Simplifying the Mortgage Process

A 7-step guide to maneuvering through the largest purchase of your life

Written by:

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UNIONHOME MORTGAGE

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Introduction

Thank you for downloading this Guide!

Thank you for downloading this guide book, for what is most likely the largest purchase of your life! We hope you find it useful, and don't hesitate to reach out with questions as they come up along the way.

Purchasing a home is one of the most exciting & thrilling times of your life, but can also be viewed as stressful and a time of high anxiety. Our goal is to change that experience for you and make sure it is one of the best experiences of your life. One that you will look back on with fond memories in the future.

Our Goal

Our #1 goal with this guide book is to equip you with the insight and knowledge of the mortgage process that will allow you to easily understand, in a simplified step-by-step manner, the journey you are about to embark on (or maybe have already!). Understanding the process will allow you to put your thoughts to more important things – such as finding the right neighborhood for you, choosing the furniture for your new home, or even picking out wall colors.

Although we have done our best to make this simple guide book both straightforward and useful in the process, we know questions still come up! If you have any questions through this guide, or afterward, please contact us at brandyjones@unionhomemortgage.com or call 317-737-7908.

Best of luck in finding the home of your dreams!

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This is YOUR tool!

There is a lot to the mortgage process, we know, so take it one step at a time. We suggest you read through the sections as you're going through that stage in the mortgage process.

What you'll learn:

- How to shop for & get a low cost and low rate mortgage
- What credit scores are and why they're important in the mortgage process
- The Dos and Don'ts before applying for a mortgage
- What's important to lenders in order to qualify you for a mortgage
- What documents are involved in getting a mortgage
- The steps & timeline for getting a mortgage and buying a home

STEP 1: How to Shop for the Best Mortgage

3 Must-Haves to Look For

Shopping for a mortgage is very similar to shopping for anything else! Let's take a look at the 3 basic must-haves when shopping for a mortgage:

1. *Find the product that best meets yours needs*
2. *Find that product at the best price for the service*
3. *Find a company that is credible and trustworthy*

1. The product that best meets your needs

Mortgages come in 2 basic terms: Fixed Rate and Adjustable Rate. With fixed rate mortgages, the interest rate will not change for the life of the loan. Whether you choose a 30 year term, 20 year term, 15 year term, or 10 year term, the rate will remain steady and the same. On the other side of this, adjustable rate mortgages typically do change, or at least have the ability to, depending on the terms of the adjustment and the market. Generally speaking, these terms are typically 7/1-year ARM, 5/1-year ARM or 3/1-year ARM.

For both Fixed Rate & Adjustable Rate terms, the terms of the loan reflect how long the loan will be in place, as long as the minimum monthly payment is paid. So, for a 30 year fixed rate loan, it will literally be paid off in 30 years.

A 7/1-year Adjustable Rate Mortgage (or, "ARM"), simply means that the first 7 years of the life of the loan, the rate will remain fixed, then can adjust every 1 year after the first 7 years until it's paid off in full, which is typically 30 years total when making the monthly minimum payments. The adjustment is typically capped a certain amount over the benchmark interest rate determined at the time of the original rate lock.

…So, how do you decide which of these products is best for you?

1. **Find the best product for you**
2. **Find the product at the best price for the service**
3. **Find a credible & trustworthy company**

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How do I know which product meets my needs?

In order to figure out which product best meets your needs, first answer the following 3 questions:

4. *Am I ok with my rate increasing in the future? Possibly 3, 5 or 7 years later?*
5. *How long will I live in this home?*
6. *Is it more important to have a lower rate with a shorter payoff time frame, or a lower monthly payment with a longer payoff timeframe?*

Adjustable rate mortgages may not be as popular as they once were, but there are still great opportunities for them to be used in certain situations. For example, if you are a professional who is going back to school for a higher degree, with the certainty of a higher income later, or currently working and going through medical school, for example, these may be good opportunities to look at an ARM or adjustable rate mortgage.

If you are at all leery about the possibility of a rate change in the upcoming years, or have any uncertainty about the amount of time you will be living in the home, a fixed rate mortgage may be a better option.

