The Loan Process

What to Expect When Financing Your Home

Commonfund Mortgage Corp.
Licensed Mortgage Banker, N.Y.S.
Dept. of Financial Services
CommonfundMtg.com
NMLS #53923

Obtaining a Mortgage

Overview

Obtaining an affordable mortgage depends not only on what you feel you can afford, but more importantly, on what a lending institution says you can afford. Before lenders will issue a commitment to lend large sums of money, they must be assured that you can afford to repay the loan and that the value of the property is sufficient collateral to guarantee repayment of the loan in case of default.

Step 1 Pre-Qualification

This is where your homebuyer journey begins. I will gather basic information on you to pull your credit, understand your employment history, and get your income information. Once I have reviewed your credit report and credit history I can guide you as to what mortgage loan options are available, what the next steps are in improving your credit score, and tell you how much you can be approved for. Ideally you will want to complete this step before you begin looking at houses and before you meet with your real estate agent. Doing this first will show your agent and the seller of your desired property that you are a serious, qualified home buyer.

Step 2 Application

I will meet with you and fill out the paperwork needed to apply for a home loan. We will discuss the type of mortgage that will best suit your needs and review the various documents I have asked you to bring along in support of your application. I will also explain the required disclosures that keep you informed of your rights and obligations. The more accurate and complete your application is at the meeting, the less there will be for us to do before closing on your home loan.

Step 3 Processing

A processor orders the property appraisal, full credit reports, and mails any necessary verification of employment and deposits. The good faith estimate is generated and sent to the buyers.

Step 4 Underwriting

The underwriter reviews documents and property appraisal for final approval. The more documentation the underwriter receives (re: w-2's, pay-stubs, divorce, child support, bank statements, etc) the quicker the approval. Any missing documentation that is required by the underwriter becomes a "condition of the loan." The commitment letter is sent to the buyer, buyer's attorney and the seller's attorney (if info is available.) Upon receiving your commitment letter, you should contact your attorney. Review your conditions and discuss the action that he/she will take in obtaining the legal documents. They will contact the sellers attorney to obtain the updated abstract, updated (or new) survey, current tax bills, payoff, and tax search.

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Step 5 Conditions

The conditions are listed on the last page of the commitment letter. If you are unsure of what is being requested, please call immediately. All conditions must be met before your loan can be scheduled to close. If the property needs repairs, the repairs must be completed and reinspected prior to closing. The real estate agent will notify the lender when repairs are complete. At this time you should obtain your homeowners insurance.

Step 6 Closing

Once your conditions have been satisfied your loan is ready to close. Your attorney will send the property legal work to the bank's attorney and then contact us to schedule your closing.

Step 7 Congratulations

You may now move into your new home. I hope that the process went smoothly and you are satisfied with our service.

What's Considered for Loan Approval

The Basics
You may have already noticed there is much more to the loan process than selecting an interest rate. My sincere desire is to guide you through the process and relieve any anxiety you may be feeling. In order to be considered for a mortgage, we look at five distinct areas of your finances and the property.

Assets
We must first determine the amount of cash that you have available for a down payment and closing costs. There are guidelines that govern the allowable sources of funds for the down payment and closing costs as well as documentation required to verify these funds.

Income
We need to determine how much income is available to qualify for the loan, where it is coming from, and how long it is likely to continue. All income used to qualify for the mortgage loan must be verifiable. Your gross monthly income coupled with your monthly debt obligations are used to determine the ratios for approval of your loan. Length, type, and stability of employment are also key factors to consider.

Credit
As lenders, we will look at your credit report and any other credit references to determine how much credit you have been extended, what types of credit are available to you, how timely the payments have been made, and how much your total monthly obligations are.

Liabilities
It is necessary to make sure that a borrower's obligations don't exceed acceptable ratios for both the monthly housing payment and the total of all monthly debts. The ratios consist of housing and total monthly debt ratios. The housing ratio is calculated by comparing the proposed principal, interest, taxes, and insurance (PITI) payment on the loan for which you are applying to your gross monthly income. Similarly, the total monthly debt ratio is calculated by comparing the total of all your monthly obligations including PITI, credit card payments and installment loans with your gross monthly income.

Equity
The final piece to the mortgage puzzle is the difference between the loan amount and value of the property. A property appraisal is conducted to determine value. Appraisers are licensed by the state and base their determination of value on the prevailing market.

The Appraisal

What is an Appraisal and Why do I Need One?

