Financial Readiness for Homeownership – Part 3

The mortgage loan process from beginning to closing



Create a realistic spending plan

- What are your goals?
- Track your real expenses

Know your numbers

- Total Monthly payment desired
- % of your income to be spent on Mortgage
- Down Payment/Closing Costs/Funds needed to close
- Credit Scores (620 or above)

Before We Get Started on Mortgages...





Secured loan



Collateral is house



Promissory Note



Deed of Trust

What is a Mortgage?

Banks

Credit Unions

Mortgage Bankers

Mortgage Brokers

Online Lenders

Seller Financing

Investors/Servicers

Who Makes Mortgage Loans?

STRATEGIES FOR FINDING YOUR LENDER/LOAN OFFICER

YOU Choose Your Lender!

Sources to find Loan Officers

- Current financial institution
- Friends/Family
- Online (www.chfainfo.com)
- Local Affordable Purchase/DPA/Housing Counseling agencies
- Your Real Estate Agent



Interviewing Potential Lenders

What type of loans do you offer? (Government insured/Conventional/First time homebuyer)

How long have you been in the mortgage business?

Will I work with you primarily or do you have a team I will also work with?

How familiar are you with local affordable and down payment assistance programs?

Do you normally work with first time homebuyers?

Are you licensed/registered with the State of Colorado?

Can you share an itemized fee worksheet with me?

How will you communicate with me?



PRE-QUALIFICATION

Based on verbal and unverified information

PRE-APPROVAL

Based upon verification of income, assets and credit

Get preapproved BEFORE you shop for a home



Page 45 in the digital resource book



Factors Impacting Loan Approval

DTI

Debt to Income Ratio

Capacity

Your ability to meet payments

Character/Credit History

• On time payments!

Collateral

• Are there any unique qualities





Government Insured Loans

- FHA
- VA
- Rural Development/USDA

Conventional

Other less common options

- Portfolio Loans
- Lease-Purchase/Rent-to-Own
- Assumptions
- Owner Carry/Seller Financing



Fixed Rate

Adjustable-Rate Mortgage (ARM)



Obtain one of the following:

- Itemized Fee Worksheet
- Financing Proposal
- Itemization of Fees
- Cost Estimate

Example in handouts



Type of loan

Interest rate and APR

Monthly payment

Loan amount

Loan term

Down payment

Pre-payment penalty

Other costs and fees



Subprime Loans

- Loans offered at rates above prime
- Made to individuals with low credit ratings or other concerning factors suggesting chance of default

Predatory Lending

- Lending practices that are unfair or disadvantageous to borrowers
- May involve fraud, deception, aggressive sales tactics
- Designed to take advantage of borrowers



WHO IS INVOLVED?

Loan Officer

Loan Processor

Underwriter

Closer (works with Title Company)





Provide contract

Collect updated information

Prepare updated Loan Application

Prepare loan for processing/underwriting

Option to lock interest rate

Appraisal

Documents you will provide...

Pay Stubs

W-2's and Tax Returns

Social Security number

Rental History

Divorce/Separation/ Child Support

Disability/Social Security Award Letter

Bank Account Information

Investment/Retirement Accounts

Bankruptcy Documents

Purchase Contract

Proof of Earnest Money

DOCUMENTS YOU WILL PROVIDE AND UPDATE



Lending Corporation

Save this Loan Estimate to compare with your Closing Disclosure.

LOAN ID # ##########

RATE LOCK ■ NO □ YES, until

Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other

estimated closing costs expire on (date/time).

Loan Estimate

LOANTERM 30 years PURPOSE Purchase 2/28/2022 DATE ISSUED PRODUCT Fixed Rate APPLICANTS LOANTYPE ■ Conventional □ FHA □ VA □_

John Homebuyer and Jean Homebuyer 1235 Main Street Denver, CO 80220

1235 Main Street

Denver, CO 80220

SALE PRICE	\$400,000

SALE PRICE \$400,000		
Loan Terms		Can this amount increase after closing?
Loan Amount	\$388,000	NO
Interest Rate	4.375 %	NO
Monthly Principal & Interest See Projected Payments below for your Estimated Total Monthly Payment	\$1,937.23	NO
Prenayment Penalty		Does the loan have these features?

NO

Projected Payments

Balloon Payment

Payment Calculation	Years 1-10		Years 11-30	
Principal & Interest	\$1,937.23		\$1,937.23	
Mortgage Insurance	+	113	+	-
Estimated Escrow Amount can increase over time	+	395	+	395
Estimated Total Monthly Payment	\$2,445		\$2,332	
Estimated Taxes, Insurance & Assessments Amount can increase over time	\$395 Monthly	This estimate inclu The property Taxes Homeowner's Institute the property Taxes Other:		in escrow? YES YES
Amount cun increase over ame	Monthly			perty costs. You must pay for other

Estimated Closing Costs	\$11,291 Includes \$7,251 in Loan Costs + \$4,040 in Other Costs - \$0 in Lender Credits. See page 2 for details.	
Estimated Cash to Close	\$4,771	Includes Closing Costs. See Calculating Cash to Close on page 2 for details.