Also, if you have the income and capability of doing a shorter term loan, such as 20-, 15- or 10-year mortgages, these shorter terms will offer a reduction in rate that you may want to take advantage of. It is always a good idea to price out the products in more than one way if you're unsure of which route you would like to go.

Bottom Line:

What's the best mortgage for you? Well, it depends, and it's important that you have a trusted advisor you can count on to help guide you and give you all of your options. Talk with a mortgage loan officer about the tradeoffs of the different loans based on your current situation, to find what's best for you.

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2. Finding the mortgage with the lowest price for the service

As it turns out, mortgages aren't free. That's right – there are costs involved! Costs basically break down into 3 main categories:

1. *Lender fees (origination and underwriting fees, costs of the loan, appraisal fees, credit report fees, etc.)*
2. *Title fees (recording fees, transfer taxes, closing fees, document preparation fees, etc.)*
3. *Prepaid items – property taxes & homeowner's insurance, including to start your escrow account*

Bottom Line:

Although the seller can contribute, if negotiated, toward paying some or all of the closing costs, keep in mind that this is still real money, and real costs. It is best to look closely at the fees listed in your Loan Estimate, make sure you understand them, and don't be afraid to ask questions. Also, a lot of times you have the option to roll these costs into your mortgage!

APR – How to use this to understand your overall cost

Still not sure about all of the fees involved? Looking for a simple way to cost compare loans? Take a look at the APR or Annual Percentage Rate! This always must be disclosed by licensed loan officers when discussing rate. Using the APR, you are able to see at a quick glance the percentage of your overall costs and rate of the loan amount. Some have referred to this as acting like a batting average in baseball, giving you an overall average cost of the loan. Unlike baseball though, a higher APR is not what you want. In fact, a higher APR means a more expensive loan for you.

When obtaining a rate quote, please keep in mind that many factors go into calculating rate. For Example, credit score, loan amount, Income to debt ratio, whether it's your primary residence, etc. Each of these factors can impact where you rate falls!

Let's look at 3 examples:

Financial Institutions	Interest Rate	Discount Points	Other Fees	Total Fees	APR
Lender A	4.125%	$0	$800	$800	4.38%
Lender B	3.75%	$3000	$2500	$5500	4.55%
Lender C	3.75%	$500	$325	$825	3.89%

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3. Find a company that is credible & trustworthy

Finally, you want to work with a company that takes customer service seriously and Keeps their Promises! You want to look for a company who has been around for at least 20 years, has survived the recession and has a great reputation. Also, you want to look for a company who can close you in a reasonable amount of time, at least 30-45 days depending on the type of loan.

There are plenty of mortgage lenders and banks out there providing financing for homes, but to find one that is credible and trustworthy is another task in itself. Another factor to look into is whether the lender maintains a least a large portion of their loans rather than selling them off immediately to another company. Find a loan officer and company that will consider you their customer for life, work hard to maintain that relationship, and stay accountable to you for the financial decisions they help you make.

Once you have a short list, check out their online reviews, the Better Business Bureau, websites, and social media pages. Also, your loan officer should be licensed through the NMLS system (Nationwide Mortgage Licensing System) with an advertised NMLS # listed on their information.

So, to recap:

- Research for Credible & trustworthy companies
- Check their websites & facebook
- Ask NMLS if they're licensed; talk to the licensed experts!

Bottom Line:

Make sure you're comfortable with the lender you choose! Talk to them, understand their company, their experience, and trust an expert who refers you to them. Purchasing a home is most likely the largest purchase you will make in your lifetime, make sure you have found someone you can trust!

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STEP 2: Understand the Most Important Factor to Get the Lowest Rate

Your rate is determined by multiple factors. BUT one of those factors you can control more than others.

So, for example, if you and your neighbor bought the same price home, using the same type of loan and down payment, the same value of the property, and had the same type of property, the single difference in your rate vs. your neighbors rate, would come down to *YOUR credit score*. Your credit score impacts many things, both in and out of the loan process, such as other forms of credit, like credit cards and auto loans, as well as things like homeowner's insurance, which you will need to obtain during the loan process.

So what is a credit score, and why is my score what it is?