An estimate of value is required before the lender will make a loan on a property. It is common for lenders to require that appraisals conform to the Uniform Standards of Professional Appraisal Practice. This is done so that consistent, detailed information is provided on all appraisals allowing protection for both the bank's and the buyer's investments. The Appraisal provides an estimate of the value of the property. The information in the appraisal is necessary to evaluate whether or not the property is adequate security for the loan. An appraisal is a report made by a qualified person setting forth an opinion or estimate of value. An independent appraiser inspects the property, neighborhood, and at least three other properties of comparable size and style.

Who is the Appraiser?

Appraisers are licensed by the state in which they work. These individuals undergo an extensive 2-year "on the job" apprenticeship with an experienced appraiser. The final opinion of value is based primarily on the experience and logic of the particular appraiser who completes the report.

Can I Get a Copy of the Appraisal?

You are entitled to a copy of the appraisal… after all, you paid for it!
As a service to my clients, I will provide a copy of the appraisal after I receive it from the appraiser.

When Will it be Done?

The lender will order an appraisal of the property immediately after loan application. It will generally be completed within seven to ten days.
The appraisal is submitted with the loan package for review by the underwriter.

How is Value Determined?

An appraisal is simply a supported estimate of value. There are three approaches to estimating market value of a property: the Cost Approach, the Income Approach, and the Sales Comparison Approach (a.k.a. Market Data Approach.) The cost approach measures the value of a house from what it would cost to reproduce it. The income approach relies on the analysis of income generated by the property to determine value. This approach is not generally used for assessing the value of single family homes because these homes are not typically used for generating income. The approach which tends to be weighted most heavily is the Sales Comparison Approach. This approach identifies what similar properties have sold for in the same market place over the last two to eight months, and then adjusts the values of the comparable to make them "more like" the subject.

Surveys & Inspections

Surveys

If the purchaser is obtaining a loan and the property is not a condo, a survey is typically required. An existing survey may be provided by the seller, as long as the closing attorney determines it is acceptable. If not, a new survey will be ordered by the closing attorney. A house location survey, without corner markers, is sufficient. If you would like the markers, request this through the attorney's office.

The closing attorney will review the survey for anything that might affect the validity of the seller's title. Items included on the survey are: location of fences, driveways, decks, outbuildings, and any other improvements to the property to be sure that there are no encroachments onto neighboring property and vice versa.

Home Inspections

Most contracts are contingent on a home inspection. This is usually done by a professional inspector who is hired by the buyer. The home inspector makes a detailed inspection of the home and prepares an evaluation that lists any defects found in the structure, utility systems and appliances. If problems are found, the buyer is not obligated to proceed with the purchase unless the seller agrees to correct the problems. I am able to recommend an inspector who has provided good service in the past.

Termite Inspections

A termite inspection report shows that the property is free from termites and other wood destroying insects. A copy of a clean termite inspection report is not typically required before the lender will release the documents for closing, but it is recommended for your protection.

Well & Septic

If the property you are buying uses a well and/or septic system, your contract will require certification that the water is potable and the septic system is functioning properly. These inspections are also required by the lender.

Walk Through Inspections

Your contract provides for a "walk through" just prior to closing to determine that the condition of the property is as it was when the contract was signed. Normally, both the listing and selling agents are present. The walk through should take about an hour. Any discrepancies will be identified and plans will be made to correct them prior to the closing.

Protecting Your Investment

A Basic Ingredient in Most Real Estate Transactions

From protecting lenders against a borrower's default in mortgage payments to guarding the owner's investment from loss due to accident, illness or death, the insurance industry can provide policies to cover all potential risks. In many instances, a buyer must provide the lender with several different types of insurance in order to meet loan commitment requirements. The following is a brief summary of the forms of insurance that may be required in residential real estate transactions.

Flood Insurance

If a property is located in a designated flood zone, a lender will require the borrower to secure a flood insurance policy. This type of coverage is not included as part of a homeowners policy.

Hazard Insurance

Hazard Insurance is a type of casualty insurance that covers damage to or destruction of the improvements from specific hazards such as fire and wind. Lenders require this type of coverage on all properties as a condition of loan approval.

Homeowners Insurance

In addition to protecting against damage to improvements, homeowner's insurance protects against the loss or damage to personal property, injuries to occupants and guests, vandalism, and living expenses in case the insured premises becomes untenable. Lenders generally require only a hazard insurance policy, but as a practical matter most buyers take a full homeowner's protection package if they intend to live in the house.

