



SHOPPING FOR A LOAN

The process of financing the purchase of a home begins with a first mortgage lender. It is imperative that the buyer be qualified for a loan that is sustainable over the loan term and does not contain features that could threaten the homebuyer's ability to meet the obligation of the mortgage. The buyer should contact many lenders to obtain the most favorable mortgage rate and terms. The mortgage loan should have a fixed rate of interest with a payment term not exceeding 30 years.

PRE-QUALIFICATION

Based on income, expenses, credit history, liquid assets, loan-to-value and debt-to-income ratios, the lender will pre-qualify the buyer to determine the first mortgage loan amount for which the buyer may be formally approved. In knowing the loan amount available for financing, the buyer can then go into the market place seeking to purchase an affordable home based on his or her financial ability to acquire the property. A pre-qualification is an estimate of a loan amount for which a buyer may receive a firm commitment for financing if all underwriting guidelines are met, including those of the Purchase Assistance provider. A pre-qualification, however, is not a commitment to fund a loan until all conditions of the lender's underwriter are met.

PRE-APPROVAL

The lender may offer to pre-approve an applicant for a certain loan amount with a condition that the home may be purchased no later than a specified date. To obtain a pre-approval, the buyer must go through the entire loan processing procedure from application to commitment. A prospective borrower is encouraged to not enter any other additional debt during this time which, may disqualify them for a loan

SUBMITTING A MORTGAGE LOAN APPLICATION

The lender is responsible for finding the right loan for the buyer and for assisting the borrower through the loan origination process for which there are costs associated. The lender is required, under the Real Estate Settlement Procedures Act (RESPA), to provide the borrower with a Good Faith Estimate (GFE) of settlement charges that must reflect the same charges as those on the final Closing Disclosure (CD) provided the buyer for comparison 3 days prior to the closing date. RESPA mandates that lenders fully inform borrowers about all closing costs, lender servicing fees, escrow account practices and business relationships between closing service providers and other parties to the transaction. For more information about RESPA, visit www.hud.gov/respa or call 202-708-0502.



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The buyer should be prepared to complete a loan application. Specific documentation will be required:

- Paystubs
- Income tax returns with W-2 forms
- Sales contract
- List of debts including account number and lender's contact information
- Checking account statements from the past 6 months
- Current savings and other investment account statements
- Proof of any other income

Also, earnest money deposited with the sales contract, payment for a professional appraisal of the property, a property inspection and a credit report will be required before the loan processing procedure begins. Payment for these services, fees and charges are considered pre-paid items, the cost of which is attributed to the Purchase Assistance provider's requirement that the buyer invest an amount equal to 1% of the sales price into the transaction which shall be supported by receipts or cancelled checks as proof of payment.

The lender must be given approximately 4 to 6 weeks to complete the loan origination and processing procedure required for underwriting the loan before closing. A complete, factual, accurately documented application including all financial information from the buyer is imperative to the process that leads to loan approval.