Demystifying the Mortgage Process

Your complete 6-step guide to navigating Life's Biggest Purchase™

Brought to you by:

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The Home Purchase Experts℠
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Thank you for downloading Guaranteed Rate's eBook, "Demystifying the Mortgage Process"!

We at **Guaranteed Rate** believe that **purchasing a new home should be one of the most fun and exciting times in a person's life.** However, more often than not, it is perceived as a time of high stress, uncertainty and anguish - **something about as fun as getting a root canal.**

Well, we aim to change that, especially regarding getting a mortgage for your new home.

Introduction

In "Demystifying the Mortgage Process" you'll learn:

Don't feel like you have to read this document all at once. It's meant to help you at each step of the mortgage process. So read the sections as you move from one step to the next.

- How to shop for and 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 and timeline for getting a mortgage and buying a home

Our goal is to arm you with knowledge and provide insight into the mortgage process so that it's easy to understand and jargon-free so that you can focus on more important things, like finding a neighborhood that's right for you, choosing your furniture for your new house, or what color to paint the walls in your new kitchen.

We hope that you find this document useful and that it helps make purchasing a new home more exciting and fun. If you have any questions that pop to mind after reading this, you can call one of our Home Loan Experts at 1-866-934-7283, visit our site at GuaranteedRate.com or you can post your questions on our Facebook page (http://facebook.com/GuaranteedRate1) or tweet them to us @GuaranteedRate. We'd love to hear from you.

We wish you the best of luck finding the home of your dreams!

The Guaranteed Rate Team

Guaranteed Rate, Inc. is The Home Purchase Experts℠ at Guaranteed Rate have helped hundreds of thousands of people with Life's Biggest Purchase™ and provided more than $50 billion in home loans since 2000. With more than 174 offices and licensed in all 50 states, and Washington, D.C. we assist customers the way they want - face-to-face, over the phone or online. Visit GuaranteedRate.com or call us at 1-866-934-7283 for more information.

1 How to Shop for the Best Mortgage

Three Critical Must-Haves

Shopping for a mortgage is similar to shopping for any other product or service: you want the product that 1) best meets your needs at 2) the lowest possible price and 3) is provided to you by a company that is credible and trustworthy.

So let's break each one of these down:

1) The Product Best Meets Your Needs
2) The Lowest Possible Price
3) A Company That Is Credible And Trustworthy

1) The Product That Best Meets Your Needs

To figure out which mortgage is best for you, you should ask yourself two questions:

1. "How long do I see myself living in this new home?"
2. "How would I feel if my rate (and therefore monthly payment) increased in the future?"

Before we explain why these questions are the key ones to ask, let's review some mortgage fundamentals. **Mortgages come in two basic flavors: Fixed Rate and Adjustable Rate. A Fixed Rate mortgage is a home loan whose interest rate will not change (i.e. it's "fixed") during the life of the loan. An Adjustable Rate mortgage is a home loan whose interest rate *__likely will__*change (up or down) during the life (called the "term") of the loan.**

Within each category there are some pretty standard terms. **See the chart below.** The terms are how long the loan will be in place. For example, a 30-year fixed mortgage means that the mortgage will be paid off in 30 years and the rate will remain the same for that term. A 7/1 adjustable rate mortgage (often shortened to ARM) means that the rate will be fixed for 7 years and can adjust every year after that until it's paid off (usually in year 30), based on a benchmark interest rate that's identified in the mortgage contract.

Popular Fixed-Rate Mortgages	Popular Adjustable Rate Mortgages
30-year term	7/1-year ARM
15-year term	5/1-year ARM
	3/1-year ARM

What you'll usually find is that the shorter the term of the mortgage, the lower the interest rate is. So a 3-year ARM will usually be lower than a 5-year ARM, which in turn will be lower than a 30-year fixed mortgage.

OK, enough of the fundamentals for now.

Let's go back to the two questions that we mentioned at the top of this section about **length of residence and the possibility of rate and payment changes.** There's a tradeoff that you have to make between a **__lower rate__** and **__certainty of rate__** over time. **If you are fairly certain about how long you will be in your new home AND you don't want your rate to change, then you should try to match up that amount of time with the closest loan term available.**

Let's check out some examples.

1-year or 3-year ARM

If you are OK with **the possibility of a rate change** AND you want the **lowest possible initial rate,** then a 1-year or 3-year ARM may be the one for you.