Mortgage Disability Insurance

A Disability Insurance policy makes mortgage payments when the insured is unable to work due to illness or injury. This type of insurance is not required by the lender as a condition of loan approval. The buyer may choose this insurance based on his or her own personal needs.

Mortgage Life Insurance

A Mortgage Life Insurance policy — generally a decreasing term policy — pays off the mortgage upon the death of the insured. Again, this type of insurance is not required by the lender, but may be obtained by the buyer based on his or her own personal needs.

Mortgage Guarantee Insurance

Mortgage Guarantee Insurance protects a lender against losses resulting from a borrower's default. In case of a default, if a foreclosure proceeding does not provide sufficient funds to satisfy all moneys due, then the mortgage insurance company makes up the deficit.

For conventional loans, mortgage guarantee insurance — often called PMI — is required when a borrower finances more than 80% of the purchase price. For loans insured by the Federal Housing Administration (FHA), this type of insurance is required regardless of the amount of down payment.

Title & Title Insurance

The Title

Owning land is one of the most precious values of freedom enjoyed in this country. You can buy it, sell it, invest in it and trade it as you see fit. Change in ownership, to be legal, requires a formal exchange of title (deed.)

A deed is a written document that creates or transfers an interest in a property. When recorded, the deed puts the world on notice of the estate or ownership of an interest in property — it is not a complete history of the title to the property it conveys. To learn the history of a property and see how it may affect the current ownership, it is necessary to conduct a thorough examination of the title.

The process of examining the title begins with locating the deed of the current owner and then researching backward and forward in time through the land records to determine what, if any, limitations there may be to the ownership, use and enjoyment of the property. Court dockets are then reviewed to determine if any of the prior or current owners were involved in legal proceedings that could affect title to future owners. In addition, assessment records must be checked to determine the status of taxes and other municipal fees that can be levied against property. Those findings are then reviewed. The settlement agent then prepares a title insurance binder which outlines the scope and limitations of the title insurance coverage based on this final report. Findings from either the search of the court dockets or assessment records, such as a judgment against a previous owner that placed a lien on the property, or a tax lien against a previous owner, may indicate that other parties may have a legal interest in or a claim against the property.

Title Insurance

One of the most frequently asked questions I hear at closing is, "What is title insurance?" This question arises because the buyer is required to pay for title insurance for the lender — which is mandatory and decides whether to purchase owner's coverage — which is optional.

Unlike other kinds of insurance that protect against losses from future events, title insurance affords protection from past events which may or may not be part of the public record. No matter how extensive and exacting the title search may be, the possibility of "hidden risks" remains. Although rare, these hidden risks, if found after the loan has closed, could affect your ownership rights to the property. Some of these hidden risks are listed below:

Claims of missing heirs
Forgeries
Clerical errors
Fraud
Deeds executed under expired or false power of attorney
False impersonations
Improperly probated wills
Confusion due to similar names
Unsatisfied claims not shown in the records
Misinterpreted wills and trusts

Because lenders understand the potential impact of the "hidden risks" of any real estate transactions, they require a title insurance policy to protect the amount of money they loan for the purchase of the property. These "hidden risks" make the purchase of title insurance for yourself a most prudent and inexpensive one time investment.

Settlement & Closing

The settlement is the culmination of the purchase process. Shortly after finalizing the sales contract you will select a closing attorney or escrow company.

Closing Attorney/Escrow Company

The closing attorney/escrow company is responsible for ordering the title examination and survey, providing the mortgage lender with a title insurance commitment, implementing steps to be sure the seller can convey marketable title, and scheduling the actual time and place for the closing. The closing attorney or escrow company will receive the loan documents from the lender and will finalize preparations for closing following the loan instructions included with these documents.

The closing itself usually takes about an hour. During the closing, numerous documents are explained and signed, funds are received and disbursed and the keys are delivered. In many instances, buyers need to coordinate settlement to coincide with the arrival of their movers and cannot afford delays. Choosing a reputable, experienced closing attorney is crucial to a smooth settlement. I can refer you to an attorney with whom we work if you do not know one.

The closing will be conducted by an attorney or closing/escrow agent who will explain the various documents you will sign. Most attorneys walk you through this at your own pace. If you are feeling rushed, just ask him or her to slow down.