There are 3 primary credit bureaus that determine your credit score based on your credit history. Not all 3 credit bureaus typically come up with the same number, even with the same exact credit history! In the US, the 3 credit bureaus are: Transunion, Equifax, and Experian.

The details listed within your credit report determine the score they give to you. These details include:

- *Payment history – are you paying your bills on time?*
- *Number of open accounts – do you have too many or not enough open accounts?*
- *Age of accounts – are all of your accounts too "young"?*
- *Balance owed vs. available credit – have you maxed out all of your credit cards?*
- *Have your debts gone unpaid and sent to collection?*
- *What types of debts are in collection?*
- *Have you had a bankruptcy, foreclosure, or judgement?*

While all of the above play a part, some of the factors carry more weight when determining you credit score.

For more information, check out this detailed explanation.

35% Payment history
30% Credit Utilization
15% Length of Credit History
10% New Credit
10% Credit Mix

Now that we know what makes your score, how do we know what a "good" score is?

Credit Scores range from 300 to 850, with 300 being the lowest, and 850 being the highest – and best. The higher your score, the better your odds of getting a great rate when opening new credit, including your mortgage. This is because a higher score indicates that you use your credit wisely, and pay your bills as required, making you less "risky" in determining credit worthiness.

499 & Lower	**Very Bad**
500-579	**Bad**
580-619	**Poor**
620 – 679	**Fair**
680-699	**Good**
700-799	**Very Good**
800-850	**Excellent**

Because of the higher rate incurred by having a lower credit score, someone with a credit score of 620-639 may pay as much as 21% more in monthly payments (due to higher interest) over the life of the loan, than someone with a 760-850 range.

Before starting the home buying process, it's important to find out what your credit score is, and if it's low, take a few steps to improve your score before you make an offer on a home. Looking for more advice? Check out this article by The Penny Hoarder.

Fast Tip: *The credit bureaus are required to provide you with one FREE copy of your credit report each year, if you request it! Use these FREE reports to check them for accuracy and make sure there are no mistakes or errors that need corrected. This can save you time, and money, in the mortgage process!*

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Step 3: What To Do (And NOT Do) Before Applying for a Mortgage

We've discussed how to shop for a mortgage, now it's time to go over the 10 commandments of Home Buying – these are the 10 things to keep in mind before, and during, the home buying process.

1) Thou shalt not quit your job, change your jobs, or become self-employed
2) Thou shalt not buy a car, truck, or van
3) Thou shalt not use credit cards excessively
4) Thou shalt not let current accounts fall behind
5) Thou shalt not spend money you have set aside for your down payment and/or closing costs
6) Thou shalt not finance your new furniture
7) Thou shalt not have any new credit inquiries
8) Thou shalt not make cash deposits without checking with your loan officer first
9) Thou shalt not change bank accounts
10) Thou shalt not co-sign for anyone

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STEP 4: Understand What Lenders REALLY Look for When Qualifying You for a Mortgage

Now that you know the basics about how to prepare for buying a home, let's look at what a lender looks at, and cares about, when qualifying you for a mortgage.

The amount of home you can afford comes down to 3 basic things: 1) your income, 2) your other monthly debts, and 3) your new monthly mortgage payment. Generally speak, most lenders do not want to see the total of your new monthly mortgage payment and your other minimum monthly payments for other debts (such as credit cards, auto loans, installment loans, student loans, etc), go above 45% of your gross monthly income. In some cases, this amount can go up to 50% of your monthly income, but it depends on multiple factors including the loan type and your credit profile. This percentage is called your **Debt to Income Ratio**, and is very important in the home buying process.

Down Payment

One way to lower your monthly payment and qualify for a higher priced home, is to increase your down payment. By increasing your down payment, you lower your monthly payment and therefore increase the amount you qualify for. Anytime you are able to lower your monthly payment amounts, whether that's by paying off credit cards, loans, or finding a way to lower your new monthly mortgage payment, you will be able to qualify for "more home" or a higher purchase price on the home.