5-year ARM

If you KNOW that you will **be in your place for four years** AND you **don't want the rate to change,** a 5-year ARM would probably be a good option for you. It would provide you the lowest rate for that amount of time (without any variability).

30-year Fixed

If you KNOW this is **your forever home,** then a 15, 20 or 30-year fixed rate mortgage may be best for you. **Its rate won't change, you can plan your monthly budget** based on a consistent payment and you can own the home at the end of those terms.

Bottom Line

What's the best mortgage? As cliché as it sounds, it depends. The mortgage that is best for you depends on how long you plan to stay in your home and how comfortable you are with the possibility of your rate changing. Talk with a home loan expert about all the tradeoffs to find the mortgage that's right for you.

Side Note

Some Specialty Loans that Might Work for You

VA Loans and FHA Loans

There are some specialty loans set up by the US government that you may qualify for, in particular **Veteran's Affairs Loans (commonly called VA Loans)** and **Federal Housing Authority Loans (known as FHA Loans).**

VA Loans are available to active-duty service members and veterans and their families. If you qualify, this program enables you to buy a home with no money down and no private mortgage insurance (also known as PMI). There are some disadvantages as well, including a strict appraisal process. Here's a good blog post on the advantages and disadvantages of VA Loans.

FHA Loans are loans backed by the Federal government and are intended to make home loans more affordable and accessible. Anyone may qualify, and in fact, these loans are gaining in popularity. A recent NY Times article pegged the percentage of FHA Loans at 40% of all loans. FHA Loans have lower downpayment requirements and no pre-payment penalties (fees that a borrower pays if the loan is paid off before its term is over). However, there are limits to how much you can borrow. See more information on FHA Loans here, as well as more on the recently launched FHA Streamlined Refinance Program here.

2) The Mortgage with the Lowest Possible Price

OK, so now you've got a handle on the mortgage options that could be right for you.

Now, you want one with the lowest possible price. How hard could that be? Just pick the one with the lowest interest rate, right?

Actually, that's wrong. Really wrong. What you want is the one that has **the lowest rate AND the lowest fees.**

Fees that can be a part of getting a home loan include fees charged to you by the bank or mortgage company (called "origination fees"), an appraisal fee (the cost to have a home independently valued by an appraiser), title fees (the fee charged to you by a title company to register your mortgage), fees paid to get a lower than market interest rate for a loan (called "discount points") and other potential fees that could arise during your mortgage process (examples could include document fees, other filing fees, and many more). The list is nearly endless, and these fees could add up to several thousand dollars or more.

Bottom Line

It's real money. So, though these fees may look miniscule when compared to borrowing several tens or hundreds of thousands of dollars to buy your home (you may not even write an actual check for the fees as you may be able to roll them into your total mortgage amount!), you have to think about it like this: Would you rather have that money in your pocket or spent on your mortgage? That's what we thought!

APR - The Number to Focus On

So by now you're probably asking yourself a question:

"How do I comparison shop a mortgage across all sorts of lenders to get the lowest rate AND lowest fees? That sounds like a major hassle."

Well, it certainly would be. But thankfully, there's a much less time consuming way to do it. It's called the Annual Percentage Rate (often shown as "APR" when you see or hear ads for mortgages).

For any sports fans out there, think about the APR like a batting average in baseball. You can quickly get a sense for how one hitter compares to another based on the batting average.

Quoted rates are based on numerous favorable assumptions. For example, that the applicant's credit is good, that they have enough income to qualify and can fully document their income and assets, as well as whether they will occupy the house as their primary residence. If a particular applicant doesn't meet all the assumptions, the rate will likely be higher.

It's the same with APR, except that a higher batting average is good in baseball whereas **a higher APR for a loan is bad - it means a more expensive loan for you.** The APR is a standardized way to compare different players - I mean, loans - that accounts for both the interest rate AND fees that are charged by a lender to a customer when getting a mortgage. (FYI - government regulation requires all lenders to show an APR and assumptions when they are showing interest rates, so if you are getting loan interest quotes without APRs from someone, ask for the APR, fees and assumptions - or run away fast!)

So let's look at an example pulled off the Internet in May 2012 for a 15-year fixed mortgage.