Many of the forms signed at closing are required by law and are signed by everyone who obtains a mortgage loan. Most documents only require that you check the spelling of names and addresses and sign the form. By all means, however, know what you are signing. If you have a questions, ask!

The Settlement Statement

The Settlement Statement, often referred to as the "Closing Disclosure," summarizes the financial aspects of the transaction. For this reason it is the document that warrants the closest scrutiny at closing. Basically, the CD translates the terms of your sales contract and mortgage commitment into numbers and acts as a balance sheet for an accounting between buyer and seller.

The attorney will provide you a copy of the CD three days prior to settlement for your review. At that time, I will go through the statement line by line with you, either in person or by phone, whichever is more convenient for you.

The Note

This is a written promise from you, the borrower, to pay the lender a definite sum of money at an agreed interest rate over a stipulated period of time. You should check to make sure that all of the variables just mentioned are correct.

What to Bring?

You will need to bring a certified check or bank check in the stated amount, made out to the attorney. If you have received the complete insurance policy from your agent, bring that to the closing also. A piece of photo identification may be required.

Mortgage Terms to Know

Closing Costs:

Costs that the buyer of a home has to pay at the time of purchase. Closing costs usually include an appraisal fee, title search, and lawyer's fees. They may also include "points" and other fees (such as one-year homeowner's insurance; and private mortgage insurance, if required.) Closing costs are in addition to your down payment and vary slightly from lender to lender.

Escrow:

Charges for a neutral third party to hold the funds and documents that change hands during the home selling and buying process. An escrow officer sees that items in the purchase contract are carried out and appropriate parties are paid.

Homeowner's Insurance:

Lenders require home buyers to purchase homeowner's insurance. This protects you against fire and, in some areas, floods as well. Most policies also protect the homeowner against theft and liability (responsibility) should someone be injured on the property.

The Loan Estimate:

An "LE" of closing costs is an estimate of the approximate amount of money you will need at closing. The forms lenders use to prepare this estimate vary, but the information is basically the same. This estimate gives you a rough idea of the fees the lender will charge you when you apply for a loan. Standard fees are interest adjustment, title insurance, recording fees, and survey fees. There are also many variable fees, including application fee, points, appraisal, credit report fees, as well as closing and settlement fees.

Points:

Finance charges paid to the lender as part of the closing costs. Each point equals 1 percent of your total mortgage loan. Points can be negotiable and are sometimes tied to your interest rate. Paying more points to get a lower interest rate may be a good idea if you plan to take a long-term loan.

Prepayment:

Making early or extra payments toward the principal (amount borrowed.) Prepayment can shorten the length of your mortgage and thus lower your total interest. However, lenders may charge a penalty if you pay off the mortgage very quickly, usually in the first few years. Be sure to ask about prepayment conditions in your mortgage and read all the documents.

Private Mortgage Insurance:

Insurance the buyer carries to guarantee that the lender is paid off if the buyer defaults (fails to pay) on a mortgage. This is different from homeowner's insurance. It is generally required for all mortgages with less than a 20 percent down payment. The exact amount, usually a few hundred dollars, depends on the amount of the loan and the size of the down payment.

Possible Expenses
Obtaining a Mortgage

Deed Stamps:

Purchase price multiplied by four dollars per thousand.

Abstract Bringdown:

Prior to closing, it is required to bring down the Abstract of Title.
Fees will vary, depending on the last time this was completed.

Survey Update:

The lender requires that the survey be updated within six months prior to closing.
It is cost effective to use the same company that completed the original survey.

Well/Septic:

This typically is a seller's expense. The type of mortgage that your buyer is obtaining will dictate what tests need to be completed.

VA and FHA Loans:

Water: Lead, Nitrate (as Nitrogen), Total Nitrate/Nitrite,
total Coliforms & Fecal Coliforms (or E. Coli).
Septic: You must supply Commonfund with a written certification from your local Health Department or licensed plumber or septic installer of the adequacy of the system.

Conventional:

Water: Coliform
Septic: not required

**** Well tests can be no older than 30 days at time of closing.****

Repairs:

If any repairs are required by the lender, the seller will be responsible for the percentage, or amount, as stated in their purchase offer, unless otherwise agreed to.

Real Estate Commission:

The typical real estate commission in our local area is 7% of the sales price.

Statement of Understanding

Things to Avoid After Mortgage Application

Congratulations, you finally found the house of your dreams! You made a bid, had it accepted by the seller, and went through the mortgage application process. It looks like you'll qualify. The closing is only weeks away and you're feeling pretty good.

