Mortgage Process: Do's & Don'ts

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Your mortgage loan application process can become simpler with some advance planning. Similarly, ensuring a smooth post-application process involves being mindful of activities that could potentially delay your closing.

Do's when you plan to apply:

Keep an ongoing paper trail

You'll need to maintain ongoing documentation related to income, employment verification and current debts/ obligations -- keeping your W2s, tax return documents, pay stubs and bank statements handy.

Provide money deposit receipts

This includes an earnest money deposit from your personal bank account or gift funds. Gift funds are acceptable only if certain criteria are met -- reach out to your loan originator for clarification here.

Maintain employment and income

You'll need to show stability through the mortgage application period. This process goes much smoother if you keep your income steady and avoid major changes. Pay raises/ promotions are exceptions to this expectation, though

Create a savings plan

Buying a house is exciting, yes, but focusing on saving during this period is key. You'll need funds for an earnest money deposit, down payment and/or closing costs, and major purchases could impact your credit. Pay your bills on time and be mindful of spending habits.

Understand credit pulls

Your lender may pull a new credit report just prior to closing to check for new debt. If your recent credit activity raises a concern, you may be asked to explain.

Ask questions and communicate

At any point in the process, your team is there to help you and answer any question that might come up. Trust their expertise, communicate effectively and often, and learn what you can about the loan process to set yourself up for success.

Don'ts after you apply:

Close or open bank accounts

Before you open, close, or transfer money across accounts, check with your Loan Officer on how this may affect your qualification or documentation. Changes could result in a delay for the loan origination.

Make large bank deposits

If you deposit any money outside of your automated payroll deposits, especially cash, check with your Loan Officer on the documentation you will need to provide to verify their sources.

Change jobs, employer or employment

You can change jobs, as well as amend any tax returns, but you'll need to make your Loan Officer aware because it may impact your qualification and documentation. If shifts do occur, you may need a new loan approval.

Make major purchases

This involves large spending prior to or during the contract period. It's tempting to get new furniture, a car or house appliances, but these purchases will hurt your savings, debt-to-income ratio and credit utilization.

Open a new line of credit

This also includes closing credit lines, co-signing on loans, or making major purchases on credit cards.

Panic, stress or isolate

Your team wants you to be successful, knowledgeable and confident during this process. Whatever your finances, be sure to include all debts and liabilities on your mortgage application. Keep the lines of communication open and trust they want you to get across the finish line.

First-Time Homebuyer Budget Worksheet

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CATEGORY	MONTHLY BUDGET AMOUNT	MONTHLY ACTUAL AMOUNT	DIFFERENCE
INCOME:			
Salary/Wages (after taxes)			
Alimony, Child Support, VA Benefits			
Other Income			
EXPENSES:			
HOUSING:			
Rent			
Renters Insurance			
Electricity/Gas/Oil			
Water/Sewer/Garbage			
Cable/Internet			
Telephone (Land Line, Cell)			
SAVINGS & INVESTMENTS:			
Savings & Investments			
FOOD:			
Groceries			
Dining Out			
FAMILY OBLIGATIONS:			
Childcare			
Child Support/Alimony			
HEALTH & MEDICAL:			
Insurance (medical, life, long term)			
Unreimbursed Medical Expenses, Copays			
TRANSPORTATION:			
Gas/Maintenance/Repairs/ Insurance			
Other Transportation			
DEBT PAYMENTS:			
Credit Cards			
Student Loans			
Car Loan			
Other Loans			
OTHER EXPENSES:			
Clothing			
Church/Charity			
Education			
Hobbies/Subscriptions/Dues			
Recreation/Vacation/Entertainment			
Pets			
SAVINGS OR SHORTAGE			

Who's Who in the Mortgage Process

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Appraiser
An individual who is licensed to estimate the worth (fair market value) of the property you are purchasing.

Closing or Settlement Agent
The party who conducts the closing meeting. This role may be filled by an attorney, title company, or real estate agent depending upon the state where the property is located.

Loan Officer
A Loan Officer represents one lending institution and their loan programs. They help you choose the best mortgage loan based upon your situation and will help you complete the loan application.

Loan Processor
A Loan Processor is one who gathers, administers, and processes your loan application before it gets the approval of a loan underwriter. This individual is essential to getting your mortgage loan request to the final close.