Institution	Interest Rate	$ paid for points	Other Fees	Total Fees	APR
ABC Mortgage Co	3.125%	$0	$1,275	$1,275	3.186%
Big Bank A	3.000%	$3,000	$1,893	$4,893	3.233%
XYZ Financial Co	3.000%	$5,085	$124	$5,085	3.248%

The names have been changed to protect the innocent , and any name similarities to actual banks or mortgage companies are coincidental.

If you made your decision on interest rates alone, you would choose Big Bank A or XYZ Financial Co. But once you factor in APR, you'd choose ABC Mortgage Co. The difference between ABC Mortgage Co. and Big Bank A is over $108 per year and over $1,624 over the life of a $300,000 loan.

Bottom Line

You want to find the loan that's right for you (Section 1 above) with the lowest APR for a particular type of loan - Fixed or ARM.

3) The Mortgage Provided to You By A Credible and Trustworthy Company

Finally, you want to get your mortgage from a company that "says what it does" and "does what it says," a company that's been in business for 10+ years, and one that will get your loan closed in a reasonable amount of time, typically 30 - 45 days.

There are a lot of companies and individuals providing mortgages. A recent search on Google for "mortgage companies" turned up over 101 million search results. To find one that's trustworthy and credible you can do a number of things: talk to your friends, talk to your real-estate agent, search Google or Yahoo ("low rate mortgage," "home loan refinance," etc.), talk to your bank, etc. **Once you have a short (or not so short list!) of companies, check out their web sites, their Facebook pages and other third party review sites (like the Better Business Bureau) to get to know them better.**

Also, non-bank mortgage lenders are required to have a valid, up-to-date license for every state where they do business. **Be sure to ask your home loan expert or loan officer for his or her NMLS (Nationwide Mortgage Licensing System) license or registration number.**

Research for credible and trustworthy companies

Websites
Facebook

Ask NMLS
Talk to experts

When you get to a really short list, contact two or three of them - either by calling them or submitting your information to them via the web. Have each of them disclose the fees in writing that you will be charged. **Talk to the home loan experts at each company. Get comfortable with the one that you choose. After all, she or he will be your partner in transacting your life's biggest purchase!**

Bottom Line

Narrow the list down and find the one that is most credible, who can provide you the mortgage that fits you best (section 1 above) and deliver the lowest price (section 2 above).

2 The Single Most Important Item for Getting a Low Mortgage Rate

As we mentioned above, there are lots of factors that determine your mortgage rate.

But when all things are equal (i.e. the loan amount, the type of property, the value of the property) and even when they are not exactly equal, **the primary determinant** of **YOUR home loan rate is YOUR credit score**. In fact, your credit score also impacts other forms of credit and insurance that you may apply for, like credit cards, car loans, and property insurance policies.

So what is a credit score, where does it come from and what determines it?

Your credit score is a three digit number that's produced by a company called a credit bureau. There are three primary credit bureaus in the US: Transunion, Equifax and Experian, and each one produces a unique credit score for you. (You may also hear of a FICO score. This is another type of credit score lenders may use. It is produced by Fair Isaac Corporation).These companies collect information about the accounts that you have open and (those that you've closed), your other payment obligations and your payment history from various companies and third-party sources, including credit card companies, lenders, banks, municipalities and collection agencies. This information becomes the detail on your credit report.

Each credit bureau crunches this information in slightly different ways, so you will actually end up with three credit scores. But there are five primary factors that are used by each company:

Breakdown of Credit Factors:

1. Payment history on things like credit cards, car loans, rent, etc. (~35%)
2. How much you currently owe (~30%)
3. How long you've had credit (~15%)
4. When you last applied for credit (~10%)
5. The types of credit that you have (~10%)

To read more about these, check out: http://www.agoodcreditscore.com/

Your scores will range from 300 to 850. The higher your credit score, the more attractive you are to a mortgage lender, as it shows that you can manage your credit wisely and you pay your obligations on time. Lenders want to do business with people who are likely to keep current with their mortgage payments, so they will provide lower rates to the less risky borrowers, and progressively higher rates to more risky borrowers.

Below is a chart that shows credit score ranges and the evaluation of them.

400 500 600 700 800 850

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

According to a recent posting on MyFico.com, someone with a FICO score of 620 - 639 may pay nearly 21% more in monthly payments than someone in the 760 - 850 range. See chart below:

FICO Score	APR*	Monthly Payment
760 - 850	3.456%	$1,340
700 - 759	3.678%	$1,377
680 - 699	3.855%	$1,407
660 - 679	4.069%	$1,444
640 - 659	4.499%	$1,520
620 - 639	5.045%	$1,619

* APRs assume a $300,000, 30 -year fixed mortgage with 1.0 points and 80% Loan-to-Value Ratio. Assumes mortgage is for a single family, owner-occupied property.