Your down payment serves as equity already in the home when you close, which is a great thing. You should never feel like putting more money down on a home is a waste of money. In fact, it is a great way to invest your money, just as you might invest your money through other accounts or by setting it away in savings. This money, or equity, will be there for you when you go to sell the home, and truly gives you more ownership in the home.

Mortgage Insurance

What is Mortgage Insurance? Not to be confused with Homeowner's insurance, which is your insurance for your home in case anything goes wrong with it, Mortgage insurance is the insurance that the LENDER has against your loan insuring the loan itself in case you default. But yes, although it's covering the lender in case of your default, you are the one who pays it as a buyer/borrower.

For conventional loans, you can eliminate the need for Mortgage insurance by putting at least 20% down on the home. There are also other ways to eliminate mortgage insurance on conventional loans, such as paying the full premium upfront at closing, but don't expect a small price tag. Depending on a variety of factors, including your credit score and your amount of down payment, this upfront premium could amount to several thousands of dollars.

For FHA loans, the Mortgage Insurance factor is calculated at a standard rate, so your credit score, down payment and other factors do NOT play a role. In fact, FHA loans calculate mortgage insurance TWICE – using an upfront mortgage insurance premium (one lump sum that's rolled into the loan amount) and a monthly mortgage insurance rate that's paid with your monthly payment. The upfront mortgage insurance premium is calculated at 1.75% of the loan amount after down payment. So, for example, if you are purchasing a home at a purchase price of $100,000, using the minimum down payment for FHA of 3.5% (or $3500), you would assume your loan amount would be $96,500. But, then you have to ADD back in the upfront mortgage insurance premium of 1.75% of $96,500 ($1688.75), making your loan amount $98,188.75 (which is typically rounded up to $98,189). Then, we have to calculate the monthly mortgage insurance premium, which is calculated at a rate between .45% - 1.05% depending on the loan amount and down payment.

What is Loan-To-Value?

Loan to Value is somewhat self-explanatory – this is the percentage of the value amount that you are obtaining a loan for. So, for example, if you are getting a conventional loan and putting 20% down as your down payment, your "LTV" or Loan to Value ratio is 80%.

This can be a little confusing when looking at FHA loans, because although you may be at a 95.% loan to value ratio with the minimum down payment of 3.5%, your loan amount is actually slightly higher (for example, 98.189% in the scenario above) due to the upfront mortgage insurance premium.

Fast Tip: *When talking to your lender, ask to run your payments various ways, using different loan programs, down payments and other scenarios depending on your situation. This will give you a better idea of your options, and allow you to understand the process as you decide on the best fit for YOU!*

Bottom Line:

Just because you qualify for a home, doesn't mean you should purchase at that amount. Make sure that the monthly payment you are looking at will still allow you to continue living without over-extending yourself financially. Always speak to a loan officer or mortgage advisor who will take this into account and make sure that your personal budget fits the home and your lifestyle as well.

STEP 5: Documents, Documents, Documents!

In case you didn't know – there is a lot of documentation that goes into the Mortgage Process. From the documentation required to verify your identity, income, and assets, to the documentation you will sign before, during, and at the end (closing) of the home buying process.

Don't let this stand in your way, though! Most documentation that is required from you is standard documentation that you have easy access to already – such as your driver's license, paystubs, w2s, and bank statements. The documentation that is needed to be sign to begin the mortgage process is typically all available to be signed electronically these days, making that portion of the process that much easier for you.

The Mortgage industry has taken great lengths to simply this process for home buyers, without running into the potential for fraud and under-documenting such a large financial purchase and obligation. Leading up to the great "crash" of the housing industry, back in 2008-2009, lenders were not nearly documenting loans ENOUGH, with some loans even being called "no-doc" (no document) loans. How scary is that! After this, many lenders swung the opposite way, requiring an over-abundance of documentation. Over the years since, we have worked hard to come up with a balance of just enough documentation to prove what is required (income, assets, and verification of such), while not being over-burdensome to the home buyer.

Bottom Line:

Yes – there is some documentation that is required during the mortgage process. Due to some bad loans in the past, the mortgage industry is arguably one of the most heavily regulated industries in the United States. Take a moment with your loan officer before beginning the Mortgage Process to understand what documents will be required of you for your loan and your situation. It's not always a one-size-fits-all!