Loan Servicer
The entity that collects mortgage payments (it may or may not be the lender) and pays taxes and insurance and mortgage insurance, if required, on your behalf.

Mortgage Insurer
By compensating the lender for losses should a borrower be unable to make payments, Mortgage Insurance allows a borrower to get into a home without having to come up with a 20% down payment. Many Mortgage Insurers, such as Enact Mortgage Insurance, can assist borrowers if they become behind in their mortgage payments.

Mortgage Lender
A financial institution that issues loans. Unlike brokers, lenders control the whole process, from underwriting to funding.

Property Inspector
An individual certified to conduct an examination of the home. An inspector will look for issues that may affect the value of the property and can assess the condition of a property's roof, foundation, heating and cooling systems, plumbing, electrical work, water and sewage, and some safety issues.

Real Estate Agent
A real estate agent is a person who acts as an intermediary between sellers and buyers of real estate/ real property and attempts to find sellers who wish to sell and buyers who wish to buy. They can often provide helpful and specific community information such as shopping, transportation, and schools.

Real Estate Broker
A broker is a licensed real estate professional who represents the sellers or buyers of a property, and can typically help determine the market values of properties. While a broker may work independently and has the ability to manage their own firm, an agent usually works under a licensed broker to represent clients.

Underwriter
A worker who evaluates and determines the risk for potential clients when applying for a mortgage. They may decide whether and under what terms to provide the mortgage.

Terms You Should Know

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Amortization

Repayment of loan principal over time with scheduled payments that consist of both principal and interest. The loan balance declines by the amount of the principal in the scheduled payment.

Annual Percentage Rate (APR)

The APR shows the costs of your mortgage loan as a yearly rate. The APR includes upfront fees (such as points) as well as interest and is intended to show you the true cost of your loan. When comparing one loan to another, be sure to compare APR's to get a true picture of what each one will cost you.

Closing Costs

The cost of getting a mortgage in addition to the down payment. Usually 3-6% of the total loan amount.

Credit Bureau

An agency that collects data on individual payment records on loans, credit cards and other debts, and compiles a credit history based on this information. They also provide credit reports to lenders, creditors, and consumers.

Debt-to-income (DTI) Ratio

The DTI ratio compares how much a borrower owes with how much they earn in a given month.

Equity

Equity is the portion of the property that you actually own through your payments, versus the portions that you still owe the mortgage lender. The longer you stay in your house and make the required payments, the more equity you will have.

Escrow

An account set up on your behalf in which a portion of your monthly payment is held to pay property taxes and insurance.

Gross Income

Amount earned before taxes or types of payroll deductions. Gross income may include overtime commissions and dividends and come from any other sources for which steady history can be shown.

Loan-to-value (LTV) Ratio

A mortgage's LTV ratio describes the ratio of the value of the property to the amount of outstanding mortgage balance.

Points

Points, also known as discount points, lower your interest rate in exchange for paying an upfront fee.

Pre-qualification

While not an approval, this gives borrowers an estimate of how much money they could borrow to purchase a home.

Pre-approval

A commitment from the Lender to make a loan to a specified borrower prior to identification of the specific property.

Understanding Credit

Credit Report Resources

When it comes to owning a home or preparing for your financial future, having and upkeeping good credit is essential. Generally, the higher your credit score, the greater your chances of qualifying for a loan at a lower expense, often resulting in reduced interest rates and fees.

Order your free annual Credit Report and review all the information carefully. If you believe you've found a discrepancy, you should dispute it with the appropriate Credit Reporting Company. The phone number can be found on your credit report, or you can visit their website:

Equifax:	https://www.equifax.com/personal/credit-report-services/credit-dispute/
Experian:	www.experian.com/disputes/main.html
Transunion:	https://dispute.transunion.com

If you have attempted to resolve credit report discrepancies and are having issues after working with the Credit Reporting Company, you can submit a complaint to the Consumer Financial Protection Bureau (CFPB).

Additional Resources

CFPB:	https://www.consumerfinance.gov
FTC:	https://www.consumer.ftc.gov
Fair Issacs:	https://www.myfico.com

Obtaining Your Free Credit Report

Under the Fair Credit Reporting Act (FCRA), you have the right to receive a complimentary credit report annually from Equifax, Experian, and TransUnion, the three main consumer reporting agencies.
You have the choice to request all three reports simultaneously or individually by using the provided online link. Checking your credit report will not impact your credit score.