If you're at the beginning of your home purchase process, check your credit score and try to improve it if it's low, before continuing on with your home purchase. Here's a good article on how to improve your credit score.

Quick Tip: It's critical that your credit report is accurate, as someone with a score between 760 and 850 could be offered an interest rate as much as 10 - 25% lower than those with a score between 620 and 640! So you should check your reports and fix any errors that may be there. The credit bureaus must provide you with a free copy of your reports annually if you request it. Here's a great site to get your reports so that you can check them for accuracy: https://www.annualcreditreport.com/cra/index.jsp

Bottom Line

A strong credit score is a major asset, and you should do all that you can to attain and maintain a good one. Your credit score is the primary determinant of your interest rates (with all other things being equal) for mortgages, other loans and credit cards. Keep your credit score high by paying your bills on time and keeping your outstanding debts as low as possible. A high credit score will result in lower monthly payments, and it will give you more money to spend on other things - like furniture, landscaping and improvements, to name a few - for your new home.

3 Dos and Don'ts Before You Even Apply for A Mortgage

OK, so now you know how to shop for a mortgage. Your next step is to do everything you can to make the process go as smoothly as possible. You can control much of this prior to even submitting an application.

Keep your current job	Keep using credit and stay current on existing accounts,rent or home loan payments	Maintain your insurance

Here are some of the key dos and don'ts that you should keep in mind prior to seeking a mortgage.

Most of these dos and don'ts are targeted at maintaining a consistent and regular financial picture for the credit bureaus (who provide your credit score) and your lending company or bank.

DO

- Stay in your current home or apartment
- Continue to make and stay current on your rent or home loan payments
- Continue using your credit as normal and stay current on all your existing accounts
- Stay working at your current job
- Maintain the same insurance company(ies)

DON'T

- Begin any home improvement projects (including buying new furniture), especially if you are doing a refinancing of your current mortgage
- Apply for/open/close/max out/pay off any credit card acounts
- Make a major purchase (including: car, boat, jewelry, new gym or new cell phone account)
- Consolidate your debt onto one or two credit cards
- Change bank accounts or transfer any balances from one account to another

Don't get us wrong- eliminating credit card debt and paying off your balances are generally good things to do; however, if you're about to start the mortgage process, you don't want to present a drastically different credit profile as it could cause unnecessary delay.

Bottom Line

Maintain a consistent financial profile. You don't want to raise any red flags that your financial and spending history is not an accurate representation of the type of borrower that you really are.

4 What Lenders (Really) Care About When Qualifying You for a Mortgage

Now you know how to shop for and compare mortgages, the importance of a good credit score and what to be aware of before you apply for a mortgage. Let's go through how a lender figures out how much mortgage you can afford.

A general (and very rough) rule of thumb is that you can afford three times your gross annual income on a home loan. So, if you make $40,000 per year, you could afford a $120,000 mortgage.

However, this calculation is too simplistic, as it doesn't really account for the ability of your monthly budget to handle a mortgage payment. **Lenders take a big picture view of all of your obligations when trying to figure out a mortgage amount that you can manage.** Obligations like property taxes, condominium assessment and fees, property insurance, credit card payments, auto loans, student loans and others may impact your ability to take on a mortgage. In actuality, a lender looks at your monthly expense picture in two ways: "property-related monthly expenses" and "all-in loan and credit related monthly expenses."

Property-related monthly expenses include your new monthly mortgage payment, property taxes, home owner's insurance, condominium/co-op fees (if applicable) and private mortgage insurance (often called PMI*). **Lenders would like to keep your property-related monthly expenses in the range of 28% - 38% of your gross monthly income or less.** So in the case where you make $40,000, your property- related monthly expenses should be in the range of $933 - $1,267 ($40,000 divided by 12 months times .28 to .38).

*PMI is insurance that you may have to pay to a lender if your loan amount is more than 80% of the actual value of the home you are buying.

