How does the mortgage process actually work?

SUMMARY

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Property Appraisal & Title Search

How much is this home actually worth?

Each party involved in the transaction deserves to know a value of the property. The lender is especially interested in this value. The best determination of a homes value is the negotiated price that 2 unrelated parties agree upon. The bank is never sure if the buyer and seller are unrelated or not, or your loan might be a refinance, (no buyer) so they have a 3rd party called an appraiser make a professional estimate of the value

The appraiser measures the property, walks the home, sketches the layout, and assesses the condition of the home. He then takes photos of the front, rear, and the street scene. Afterwards, he compares this property to 3 homes that have sold in the area in the past 6 months, and adjusts for differences. He then comes up with his best estimate of the "value" of the home. This process usually takes 2-3 days.

It is the title companies job to search ownership claims on the property. That usually takes 1-2 days. They give us a report that says how much the property taxes are annually and if they have been paid. We order the title and appraisal simultaneously, so our total wait time is just 2-3 days.

Borrowing 80% of Value

No Mortgage Insurance

Lenders feel comfortable lending 80% of the value of your home—or Loan to Value (LTV)—because that is what they feel they can recoup if they take your home back through foreclosure, and then sell the home at auction.

Thus, anytime you are borrowing over 80% of the value of the home, we need to make additional arrangements. The traditional method for borrowing over 80% is to pay mortgage insurance—M.I.—along with your normal payment.

The mortgage insurer collects your monthly payment, and then guarantees the lender that they will pay to the lender any shortage of money not collected from the your potential foreclosure auction. that is any amount above 80% of the homes value. We are glad to have mortgage insurance, as this puts home ownership within reach of more people, as not many of us have 20% to put down on a home!

The challenge is with M.I. is that this portion of the payment is not tax deductible if you make too much money. We are glad to have mortgage insurance, as this puts homeownership within reach of more people, as not many of us have 20% to put down on a home!

On a government insured loan like FHA, the government collects the mortgage insurance payment, and they pay if you default on your loan. They make you pay part of it in a lump sum at the beginning of your loan, called “upfront mortgage insurance” and a reduced amount monthly. VA loans are charged an upfront “funding fee” that helps cover the Veterans Administration in the event of a loan default.

Loan Underwriting

Feeling good about you AND the property

The lender takes this time to evaluate the information we have submitted in the loan file. The lender will send you a package of financial disclosures like you signed with us at the application. This is just to cover the lender, as some loan officers don't disclose. Their numbers are often random, as they don't always understand what we have put in motion with you as a client. Bottom line is, we make the decisions about costs and rates, and we always match our disclosed figures!

The underwriter is most interested in the borrower's ability to repay the loan and marketability of the property. They assess the likelihood that you will be able to repay the loan, and secondly, if you aren't able to repay, how likely they will be able to get the money back from selling the home. The appraisal is highly scrutinized to see if the appraiser has chosen the best homes for use of comparing the value. They also review the title work to make sure they will be repaid if there was a payment default. If there is anything the underwriter needs to see to feel comfortable about the appraisal, the title, or the borrower, this is when they would issue final conditions. This is usually 24-48 hours, depending on how busy the market is.

If you have a choice on the title company, we will be happy to oblige. If not, we have excellent title partners who work hard to maintain our high level of excellence, and we expect a great deal from them.

"Power Packaging for Prompt Approval"
In lending, the quality of the loan file submitted speaks volumes about the borrower and the loan officer & processor submitting the file. Our entire goal is to provide quick turnaround with minimal hassle. Remember, the underwriter viewing the package is put in a position to determine if this file is a good lending risk.

I can't tell you how important a strong, clean, complete, and orderly loan file is to reaching our goal of turning you into a "raving fan." When the underwriter sees a file like this, their trust level automatically increases. They don't ask for nearly as many clarification conditions, and the bottom line is, you loan gets closed faster, and we don't have to hassle with so much additional paperwork.

Our processors earn their fees by knowing how to structure a great package, which will save you time and frustration. Also, they will save you money by letting you lock on the shorter time commitments, which gets you the best rate from the lender.

Credit Scoring

It's kind of like a beauty pageant

"They said my score was 620, does that mean something?"

Credit scoring drives so much of the risk evaluation in all types of lending today that we need to give some attention to this. Your creditors report each month to some or all 3 of the credit bureaus about the status of your account. At any given time, the bureaus have a formula that evaluates your lifetime credit history and consolidates this information into a "credit score." This makes evaluating the likelihood of repayment pretty simple for potential creditors.