Request and review your free report online or via phone.
Online: AnnualCreditReport.com **Phone:** 877 322 8228
Do not contact the reporting companies directly to order your free report.

A Warning About "Imposter" Websites

There are websites that claim to offer "free credit reports," "free credit scores," or "free credit monitoring". These sites are not associated with the free annual credit report program. In some cases, these "free" reports may come with strings attached or may try to collect your personal information.

A Note About Varying Credit Scores

There are multiple types of credit scores in the market, and 16 different FICO scores alone! The scores you receive on your own may differ from the one your lender ultimately uses to qualify you for a loan. To better understand which score is used for your mortgage application, contact your lender.

https://www.creditstrong.com/which-fico-score-do-mortgage-lenders-use/
https://www.creditkarma.com/credit-cards/i/fico-score-vs-credit-score

What Monthly Payment Can You Afford?

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To gauge how much of a monthly mortgage payment you can manage, numerous online calculators are available. A simple rule to consider is the 36% guideline; aim to keep your total monthly debt below 36% of your gross income (known as the Debt-to-Income Ratio or DTI)[1]. To make a quick estimate of your affordability, you'll need two key figures: Maximum Monthly Debt and Current Monthly Debt. Note that your lender might allow a different ratio than the one outlined below.

GROSS INCOME

Step 1: Calculate your maximum debt based on your preferred DTI ratio.

1	Annual Base Income	$		
2	Annual Bonus, Commission and Overtime	$		
3	Annual Military Entitlements	$		
4	Other Annual Income (i.e. Child Support or Alimony)	$		
5	GROSS ANNUAL INCOME (Rows 1+2+3+4)	$		
6	GROSS MONTHLY INCOME (Row 5÷12)	$		X 0.36
7			MAXIMUM MONTHLY DEBT	$

DEBTS

Step 2: Subtract your monthly debt from your maximum debt to calculate your max monthly mortgage payment.

8	Total Monthly Minimum Credit Card Payments	$	
9	Total Monthly Car Payments	$	
10	Total Monthly Personal Loan Payments	$	
11	Total Monthly Student Loan Payments	$	
12	Total Other Monthly Debts	$	
13	CURRENT MONTHLY DEBT (Rows 8+9+10+11+12)	$	
14	MAXIMUM MONTHLY MORTGAGE PAYMENT Maximum Debt (Row 7) – Current Debt (Row 13)	$	

[1] For illustrative purposes only; please consult your financial advisor regarding your own financial situation.

New Homeowner Checklist

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Once the house deal is sealed, there's still work to do! You'll need to plan your move, update your address in different places, and get ready to settle in your new place. It's common to overlook these tasks, but fret not, we're here to assist you. So, don't stress about the little things once you've moved – check out the list below to help you transition into your new home smoothly.

Key Address Updates

- ☐ Move over/set up utilities for new address (energy, water, gas, internet, cable, etc.)
- ☐ Update your mailing address with USPS (including forwarding address updates)
- ☐ Update your ID or driver's license
- ☐ Update your car registration and insurance
- ☐ Update your voter registration for any needed address changes
- ☐ Update your address on your bank and investment services accounts
- ☐ Update your address on your credit card accounts
- ☐ Update new address for your employer
- ☐ Find doctors and reliable professionals around you or update your new address in your online medical portals
- ☐ Transfer subscription services to your new address
- ☐ Register your child(ren) to a school within your area

Moving/Post-Moving Essentials

- ☐ Line up a pet sitter (or other arrangements) for moving day
- ☐ Organize and unpack your moving boxes by rooms
- ☐ Consider autopay to stay on top of monthly home payments and expenses (HOA fees, property taxes, etc.)
- ☐ Child-proof and pet-proof your new space
- ☐ Purchase a security system
- ☐ Purchase cleaning supplies that fit your new home's needs
- ☐ Stock up your pantry, fridge, freezer and cabinets
- ☐ Buy a gift for your Realtor or Real Estate Agent
- ☐ Meet your neighbors!
- ☐ Invite family and friends over to celebrate once you're settled

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