Furthermore, lenders will want your total "all-in loan and credit related monthly expenses" not to exceed 50% (+/- 5%, depending on lender and type of loan) of your gross monthly income. So, using the example above, you'll want to have your property related expenses, plus things like car loan payments, credit card payments, alimony or child support, student loans, retail cards, etc. at or below $1,667 ($40,000 divided by 12 months times .5).

The Downpayment Effect, Equity and Loan-to-Value Explained

Another adjustment you can make that can impact your monthly payment and lower your rate is to increase your downpayment. The downpayment is your initial "equity" (your ownership) in your new home. Most lenders will require a minimum 5% downpayment (with some exceptions for specific loan types). Obviously, **the larger the downpayment you make, the smaller your mortgage will be and the lower your monthly payment will be as well.**

Furthermore, lenders also may base their interest rates on what they call LTV - Loan-to-Value. It's calculated by dividing the mortgage amount by the property value. The higher the LTV, the higher your interest rate could be. The lower the LTV, the lower your interest rate could be. So, in the example above, if you put down 5% on a home that's worth $250,000, your downpayment would be $12,500 (5% times $250,000), your loan amount would be $237,500 and your LTV is 95% ($237,500 divided by $250,000). Note that lenders will calculate your LTV based on the lesser of the purchase price or the appraised value.

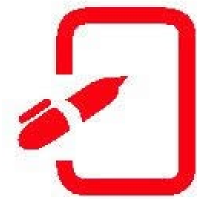
Check out this link for calculators on GuaranteedRate.com to help you figure out how much you can borrow.

Quick Tip: When you are talking to a lender, and if you are fortunate to have available funds for different downpayments, ask how much your rate might change with a lower LTV (i.e. by making a larger downpayment).

Bottom Line

You don't want to get overextended and take on a mortgage that your monthly budget cannot handle. And neither does your lender. Keep your credit card payments and other monthly expenses like auto loans, as low as possible in order to provide yourself with the most mortgage payment flexibility. Or like an old friend says, "When you have the choice of getting a really nice car or a really nice house, get the nice house and skimp on the car." We couldn't have said it better ourselves.

5 Mortgage Documents… Revealed



We're not going to sugarcoat it -there are a lot of documents involved in getting a mortgage.

In fact, there are probably over two dozen different documents and dozens of total pages of documents involved in getting a mortgage.

But don't get discouraged. These documents won't come at you all at once, and there are things that you can do to make this go as smoothly as possible. **First, control what you can control. Give yourself enough time to gather the documents that you will need to contribute to the mortgage process.** Stagger this over a few days so it doesn't feel like a massive amount of work all at once.

Second, look at this as an opportunity to learn something new. Take some time to understand the other documents that are involved, at least at an introductory level, before you're hit with them. After all, this is your Life's Biggest Purchase™, so you might as well become somewhat familiar with everything that's involved. And you may be able to help friends or family members when they decide to purchase a home. We'll provide you with some links to help you learn about these documents at a more detailed level.

There are various reasons for each of these documents, but they basically boil down to five:

Identification — Proof that you are who you say you are;

Verification that you can take on a substantial debt like a mortgage and repay it in a regular and predictable way;

Details of the sale such as: Who is the buyer? Who is the seller? When is the transaction taking place? Are there any other things included in the sale (for example, a ping pong table, piano, furniture or other property)?

Documents related to the property itself. In order to value, identify and register the property's ownership and protect it in the case of damage, like the property's appraisal, property's survey, title of the property, how the property is owned (i.e. by an individual, a couple or legal entity like a trust) and proof of home insurance to name a few;

Disclosures that the lender is required by government regulations to make to you. These are typically standardized documents and include things like: what you are paying for, what are the rates, what funds you need to bring to closing, funds you may be getting refunded to you at closing and your rights as a buyer.

Bottom Line

There's a lot of documentation that occurs in the mortgage process. Get an early jump on the items that you need to supply, and chip away at them over time. Get familiar with the other documents so you don't feel confused or blindsided at closing.

Side Note

Trivia Timeout

Putting this document together, we wondered, "What is the origin of the word mortgage?" It's certainly not a word that's easy to decipher, and it has a very specific meaning in English, namely a document that is recorded detailing that a loan is secured by real property. So how did it come to be?

Well, according to WordOrigins.org:

"In the word mortgage, the mort- is from the Latin word for death and -gage is from the sense of that word meaning a pledge to forfeit something of value if a debt is not repaid. It appears in Old French as gage mort as early as 1267…

So mortgage is literally a dead pledge. It was dead for two reasons, the property was forfeit or "dead" to the borrower if the loan were not repaid and the pledge itself was dead if the loan was repaid."

