

So, You're Financing Your Home...

● The Loan Process

Loan Selection

Your loan officer or agent will provide you with current financing information, including specifics regarding the types of loans available (fixed or adjustable interest rates), terms and conditions, interest rates and financing costs, government regulations, and lender/borrower obligations and requirements.

Once you have selected your loan, the lender will ask you to begin the qualification process by completing a loan application, which will require personal and financial information. You also may be asked to make an application deposit which may be credited to you upon completion of the loan process.

● Qualification

What is involved in the qualification process?

The lender will begin the process by completing an estimate statement of fees and costs to determine the loan amount and by verifying the information provided on the application concerning your credit history, employment status and financial situation. You may also be requested to provide copies of recent federal income tax filings and paycheck stubs, so you should have them readily available.

Having established preliminary qualification, the lender orders a title search, property appraisal and credit report. Usually, the borrower pays for the credit report and property appraisal, which is used to determine the value of the property and, ultimately, the amount a lender is willing to lend. The lender will require title insurance to assure the priority of the new loan. The insurance is provided by the title company after the title search is completed and is generally paid for by the borrower as a part of the final closing costs. If you already have a loan on your property, you must continue to make your mortgage payments promptly during the entire new loan process.

Why do you need a title search?

The title search will disclose the current condition of the title, according to public records. The lender will be interested in how and in whom title is vested, any special conditions or restrictions affecting the use of the property and existence of voluntary liens (existing loans) and/or involuntary liens (liens and judgments). The search will also show the current status of taxes and assessments and the conditions under which title insurance will be issued.

With the title search, financial and personal qualification and property appraisal completed, the lender will prepare loan documents to be executed by the borrower upon loan approval.

What are loan documents?

Loan documents will include the formalization of the terms and conditions of the loan, a promissory note and deed of trust and various state and

federal disclosure documents. They also provide a breakdown of the financial accounting of the loan, including fees and charges.

What's the difference between a mortgage and deed of trust?

Although we commonly hear the term mortgage used to describe real estate financing, technically speaking, Californians almost exclusively secure real estate loans with a deed of trust. A major difference between a deed of trust and a mortgage instrument is that the deed of trust requires a "Trustee" to act as a neutral third party for the Trustor (borrower) and Beneficiary (lender). For your information, the deed of trust secures the promissory note. It contains the general conditions of the loan and is recorded to become a matter of public record.

● The Escrow Process

What is an escrow?

Escrow is an independent "stakeholder" account that is the depository for all funds, instructions and documents pertaining to the loan. In California, escrow services are usually performed by title companies or independent escrow companies.

What information will you have to provide?

Because many people have the same name, you may be asked to complete a confidential statement of identity as part of the necessary paperwork. The required information will include your social security number, date of birth, and previous and present addresses.

Your lender will also require evidence of fire/hazard insurance, which you should arrange through your casualty insurance agent. The lender may require up to 12 months of paid premiums from you at close of escrow.

When the loan is approved, what's next?

When your loan is approved, you will be asked to sign the loan documents and escrow instructions in the presence of a notary public. The escrow instructions specify the disposition of your loan funds.

After all the necessary documents have been signed, your lender will complete a final review of the loan documents and conditions for closing. Upon final loan approval, the lender will send the loan funds to escrow.

The loan conditions may require a three-business-day revision period before the loan is funded. Escrow will record the deed of trust, disburse the funds, provide both parties with a final financial accounting in the form of a settlement statement, and close the escrow.

Identification. Please bring either your valid driver's license or passport with you to the title company. This is needed so that your identity can be verified by a notary public. It's routine, but a necessary step for your protection.

Title. If you are in the process of deciding how to hold title to your new home, you will need to make this decision prior to your escrow appointment. Title to property can be held in a variety of ways including (but not limited to) community property, joint tenancy and tenancy in

common. We suggest you consult a lawyer, tax consultant or other qualified professional before you decide.

● **After the Close**

Reconveyance of Previous Deed of Trust.

If the funds from the new loan are being used to pay off an existing loan, the old lender is required by law to issue a full reconveyance (release) of their loan. As soon as the deed of reconveyance removing the previous deed of trust is received, it must be recorded and the original will be returned to you. This may take several weeks. However, you need not be concerned by this delay since it is normal.

Issuance of Lender's Title Policy.

A policy of title insurance will be issued to the lender insuring the priority of its loan and all other conditions set forth in the loan documents.

The lender may retain this loan in its own portfolio or may sell the loan to either a private or public agency, such as the Federal National Mortgage Association. In either case, you will receive specific instructions as to when and where your loan payments are to be made.

Disbursement of Funds Held in Escrow.

In some cases the escrow agent will be instructed to hold funds in escrow to pay off obligations which may not be completed until after the close. An example might be a set-aside of funds to correct a structural problem, remodeling or termite repair work. Upon completion of the project, the escrow agent, having received proper documentation and releases, will disburse the reserved funds.

