miles from the center of Raleigh. My friend pays double in real estate taxes what I do. Call me and find out why. That's a big expense to take for not understanding simple real estate taxes.

4. Electricity costs are pretty low in NC. Ask me how you can save up to 50% off your electric bill. Sid Moye has been installing Duke-Energy approved systems that monitor the flow of energy to the grid. He has saved me over $50,000 since I've been in my home in 2006. The system costs about $5k but the payback is usually within the first year.
5. Make sure you make right-hand turns out of your neighborhood into rush-hour traffic. Simple, but important. It can take 20 minutes to make a left hand turn, and you're just sitting there everyday.
6. Don't buy a home that resides at the bottom of the neighborhood. We get a lot of rain in Raleigh (sometimes nearly 60 inches of rain). One of my neighbors didn't heed that warning and has some serious water flow running into their foundation. If you do make this mistake, it's fixable and we like to recommend Shamrock Waterproofing. He's a Ravenscroft family, and he's done work for me that's been fantastic. And he's inexpensive.
7. Don't purchase a home inspection that the home inspector doesn't really look for problems. Some home inspectors are really just trying to get the Realtor's business and discount everything by suggesting you hire a pro. I hired a plumber, electrician, roofer, and foundation expert. Some charged a service fee (think $75). In the end their reports illustrated significant issues that only eluded to in the general home inspection report. Make sure you don't purchase someone else's problems.
8. Understand surrounding areas of land. Many builders turn the "executive" back area of their planned development into condos. Drive the neighborhood, don't just purchase a home without understanding future development in the area.
9. Get pre-qualified and understand your total payments. Despite the pre-qual letter being worthless, it's still important to understand your ability-to-repay and how real estate taxes and insurance costs can change (even with a 30 year fixed mortgage).
10. Don't over-pay for your home. You can't take it with you, so realize that this is a temporary place where you will live in on average for 5-7 years. The home we purchased 13 years ago is the longest we've ever lived in a home (the other homes were 1 year, 4 years and 7 years).

After nearly 25 years in the residential real estate business, I realize that there are many many new people that come into the business every year. With nearly 450,000 mortgage loan officers employed in the 1980s to the roughly 394,000 registered MLOs today you have a choice. Will you choose a newbie without any credentials? Do your research to determine who will merit your consideration. As always, even if you aren't working with us I'm happy to chat with you. It can be a tough business and you are now in the risk-mitigation business as you approach your home purchase. It's also, a joyous time. Remember to enjoy the process too. We appreciate your business.

AndyMay@adrmortgage.com
919 771 3379
Check out our website for all licensing and other important information at www.adrmortgage.com.