We hope that any and all mortgages that you take on in the course of your life are of the latter type!

OK, enough trivia - it's back to Demystifying the Mortgage Process!

Most Common Documents Required in the Mortgage Process

Document	Who Provides It	When
Tax Returns (at least 1 year, or typically 2 years if self-employed or commission based)	Mortgage Applicant (you)	With mortgage application
W-2s (last 2 full years) showing income from your employer(s)	You	With application
Pay stubs (over most recent 30 day period)	You	With application
Bank statements (last 2 months of statements)	You	With application
Investment account statements (last 2 months)	You	With application
Credit Report	Credit agency, typically through the lender	With application
Pre-approval letter	Lender (to you)	After credit score and preliminary income and asset information is given to lender
Sales Contract (if home purchase)	You and Seller	When you agree to pricing and terms for the home you are buying
Home Inspection	You (via your home inspector)	Within 5 days from seller's acceptance of your offer
Mortgage Application	Lender	Start of refinance / home purchase
Good Faith Estimate (GFE)	Lender	Within 3 days of getting the application
Truth-in-Lending Disclosure (TIL)	Lender	Within 3 days of application
Property Appraisal	From appraiser, arranged through lender	Usually 7 - 14 days after application
HUD-1 Statement	Title company via lender	1 day prior to closing
Title Insurance	Title company	At closing
Copy of your Driver's License or ID	You	At closing
Deed	Title company	At closing
Mortgage Note	Lender	At closing
Proof of home insurance - if required by your lender	You	3 - 5 days prior to closing
Survey	Seller, if applicable	At closing (if needed)
Proof of required repairs - if necessary	Seller	At closing
Money to close *Need wire*	You	At closing

6 Ready…
Set…
Go!
Let's Start The Mortgage Process

Let's see where we are. You've shopped for your mortgage, and you've found one that fits your needs. You've found a lender that you like. You know approximately what size mortgage you can afford, what impacts your interest rate and the documents that will be required...

Ladies and Gentlemen, start your engines - you are ready to apply for a mortgage!

Let's take a look at the mortgage process in further detail.

1) Getting a Pre-Approval
(useful for when you are buying a home)

The section below applies primarily to purchasing a home; however, refinancings follow similar (but fewer) steps.

Before you even submit a formal application, you can get "pre-approved" for a mortgage by a lender. You will provide some basic information about your income and assets to your lender, and your lender will also "pull your credit", also known as "obtain your credit score." (If you haven't read Section II on the importance of your credit score, you should check it out now).

This information will give your lender enough information to either (1) provide you with a pre-approval or (2) require more information. Let's think positively and assume that you will get a pre-approval. The pre-approval is basically a letter from your lender that is a conditional promise to lend you a certain amount of money using current rates and expected monthly payments based on those rates. A lender can issue a pre-approval in about an hour.

You don't need to know the specific house that you are buying to get a pre-approval.

The pre-approval will be good for a specific time frame, typically 60 - 90 days. It is non-binding (for both you and the lender). Be aware that the rate of your pre-approval may change from the day you got it to the day you lock your loan (and/or your purchase occurs), or you may decide on a different loan type or term, so your actual monthly payment may vary if you move forward with your loan.

Quick Tip: Getting a pre-approval is not a required step in the mortgage process. However, a pre-approval provides you with a certain level of comfort and negotiating power. It gives you the information that you need to feel comfortable about the houses you'll be able to afford, and it also shows sellers and real-estate agents that you are a qualified and serious buyer. It may also help you win a competitive bid over other potential buyers, or it could help you negotiate a lower purchase price.

2) Submitting an Application

For a good summary of the events following your executed property purchase agreement, see the Purchase Timeline in the Appendix.

Once you find your home (and hopefully it's the home of your dreams!) and you have a contract pending to buy it, then you should notify your lender that you want to move your pre-approval to a formal application. Now the next step is for you to apply for the loan.

The application for a home loan is a standardized form used by all mortgage companies and home loan lenders. The mortgage application is formally called Uniform Residential Loan Application and sometimes referred to as the 1003 (the "ten oh three"). You can see one here. We'll just keep it simple and call it the mortgage application.