Most folks have 3 scores, one from each bureau. Generally, the mortgage lenders look at the middle of the 3 scores to obtain an average representation of the scores.

The bureaus say that the scores range from 300-900, though we are not sure scores below 400 and above 850 exist. 620 is the baseline for a "conforming" loan, which is the best rate that you hear advertised on the radio. If you have a 720 or better, you can have any kind of loan that you want.

What makes my score go down?

There are many factors, and the bureaus don't disclose their trade secrets, but we have indications. For people new to borrowing, the scores start out high, and if the borrower can maintain guidelines, the scores will remain high until the bureaus are proven otherwise. Creditors will only report a "late" if it goes 30 days past the due date or longer, and then every 30 days after that.

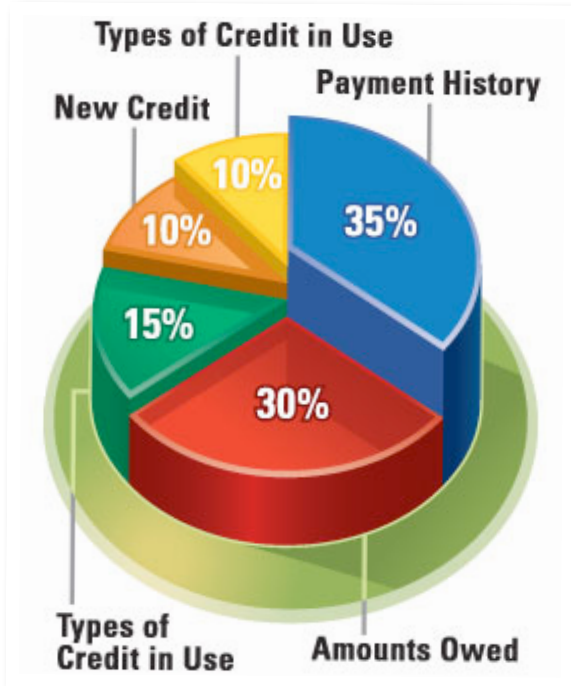
A foreclosure on credit weighs very heavily on the score, as does a bankruptcy. The bureaus also weigh lates on certain types of accounts more heavily. Mortgages lates are the worst, followed by installment loans like cars, and then revolving accounts, which are like credit cards. Obviously, 60 days late is worse than a 30 day. The scores are worsening when your current balance on an account is near the credit limit. This looks to the bureaus like you are hurting financially, as you are maxing out your available credit.

Credit Inquiries are also a black mark. When a lender wants to consider your lending risk, they access the bureaus information. If you have many inquiries in a short period of time, it looks like you are desperate for money. Also, after the first recent inquiry, there is implication that you were a bad risk for lender #1, or you wouldn't still be looking for credit. Word to the wise, if you go car shopping one afternoon, refuse to let more than one person access your credit! Ask for a copy from that person so you can use later in your shopping.

The "quality" of whom you draw credit from also affects the scores. Consider 2 people with the exact payment, balance, and charging history. Let's say person #1 is utilizing Sears, Kohl's and JCPenny's. If #2 was charging with Nordstrom, Neiman-Marcus and American Express, the scores of #2 would be higher.

"Rapid-rescoring" is very popular way to improve scores. This is a relatively expensive way of removing errors on your report. After obtaining proof of an error, the bureaus then recalculate the scores based on the updated information. This usually costs around $60 per trade line per bureau. Most times the scores go up, but not always. Many reporting companies are offering evaluation scenarios that estimate the impact of changes in the credit profile and how it will affect the scores. Sometimes being able to get a better loan justifies the expense of these services.

"Opt-Out" often buys you a10-15 point score increase in 5 business days. This is a service that runs in conjunction with the 3 main credit bureaus. If you "opt-out," you tell the credit bureaus that you no longer wish to receive unsolicited credit card offers. This also precludes you from receiving unsolicited insurance quotes. You can opt-out for 5 years, or for life. If you decide that you miss these offers you can always opt back in. You can do this online @ www.optoutprescreen.com or you can call (888) 567-8688.



<u>Lack of credit activity also makes scores go down?</u>
This seems counter-intuitive, as we all know that being debt free is a goal for most Americans. However, this is not good for the bureaus because there is no recent history of payment performance, and they don't know how you will repay. Even if you are debt free, if you expect to borrow in the future, for the sake of your score, use a charge card and pay it off each month. Activity on 4 trade lines is good.

The ideal scenario as far as we can see would be someone with no lates ever, and 4 open accounts with solid credit high balances that pay balances to zero each month.