● **Conclusion**

We've taken you through the three phases of mortgage financing—The Loan Process, The Escrow Process and After the Close. We hope that this publication has helped to demystify the process for you. We can't anticipate all of your questions, but you can rest assured that the industry professionals with whom you will be working will successfully guide you to a satisfactory conclusion in the financing of your home.

The following is a brief list of the best sources for assistance for certain common questions:

Details of your new loan	Lender, Loan Officer or Loan Agent
Hazard/Fire insurance	Insurance Agent
Loan requirements and financial matters	Lender, Loan Officer or Loan Agent
Escrow instructions	Title company, Escrow Officer or Escrow Assistant
How to take title or ownership	Lawyer or Tax Consultant
Questions regarding property tax impounds	Lender

● Loan Program Highlights

Some of the most commonly used loan programs are as follows. Consult your Loan Officer for further details.

Fixed Rate Loan. A loan which has an interest rate that remains constant throughout the life of the loan.

Buydown. A fixed rate loan in which the interest rate and payment are reduced for a specific period of time by paying the interest in advance. (The buyer or seller can pay for the buydown).

Balloon Loan. A fixed loan that is amortized over a 30-year period but becomes due and payable at the end of a shorter term (i.e., 5, 6, 7 or 10 years). Some of these loans have an option to be extended with a new rate or rolled into another type of loan. Usually, the rates of these loans are lower than a regular 30-year fixed rate loan.

Graduated Payment Mortgage (GPM). A fixed rate loan which has payments starting lower than the payments on a standard fixed rate loan, then increasing by a predetermined amount each year for a specific number of years (usually 5).

Adjustable Rate Mortgage (ARM). A loan, which has an interest that can change, either upward or downward, at specified periods during the life of the loan. The change in the interest is usually tied to a financial index over which the lender has no control.

FHA Loan. FHA loans are available as a fixed rate, ARM, GPM or buydown. They are loans that are insured by the Federal Housing Administration and offer low down payments and lower income requirements. There is a maximum FHA loan limit that varies from region to region.

VA Loan. Fixed loans are available with, no down payment requirements, to eligible Veterans, In-service Veterans and certain other Reservists and National Guard members. VA loans are guaranteed by the Veterans Administration. The maximum VA loan is currently \$203,000 with no down payment. A VA GPM loan is also available with a minimal down payment. (ARM loans are not presently available)

Community Homebuyer's Program. A fixed rate loan with a low (3% to 5%) down payment, no cash reserve requirement and lower income requirements. Subject to borrowers meeting maximum income limits and completion of a course of homeownership.

Mortgage Credit Certificate MCC Program. A first time homebuyer's program subject to purchase price, income limits and availability of funds. The MCC is actually a special tax credit and can be used with almost any loan program. The amount of the tax credit is used as additional income to qualify the borrower(s). This program has very limited funds.

CHFA California Home Finance Agency. A first-time homebuyer's program sponsored by the State of California, subject to purchase price, income limits and availability of funds. This program can be in the form of a conventional, FHA or VA loan. This program offers a low down payment and is lower than market rates on both fixed and ARM loans.

● Closing Costs

Listed below is an overview of common types of closing costs you may incur on your loan. Some are one-time fees while others recur over the life of the loan. When you apply for your loan, you will receive a Good Faith Estimate of Settlement Charges and a booklet explaining these costs in detail.

Appraisal Fee. This is a one-time fee for an "appraisal," a statement of property value required on most loans.

Credit Report. This one-time fee covers the cost of the credit report, which is processed by an independent credit-reporting agency.

Document Preparation Fee. There may be a separate, one-time fee that covers preparation of the final loan papers, including the note and the deed of trust. Often called "Points", a loan document fee is a one-time charge used to adjust the yield on the loan market conditions demand. One point is equal to 1% of the loan amount.

Loan Origination Fee. This fee covers the lender's administrative costs in processing the loan. It is a one-time fee and is generally expressed as a percentage of the loan.

Miscellaneous Title Charges. The Title Company may charge fees for a policy of title insurance and escrow services, which may include charges for document preparation, notary fees, recording fees and a settlement of closing fee. These are all one-time charges.

Mortgage Insurance (MI) Premium. Depending on the amount of your down payment, you may be required to pay a fee for mortgage insurance (which protects the lender against loss due to foreclosure). You may also be required to place funds into a special reserve account (called an impound account) for MI, which will be held by the lender.

Prepaid Interest. Depending on the day of the month your loan closes, this charge may vary from a full month of interest to just a few days of interest. If your loan closes near the end of the month, you will have to pay only a few days of interest.

Taxes and Hazard Insurance. Based on the month you close, property taxes will be prorated between you and the seller. It may also be required that you pay a full year's hazard insurance premium in advance. (Homeowner's insurance) In addition, you may be required to place funds into a special reserve account (impound account) for taxes and insurance, which is held by the lender.