You can submit an application to a lender by filling it out yourself, verbally on the phone with the help of a home loan expert or with some lenders, submitting it online.

If you were already pre-approved, you will not have to do this again.

As you work with your lender to figure out the loan that's right for you, you will also authorize your lender to pull your credit. You may be able to lock in your rate at this point, if it makes sense to you. Be sure to talk to your home loan expert about the pros and cons of locking your rate.

3) Formalizing your Application - Documents, Good Faith Estimate and Truth-in-Lending Disclosures

In addition to the mortgage application itself, the lender will also send you a checklist of the documents that you need to provide (as mentioned in Section 5).

Additionally, the lender will send you at minimum two documents (within three days of the application) that are required by law: the Good Faith Estimate and the Truth-In-Lending document. In some states you may get more.

The Good Faith Estimate, often shortened to GFE, is what it is described as – an estimate of your loan terms, monthly payments and any fees that could be associated with the transaction. The intent of the GFE is to alert you to the costs associated with obtaining the loan including any applicable lender fees, title fees, estimated taxes, recording fees and any other potential costs that you may incur. You can see a sample GFE here.

The Truth-In-Lending Disclosure form, sometimes referred to as the TIL, provides you with the total amount of your mortgage, the APR for the loan, what you will be paying in finance charges over the term of the loan and the payment schedule over time.

Quick Tip: Don't be afraid to ask your mortgage expert about these documents and the figures that are in them. You want to make sure that they are right and that you understand what your commitment is.

4) Getting an Appraisal, and Submission to Lender Underwriting

You're getting closer to the end… now that your application is moving and your documentation is flowing, it's time to complete your submission and get everything submitted to your lender. **Ultimately, it's your lender's underwriting department that will review all the documentation and make the formal decision to approve your loan.**

Appraisals typically range in cost from ~$250 - $600, depending on the location and type of property.

The next step to complete is to get an appraisal of your property. Your lender will arrange this for you. The appraiser will be unaffiliated with your lender and typically will be randomly assigned from a pool of available appraisers.

A licensed professional appraiser will schedule some time to visit the property, take pictures, describe the condition of the property, analyze the neighborhood and research recent sales of comparable properties to establish a value of the property. He or she will provide a written report that will be given back to your lender and to you. Here's an example of an appraisal.

The underwriting department will verify all the information that's been provided in the process (the application, documentation and appraisal) and provide an approval (or denial) of your loan application based upon your file's conformance to the applicable loan guidelines. The lender's underwriting department may ask you for more information before its decision is made. Don't freak out - this is very common and they may just need some updated paperwork.

Quick Tip: Before you move to schedule an appraisal on the property that you are interested in (and if you have time to do it), it's probably a good idea to get a home inspection first. You would typically do this within five days after the seller formally accepts your offer. The inspector will help you better understand the condition of the home. You might really like the kitchen in your potential new home, but if the basement is full of mold, it might not be attractive to you any longer. No sense in paying for an appraisal if the inspection comes back with some potential deal-breaking problems.

5) "Clear to Close"

These are three of the best words in the whole process – Clear to Close. It means that your mortgage has gotten the OK from the underwriting department to get closed. Once this happens, all you have to do is agree on the closing date. This can be harder than it sounds, especially if you're coordinating with the various parties involved, like attorneys, agents, and the seller. But don't give up… you're just about done.

Once you get your closing date set, you will receive one final document from your lender - the preliminary HUD-1 Settlement statement. Here's what it looks like. You should typically get this at least 1 day prior to your closing. This document shows the actual costs that you will incur in closing your mortgage, and how much money you need to bring to your closing (or how much you'll be getting refunded to you). And it will show how these actual costs compared with the estimates that were disclosed on your GFE.

6) Closing

This is it. The end of your journey. You've made it - The Closing! In the case of a home purchase, your closing will typically take place at a title office. If you are refinancing, you can probably schedule it to take place in your home.

You will sign and initial A LOT of documents at your closing. Remember that list from Section 5? You will be tempted to rush through this— **Don't**. Your mortgage is a massive commitment, and you want to make sure that everything is right. If it's not, don't be afraid to stop the process, get clarity and get the issue fixed- even if it feels like you are slowing everything down.

If you are refinancing a mortgage on your primary residence, there is a 3-day right of rescission before the loan funds. This means that you can cancel the refinance if you change your mind.