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.

LOAN ESTIMATE - Lender Name # Page 1 of 3 - LOAN ID # 02/28/2022 09:19 AM PST

LOAN

See handout

Check out this **Loan Estimate Explainer**



Reviews loan application

Gathers additional, required documentation

Verifies accuracy of documentation

Orders property appraisal

Prepares file for underwriting



Home Inspection



Appraisal



Providing updated information



Shop for homeowners (hazard) insurance

\$ Put spending 'on hold' until closing

Things happening while your loan is being processed



Reviews Facts About You And The Property

Provides Mortgage Loan Approval

Initial/Conditional Loan Approval

- · Based on first set of financials
- Often loan approved based on several conditions to be met
- No New Debt!

Final Loan Approval

LOAN UNDERWRITER



REASONS FOR DELAY/DENIAL

High Ratios

Insufficient funds to close

Low appraisal or appraisal gap

Changes in income, debt or credit score since initial/conditional approval

Importance of title insurance

The title company prepares closing disclosure with the lender

The title company closes the real estate transaction

ROLE OF THE TITLE COMPANY



Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information Transaction Information Loan Information

Date Issued 4/15/2013 Borrower Michael Jones and Mary Stone Closing Date 4/15/2013 Closing Date 4/15/2013 Plansaction Information Loan Information

Date Issued 4/15/2013 Borrower Michael Jones and Mary Stone Loan Tram 30 years Closing Date Purphase Purphase Purphase Purphase Purphase Purphase Purphase Product Fixed Rate

Estilement Apen 1: 22-3456 Seller Steve Cole and Amy Doe Property 456 Somewhere Ave Anytown, ST 12345 Loan Type © Conventional © Property 456 Somewhere Ave Anytown, ST 12345

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest See Projected Payments below for your Estimated Total Monthly Payment	\$761.78	NO
		Does the loan have these features?
Prepayment Penalty		YES • As high as \$3,240 if you pay off the loan during the first 2 years
Balloon Payment		NO

Projected Payments

Payment Calculation	Years 1-7	Years 8-30	
Principal & Interest	\$761.78	\$761.78	
Mortgage Insurance	+ 82.35	+ -	
Estimated Escrow Amount can increase over time	+ 206.13	+ 206.13	
Estimated Total Monthly Payment	\$1,050.26	\$967.91	
	This estimate incl	udes In escrow?	

Monthly Payment	\$1,050.26		\$967.91	
Estimated Taxes, Insurance & Assessments Amount can increase over time See page 4 for details	\$356.13 a month	This estimate includ Property Taxes Homeowner's Insur Other: Homeowner' See Escrow Account on posts separately.	rance is Association Dues	In escrow? YES YES NO ust pay for other property

Costs at Closing		
Closing Costs	\$9,712.10	Includes \$4,694.05 in Loan Costs + \$5,018.05 in Other Costs - \$0 in Lender Credits. See page 2 for details.
Cash to Close	\$14,147.26	Includes Closing Costs. See Calculating Cash to Close on page 3 for details.

CLOSING DISCLOSURE PAGE 1 OF 5 • LOAN ID # 123456789

CLOSING DISCLOSURE

See handout/also page 56-61

DOCUMENTS YOU WILL RECEIVE AT THE CLOSING

Warranty Deed

Buyers and Sellers Statements

Final Property Tax Agreement

Final Water Agreement

HOA Information





Deed of Trust (Mortgage)

Promissory Note

Closing Disclosure

Final Affidavits and Authorizations

First Payment Letter/Due Date

(Plus, a million more...)

Review documents on your own prior to your closing

Meet with your lender to discuss

Closing disclosure

Funds to close (exact amount provided in closing disclosure

Picture ID to verify your identity

Check out this **Closing Checklist** from the CFPB

Preparing for Closing





TITLE COMPANY CLOSER

REAL ESTATE AGENT(S)

LOAN OFFICER

• May not attend, depending on lender you work with

SELLER

YOU! THE BUYER

 Since pandemic buyers and sellers often do NOT close together



Create your TEAM!

Ask, ask, ask questions!

Don't sign anything you DO NOT UNDERSTAND!

We are confident that this section has helped you to 'build your confidence'!



www.freddiemac.com

MGIC PMI

www.myfico.com

www.chfainfo.com