MORTGAGE ROADMAP 101
Getting Pre-Approved
A First Time Homebuyer Guide

Thinking of Buying?

The steps outlined below help create a flow of how the loan process will work, with a focus on the initial stage of Pre-Qualifying and Pre-Approval. This is a simple reference form that outlines the responsibilities the applicant must assume to successfully close and fulfill the financing portion of the new contract entered into with a seller of a home. There are also important mortgage 'lingo' that applicants can be familiar with in understanding the process.

Pre-Qualification – Getting Started

The Pre-Qualification process is a mortgage applicant's first step towards becoming a Pre-Approved applicant. Many times the term 'Pre-Qualification' is used interchangeably with 'Pre-Approval' by consumers and media writers, but there is a difference. ***The Pre-Qualification is an assumption of what an applicant's home purchasing power may be, based on stated income, assets and monthly liabilities.***

The Importance of Credit

Regularly monitoring your credit and knowing your credit score range is important and significant for all mortgage applicants. ***It is in the best interest of both the applicant and your mortgage professional to pull a tri-merged (3 bureau) credit report.*** This will show specific bureau scores and help with any potential issues that could cause delays in the mortgage process. Your mortgage professional can point an applicant in the right direction should they need credit repair or corrections to be made.

What Else Counts? 'Knowing Mortgage Risk Factors'

Credit history and credit scores encompass a significant basis for overall loan eligibility. Your mortgage professional will look for criteria that a loan Underwriter (see: Mortgage Road Map 102 'Underwriting') may use as part of determining over risk when making a loan commitment. ***Mortgage risk is ultimately based on a variety of factors, such as monthly debt to income ratio(DTI), savings history, reserve monies, amount of debt, credit usage, employment and income stability, increase to monthly payment (housing shock), source and amount of down payment, loan purpose and loan type/amortization.***

What Loan Program Should I Be Looking At?

Each loan applicant has specific criteria that can affect what type of loan program is most suitable. Your mortgage professional should ask questions to determine the most advantageous program. It is also important in the early stage for applicants to disclose any known credit, employment, monetary, legal or real estate issues or changes that could happen in the near future. ***Never presume when you are borrowing money, and never be afraid to ask questions.***

Pre-Approval – An Upfront Automated Credit Decision

The Pre-Approval is a automated underwriting acceptance of a applicants ability to meet the obligations of a specific mortgage loan program based on an estimated purchase price. The Pre-Approval can be determined upon a fully completed application along with credit, asset and income documentation reviewed by your mortgage professional. **The Pre-Approval is <u>not</u> a final underwriting commitment of the lender to issue money for a mortgage loan (see Mortgage Road Map 102).** In the majority of cases, a loan is electronically submitted to Fannie Mae or Freddie Mac (the two largest government agency purchasers of mortgage debt). It is not necessary for an applicant to already have a property identified or under contract. The Pre-Approval can be submitted several different ways depending on the desired purchase price, loan amount and mortgage program desired (sometimes referred to as a TBD "To Be Determined" Property).

<u>Is a Rate Locked At This Time?</u>

Depending on the pre-determined loan program, your mortgage professional will provide you with an upfront estimate of rate. ***Rates are not locked until a property is under contract, which does leave the potential for bond market fluctuation between the time of application and eventually finding a home to purchase.***

<u>How Long is an Pre-Approval Good For?</u>

Pre-Approvals are generally good for 90 days, which is the length of time a new tri-merged credit report would be required along with new automated underwriting findings.

<u>Loan Pre-Approval Letter / Loan Status Report (AZ)</u>

Loan Status Report or 'LSR' is a customary letter provided by pre-approved applicants to home sellers upon the offer to purchase. Upon preparation of an offer to purchase a home, your mortgage professional will forward an LSR to the buyers' real estate agent to accompany that offer. The LSR is a customary part of the offer to the home seller, and should accurately define the current loan pre-approved terms, and stage of in the mortgage process for the applicant.

<u>Remember……it is a Pre-Approval</u>

It is important for applicants to keep in contact with their mortgage professional upon any circumstance that could affect their pre-approval (ie: changes to employment, income, savings and new credit). An ultimate final Underwriting credit decision is always made prior to any loan being funded (see Mortgage Road Map 102).

Mortgage Terms – Common Ones

Loan to Value (LTV): Loan Amount divided by the Sales Price (Appraised Value)
Example: Loan of 100,000 / 125,000 value = 80%

Debt to Income Ratio (DTI): Monthly Gross Liabilities divided by Monthly Gross Income
Example: Monthly Housing Payment of $1,000 / $3,500 = 28.5 housing DTI Ratio

Principal, Interest, Taxes & Insurance (PITI): The Housing Payment (as a monthly amount)
Example: mortgage of 1,000,
property tax of 200
hazard/home insurance of 50
mortgage insurance of 55

Housing Shock: The increase (as a percentage) comparing a new housing payment to current rent.
*Example: $1,000 new mortgage /divided by current rent of $800)= 1.25 *which means 125%*

Reserves: An applicant's savings compared to the new housing payment
Most conventional mortgage guidelines require a two month reserve of savings after closing the loan.
Example: New Monthly House payment of $1000 with 'after close' Savings of $5,000 = 5 months reserves.

Locked verses Floating Rate:
Because rates are derived from and fluctuate with the secondary bond market, any rate at any given moment would be considered 'floating' until a rate lock agreement is made between the applicant and your mortgage professional's company. ***The rate lock agreement will outline the rate and the expiration date of the rate.***

Points:
Depending on the loan program, rates are quoted on a daily basis by individual mortgage lenders. Any specific rate can come with a positive cost or a negative credit to the lending company. Cost is passed on to loan applicant in the form a percentage and is referred to as a 'point'. ***It is typical for rates to be quoted with 1.00 Point which is Equal to 1.00 Percent of the loan amount. The rate lock agreement will outline not only the rate but any points(cost) charged to obtain the rate and the expiration date of that specific rate.*** Your mortgage professional should show you different rate comparisons and any cost associated. Locking a higher rate than the market will allow the mortgage lender to credit money back to the applicant to help pay for closing costs. This is known as 'premium pricing'.
Example: *30 year fixed rate at 5.00% will cost 1.50 points to lock for 45 days*
If the loan amount is 100,000, and points are 1.50 %, cost equals = 1,500 dollars.

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