Mortgage-Trivia-Of-The-Day: *What is the origin of the word "Mortgage"? Well, you might be surprised (or not) to learn that it stems from the Latin route "Mort-" meaning death, and "-gage" meaning pledge, so quite literally it is a "death pledge". Learn more HERE.*

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STEP 6: Let's Do This!
Time to Start the Mortgage Process

You've now shopped for the best mortgage, the best price, and the best lender for you and your individual needs. You understand what impacts your credit score, rate, and know what you can afford. You've reviewed the documentation required, and now… *You are ready to purchase a home!*

The Mortgage Process Step-By-Step

1. Get Pre-Approved

Getting pre-approved is not just recommended anymore – it's REQUIRED in today's market. Consider your pre-approval letter your golden ticket when it comes to making an offer and buying a home. Without your golden ticket, you aren't going anywhere, and no one will take your offer seriously. In fact, most REALTORs in today's market will not take you to look at homes without your pre-approval letter in hand as well!

What is needed for a pre-approval?

Every lender has their own slight variation on what's required for the pre-approval process, and how long it takes. Some lenders may need a couple days, while others can complete the pre-approval in under an hour, with the required documentation in hand from you.

To get pre-approved, you will need to provide your basic information, such as current address, name, employment information, social security number, and date of birth. With this information, the lender is able to pull your credit, and also will get a picture of your monthly debts based on what's included in the body of your credit report.

In order to finalize the credit report, the lender will require you to provide evidence of your income and assets to verify that the information you provided verbally.

Once you have obtained the pre-approval letter, keep in mind that there is typically an "expiration date"; the reason for this is to make sure that after that amount of time has gone by, nothing has changed with your credit or financial picture. A lot can change in 30-60 days when it comes to your finances, so what may have been true last month, may not always be true this month. For that reason, after the expiration date, a lender may just need to ask you a few questions to verify everything is still the same, or even pull new credit depending on the length of time that has gone by.

Pre-Approval Tip!

Keep in mind that you don't have to know exactly which home you are purchasing in order to get pre-approved! This is the very first step in the process, and should be done before starting your home search.

2. Find a home you love, and make an offer!

This is the fun part!

Now it's time to go home shopping with your pre-approval in hand! Once you have found a home that you love with your REALTOR, they will assist you in the process of submitting an offer to purchase the home, using a Purchase Agreement. Contact Tony Janko for more detailed answers on this process.

3. Make Formal "Application"

Once you have an accepted offer or purchase agreement, signed by both you and the seller of the home, you are ready to move forward with the mortgage process and make what is called "formal loan application". By provided the address to your loan officer, along with the other information most likely collected during the pre-approval process, your loan officer now is required by regulation to treat your application as having formally consummated, requiring certain steps to take place. These steps include disclosing the loan (this is the electronic documentation we discussed earlier that must be signed by you), and obtaining your signatures within a certain number of days.

This formal application is taken on what you may have heard of as a "Uniform Residential Loan Application", or URLA, which is also sometimes referred to as your "1003" form. These are all just fancy terms for a Mortgage Application. You can view a standard 1003 here.

At this point, most lenders will also lock in your rate depending on the amount of time there is before you close, as well as other factors.

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4. Diving Deeper into Disclosures

After formally receiving your application, the disclosures required to be sent to you by your lender, and signed by you (again, typically electronically), can be as many as 50-90 pages long! Yes, that's right. But, technology has made this process so much simpler with electronic signature. If you would prefer to sign your disclosures by hand, this is ALWAYS an option, and for a first time buyer (or detail oriented buyer), this may be a great option to make sure you understand what you are signing and why it is required.

The most important document included in your disclosure package, is your Loan Estimate. Loan Estimates used to be called a "Good Faith Estimate" in years past. This estimate was standardized after the housing crash, and is required to not only be filled out a certain way, but on the same form as everyone else. You can see a sample Loan Estimate here.