Title Insurance Fees. There are two title policies - a buyer's policy, which protects the new homeowner, and a lender's title policy that protects the lender against loss due to a defect in the title. These are both one-time fees.

● **What to Take to Your Loan Application Meeting**

Use the following checklist to ensure that you take with you everything you need to move your loan application along as quickly as possible:

- Purchase contract (for the purchase of your new home).
- Sales contract (if you are selling your present home).
- All original pay stubs for the past 30 day period.
- If you own rental property, your most recent tax returns for the past two years with all schedules and a current agreement.
- If you are self employed or received a 1099, your most recent tax returns for the past two years with all schedules and a year-to-date profit and loss statement and balance sheet.
- If you own 25% or more of a corporation, the most recent corporate tax returns for the past two years with all the schedules and a year-to-date profit and loss statement and a balance sheet.
- If you are commissioned, your most recent tax returns for the past two years with all schedules and year-to-date employee business expenses.
- Information on your residence history for the past two years.
- Information on all your outstanding loans or credit cards.
- Originals for the past three months of bank statements for all of your accounts, including investment accounts (IRA, 401-K, etc.).
- Information on any real estate you own.
- Information about other personal property.
- Certified copy of the closing statement if you have already sold your home.
- If divorced, all papers including the marital termination agreement and final decree signed by the court.
- Copy of your Driver's License and Social Security Card (FHA loans only).
- Original Certificate of Eligibility and DD214 (VA loans only).

- Check for appraisal and credit report fees.
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● The Loan Process

Step 1: The Loan Application

The key to the loan process going smoothly is the initial interview. At this time, the lender obtains all pertinent documentation so that unnecessary problems and delays may be avoided. At this time, the Realtor opens escrow with the Title Company.

Step 2: Ordering Documentation

Within 24 hours of application, the lender requests a credit report, an appraisal on the new property, verifications of employment and funds to close, mortgage and landlord ratings, a preliminary report and any other necessary supporting documentation.

Step 3: Awaiting Documentation

Within a week or two, the lender begins to receive the supporting documentation. As it comes in, the lender checks for any problems that might arise and requests any additional items needed.

Step 4: Loan Submission

Once all the necessary documentation has been received, the loan processor assembles the loan package and submits it to the underwriter for approval.

Step 5: Loan approval

Loan approval generally takes between 24 and 72 hours. All parties are notified of the approval and any loan conditions that must be cleared before the loan can close. The loan approval is the beginning of the closing process.

Step 6: Documents are Drawn

Within three days after the loan approval, the loan documents (including the note and deed of trust) are prepared and sent to the Title Company. The escrow officer will make an appointment for the borrowers to sign the final documents. At this time, the borrowers are told how much money they will need to bring in to close the escrow. Payment must be made by a cashier's check or wired funds.

Step 7: Funding

Once all parties have signed the loan documents, they are returned to the lender for review of the package. If all the forms have been properly executed, a check is issued to fund the loan.

Step 8: Recordation

Upon receipt of the loan funds, the Title Company will record the legal documents necessary to transfer the property into the buyer's name. At the same time, the deed of trust is recorded to show the new loan on the property. Escrow is now officially closed and the buyer now owns the home.

● Qualifying Ratios and Compensating Factors

On all loans you are required to meet certain “ratios” of monthly debt divided by income. There are usually two ratios, which must be met. The first ratio is the “top ratio” or housing expense ratio. The second is the “bottom” ratio or total debt ratio.

The top ratio is calculated as follows:

Monthly housing expense divided by gross monthly income.

The monthly housing expense includes the principle and interest payment, taxes, hazard insurance, PMI (Private Mortgage Insurance) and homeowner’s association dues (if applicable).

The bottom ratio is calculated as follows:

Monthly housing expense + all other debts divided by gross monthly income.

All other monthly debts include car payments, revolving charge accounts, real estate loans, student loans, credit union loans, child support, alimony, etc.

Acceptable ratios vary by loan program, based on the amount of down payment you make and your monthly debts. For example, qualifying ratios on a standard fixed loan would be as follows:

95% Loan (5% down payment) = 28/36
90% Loan (10% down payment) = 30/36
80% Loan (20% down payment) = 33/38

If you don’t meet the required qualifying ratios on one program, you may be able to meet them on another. FHA, VA and the Community Homebuyer’s Program have more liberal guidelines. Your loan officer is an expert at determining the best loan for you and can answer any questions you might have.

In addition to meeting ratio guidelines, underwriters like to see “compensating factors” or other facts about the loan that are positive. Some of these include:

1. The cash reserves after close of escrow
2. The new payment is only slightly higher than current rent or mortgage payment
3. Increasing earning capabilities
4. History of an ability to save money
5. Large cash down payment