It's smooth sailing from here, right? Probably. However, more than one buyer has had the wind knocked out of his or her sails at some point in a real estate transaction by the mis-steps described below. If at all possible, steer clear of the following "NO-NOs" until AFTER you have gone to settlement.

Do not take on new debt. The temptation is strong. There are so many big purchases that people want to make in conjunction with a move: appliances, window treatments, furniture, etc. When you add to this the fact that today retailers offer easy terms and no money down – why not just do it? Because you will change what the mortgage industry calls your "debt-to-income ratios." Simply put, the relationship of your income to your debt.

Do not change jobs. If at all possible, try not to make a career move during the time between your mortgage application and the closing on the home you are purchasing. Even if it is a better job, with more money, in a different field, still try to wait until after the closing. One of the factors mortgage companies consider is the length of present employment. They are partial to stability. At the very least, changing jobs initiates the need for more paperwork and may delay your closing.

Do not pack too soon. Well, go ahead and pack your clothes and dishes. But do not pack your bank statements, tax returns, or other important paperwork. Most especially, do not pack your checkbook! More than one buyer has had a closing delayed while a friend or relative hurried over with additional funds because the checkbook was in the moving van.

Do not lease a new car. This falls under the general rule of "no new debt" but is highlighted here because we've noticed a trend with many new buyers indulging in expenses during the mortgage process, between application and closing. As with any debt, this will change your "debt-to-income" ratio and may cause you not to qualify for your mortgage.

In short, do nothing that negatively impacts your ability to qualify for your mortgage loan or initiates a new round of paperwork. If you have any doubts about doing something that may affect your ability to qualify for your mortgage loan, please consult your loan provider before you do it.

These suggestions are based on years of experience and an eye on industry trends. But that does not necessarily mean negative results are guaranteed if you do any of the above. They are offered as cautions. Many buyers seem to view the mortgage application procedure as a static action. It is not a snap shot of your financial life at a given moment in time, rather, a an ongoing process that takes into account everything you do leading up to the day of closing.

Conditions

ALL CONDITIONS MUST BE MET PRIOR TO LOAN CLOSING.

Upon receiving your commitment letter, as well as notifying your attorney, you will need to send in your conditions. You will find them listed on your commitment letter (#22.)

Real Estate Deposit Check

This can be met in several different ways.

1. Obtain a copy of the check-front & back.
2. If you have duplicate checks, a copy of the duplicate and a letter from your bank stating that the check has cleared your account.
3. Obtain a copy of the front of your deposit check from your realtor as well as a statement from your bank stating that the check had cleared.

The purpose for this condition is to ensure that your earnest money deposit has cleared your bank and is in the escrow account.

Procedure for Receiving Gift Money

We must have the following:

1. The donor must provide proof that the money was withdrawn from their account.
2. Gift should be in the form of a personal check, cashiers check or money order.
3. Get an updated 30 day statement of account activity that is stamped and signed by a bank representative.

Repairs

The bank must be notified once repairs are done to order the re-inspection.

Well and\or Septic Test

These test are received from the sellers attorney or your realtor. They must pass the standard set by FHA, or conventional, whichever is appropriate.

Paycheck

Prior to closing, we need a current pay stub.
This ensures that you are employed as per the application.

Rent Verifications

We must verify two years of previous rent history. If you did not give this information at the time of application, please call with your landlord's name, address, and phone numbers. We will follow through on obtaining the necessary verification.

Bank Statements

We need all the pages of your bank statement. If you use Online banking, the print out from the Online account must include the institution's name, bank account numbers, and the names on the account.

Closing

Once all of your conditions have been met, your file will go to our closing department. At this time, your attorney will call and schedule your closing. Contact our closing coordinator at 315-422-2325.

Your closing will be held at Commonfund Mortgage, 717 Erie Blvd. W., Syracuse, NY 13204. If your property is not in Onondaga County, we will make arrangements to have the closing in a convenient location. Either your attorney or the closing coordinator will notify you of the location.

If you are represented by one of Commonfunds' attorneys, please give the closing coordinator a call and she will assist you with scheduling a closing date.

Prior to closing you will receive a call from your attorney with the exact amount to bring with you to closing. Again, if Commonfunds' attorney represents you, our closing coordinator will call you with the amount.

You will need to bring the money to closing with you in the form of a cashiers or bank check.