Please keep in mind when reviewing your loan estimate, that it is still just an estimate. There are some fees on the loan estimate that can – and will – change, but quite often can only change within a certain amount or percentage. Some of the fees on the Loan Estimate will NOT change, unless they are re-disclosed so you are made aware of the changes. Any changes to rate and loan amount always require that the lender send out a new Loan Estimate (or re-disclosure) to make sure you're aware of the change that has occurred.

Disclosure Tip!

Don't be afraid to discuss the documents in your disclosures, and the amounts listed on your Loan Estimate. Make sure that you are 100% comfortable with the forms you are signing, and the figures listed within it. Not only should you make sure these figures are correct, you also want to make sure you understand the terms you are committing to.

5. Appraisal, Processing, and Underwriting

After signing your disclosures, your loan will move forward in the process. At this time, typically your Loan Officer or loan team will order your appraisal, then (assuming they have collected all of the required documentation from you), they will send your loan into "Processing". At this point, another loan team member called a "Processor" reviews all of the documentation submitted with your loan application, checks to make sure that everything required is in the loan file, and prepares the loan file for the Underwriter. If anything is found to be missing, or additional documentation is required, the Processor will request this before sending the file to Underwriting.

Appraisal

Often misunderstood or misinterpreted as a Home Inspection – your appraisal is quite frankly completely different. While a home inspection is technically "optional" in the home buying process (although highly recommended), an appraisal is a required part of the loan process.

An appraisal inspection is when a licensed Appraiser visits the home you are purchasing, checks for safety and other issues, and assesses a value based on a variety of factors including other comparable homes in the area that have closed within the last 6 months. The main goal of the appraisal is to establish a VALUE for the home, and to make sure that the true value of the home lines up with the purchase price established on the purchase agreement. If the appraised value is higher than the purchase price, that's great! You have just gained instant equity in the home. But, conversely, if the appraised value is lower, you could have a problem obtaining a loan for the same amount, and negotiations may need to take place.

Underwriting

Underwriting is when a trained underwriter reviews the file and ensures that the required documentation and verification for such documentation has taken place, that the requirements are met for the specific loan type or product, and guidelines are met as such. At this time, there could be additional documentation required by the underwriter to make sure that the guidelines for the loan are being met, or perhaps ask for additional verification, etc.

6. Final Approval and Clear to Close

Final Approval

Once the underwriter is satisfied with the loan file, and indicates that all guidelines and requirements have been met, the loan is in "Final Approval". Typically, this means that the underwriter does not need to review the file again, unless something major changes (payment goes up, terms of the loan change, etc.).

Clear to Close

Similar to Final Approval, the next step is "Clear to Close". These are the best 3 words you will hear in the mortgage process! This stage means that everything has been completed – the title work is finalized, you have selected your homeowner's insurance, etc., and the file is now ready to close. Now, great your hands ready, because it's about time to go to the Closing table and sign your documents!

7. Closing

Time to Celebrate!

You have reached your final destination, and the end of the mortgage process. This is the time to celebrate and take in the moment of buying a home. All of the hard work (or hopefully, not-so-hard work) will be worth it as you sign the paperwork to make yourself a homeowner, either for the first time or once again!

In the state of Indiana, the closing typically happens at the Title company who was chosen either by you or the seller, depending on how the purchase agreement was drawn up.

Did I mention that you will sign a lot of paperwork? Because, you will, in fact, sign A LOT of paperwork! Make sure you take some time throughout the process of signing the paperwork to understand what exactly you are signing, and what it means. Most importantly though, have a fantastic REALTOR by your side who can guide you through this and answer any questions should you forget what was discussed when you leave the closing table. (See, Tony Janko).

You will also receive the deed to the property at this time. The deed is the legal document that actually transfers ownership to you, making you the new owner of the property. This is quite separate from the "note" which is the loan documentation obligating you to the pay for the remaining debt owed against the property.

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Thank you for readying this Home Buying Guide – Simplifying the Mortgage Process! I hope you are able to take away something you have learned, and most of all, know that if you have ANY questions – ASK! I am always here to help answer questions, along with Tony Janko, about every step along the way.

REMEMBER: This is one of the largest purchases you will make in your lifetime. Make sure you have the right people beside you in the process, and always, always, ask questions and never stop learning.

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