

Loan Application



Steps in the Loan Application Process

For a competitive edge in buying a home, your best choice will be to work with a local mortgage lender recommended by someone you know that has worked with them recently rather than a lender in Idaho or India who **appears** to save you money on your closing costs or interest rate.

It has been my experience that online mortgage factories often offer loans with hidden costs, which more than compensate them for their so-called lower closing costs or interest rate to the borrower. These lenders are confident that you do not know the right questions to ask to protect yourself. Unfortunately, this includes some beloved credit unions that rely upon your loyalty over good sense when it comes to home loans.

There are many other reasons using a local lender, as well, including the lender's network of local appraisers, the convenience factor for you if additional information is required, and the lender's ongoing relationship with local title companies.

For the sake of this discussion, I am going to assume that you will follow my recommendation to work with a local lender, and these steps are based upon that assumption:

1. You make application for a pre-approval

You will speak with, and possibly even meet with, a local lender before we begin looking at homes and provide most, if not all, of the required documentation and information (listed below) – possibly by fax or email.

2. You make a formal loan application

You will speak with, and probably meet with, a local lender to provide any documentation or information that you did not previously provide. You will sign required forms and pay for an appraisal (approximately \$400) and credit reports for each borrower (approximately \$65 each). At this time, the lender is required to provide you with the following information (and I caution you to keep this information handy rather than pack it for your move):

- **Truth-in-Lending disclosure** - This disclosure includes a summary of the total cost of credit, such as the Annual Percentage Rate (APR) and other specifics of the loan.
- **"A Home Buyer's Guide to Settlement Costs"** - This guide is a government publication that describes the closing or "settlement" process, associated costs, and your rights.
- **Adjustable-Rate Mortgage (ARM) disclosure** - This disclosure includes information about terms and costs associated with an ARM, past performance of the index to which the interest rate will be tied, and the "Consumer Handbook on Adjustable-Rate Mortgages."

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- **Annual Percentage Rate (APR) information** - This is the cost of credit expressed as a yearly rate. The APR includes the interest rate, points, broker fee and any other charge you're required to pay in order to obtain your mortgage loan.

3. Lender orders an appraisal

The appraisal is an opinion of value based upon certain criteria established by the lender and the secondary market. The appraisal will verify the fair market value of the property that will be used as collateral for your loan. The appraised value must equal or exceed the sale price.

4. Lender verifies your personal information

If your loan is pre-approved, this step has already been completed. The lender may accept the documentation you provide as adequate verification, OR may verify the information further through phone calls or mailing a Verification of Employment form (VOE) and/or a Verification of Deposit form (VOD).

5. Lender evaluates your credit history

If your loan is pre-approved, this step has already been completed. The lender will order a credit report for each borrower to obtain a complete credit history. This information is used to determine if your payment record satisfies the requirements established by the lender.

6. Underwriting

All the information that is relevant to your loan – the information you provide and the appraisal – is submitted to a loan underwriter, who will issue the formal final approval for your loan. Occasionally, the underwriter may request additional information from you or the appraiser before issuing the formal final approval. When I call to tell you “Your loan is approved!” it means that your loan is out of underwriting.

7. Closing

Congratulations! This is the final step of your loan process. After you sign the mortgage and other paperwork required by the lender, that new home will belong to you.

See attached checklist on the next page.

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Documents and Information Needed for Loan Application:

- Social Security numbers and birthdates of all applicants
- Income verification (2 most recent pay stubs with year-to-date earnings)
- Tax information (W-2's and tax returns for 2 most recent years)
- Employment verification (Employers names, addresses, phone numbers and email addresses)
- Bank account information (2 most recent statements for all bank accounts)
- Assets (2 most recent statements for IRA's, 409K's, CD's, Stocks and Bonds; if you have individual investments, bring a brokerage statement with name of the stock, number of shares and the amount per share)
- Personal property information (cars, furniture, retirement accounts, jewelry, valuable collections and life insurance)
- Credit information (2 most recent statements for all creditors)
- Current housing information (If you own: address, market value, original loan amount, balance due, monthly payment amount, copy of listing if property is currently for sale; if you rent: copy of lease)
- New home information (Receipt for earnest money deposit, copy of purchase contract and listing information)
- Copy of gift letter, if applicable (Letter from donor stating amount of gift and that money does not have to be repaid)
- Self-employment information (2 most recent years profit and loss statements and balance sheets)
- Divorce/separation information (Copy of the divorce decree or maintenance statement and any amendments, 12-month history of child support and/or alimony payments)
- In-school/student verification (If you don't have 2 years of employment history, you will need transcript and/or diploma to verify student status)
- Rental property information (If you own rental property, you must provide addresses, copies of leases, account numbers, mortgage lenders' names, addresses, and phone numbers)

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Source: Margaret Woda and Freddie Mac