Quick Tip: Don't put off asking any or all questions that you may have until the closing. As questions pop up, call or email your agent or home loan expert at that time. After all, that's what they are there for. You'll feel more knowledgeable and comfortable at the closing as a result.

During the closing and in addition to all mortgage-related documents, you will receive from the seller a deed to the property. The deed is the document that spells out the legal identity of the property and transfers title/ownership to you. The title company will take care of registering the property in your name with the recorder of deeds, typically at the county clerk's office.

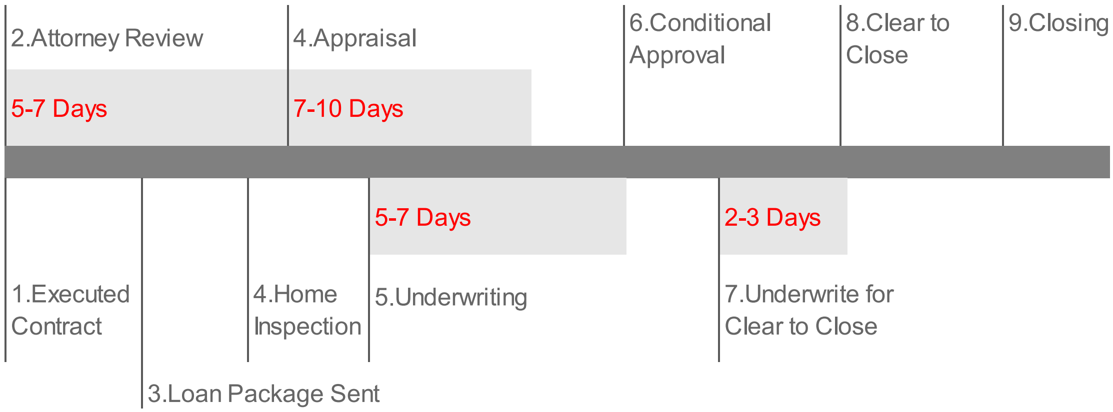
At the end of it all, the seller will hand you the keys and the home is yours. Congratulations!

7) Go Celebrate! You've earned it!

Enjoy your new home!

Purchase Timeline

The steps involved in your purchase closing



1. Executed Contract	This is when the clock starts ticking to meet the closing date agreed to on your contract. Please forward a copy of the executed contract as soon as possible so we may have the loan package prepared.
2. Attorney Review Period	Your contract should have a provision that allows your attorney to modify the contract for you (usually it's a 5 day modification period) — before you sign, make sure your contract allows this. Your attorney will review the contract, and propose modifications if needed. Your attorney should confer with you during this process so that you can agree with what your atty is negotiating. If a problem arises, and the two sides cannot agree on modifications, the contract can be declared void, and any earnest money will be refunded to you - this rarely happens. Once both sides have agreed on the modifications - the attorney review periods begin.
3. Loan Package Disclosure	Your loan package will be sent to you within 24 hours of receiving the executed contract.
4. Home Inspection	This is not required for your approval, but is highly recommended in any purchase transaction. This will be used to confirm there are no major issues with the home that would need to be rectified or a reduction in purchase price agreed upon.
4. Appraisal	An appraiser will visit the property and compare this to recent sales in the area to ensure the purchase price is a fair market value. Once completed this will go to the underwriter for review and you will receive a copy for your records.

5. Underwriting

The underwriter will review all documentation related to the loan to make an approval decision based on the risk involved in the loan.

6. Conditional Approval

The underwriter will provide an approval and typically may request additional documentation (known as conditions). Some of these may be items required from you however most of these will be internal conditions that we will clear up for you.

7. Underwrite for Clear to Close

Your loan has been final approved and you can now schedule closing.

8. Clear to Close

The underwriter will now review the final items to provide the final approval (otherwise known as a clear to close) for the loan. Once approved you may then schedule closing.

9. Closing

Complete the closing and take possession of the keys. Congratulations you own your new home!

Recommended References

Buying a Home from the US Department of Housing and Urban Development

Tips for buying a house from CNNMoney

How Buying a House Works from HowStuffWorks.com

Homebuying Dos and Don'ts and Choosing a Neighborhood from HGTV's Front Door

Buying a Home Checklist from TheNest.com

Shopping for a Mortgage from the US Federal Reserve

Cut Your Closing Costs from SmartMoney

Choosing a Closing Attorney from Boston.com

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