

SECTION 6: UNDERSTANDING THE LOAN PROCESS

It can take anywhere from two to four weeks or more to get your loan approved. The major steps in the process include loan application, loan processing, loan underwriting and loan closing.

Loan Application

Once you have chosen your lender and the loan product that is right for you, you will be ready to begin the loan application process. This process gives the lender information on your ability to afford your loan payments and also on the value of the property you are refinancing. To assess your ability to repay the loan, your lender will need to have an accurate picture of your assets and debts. To ensure that your property is worth at least as much as you are borrowing, the lender will conduct an appraisal of your property.

In addition to providing the documents listed in section 4, Understanding How to Prepare for Borrowing Again, you will have to fill out the Uniform Residential Loan Application, known as the 1003, with a loan officer. It is your responsibility to make sure that all the information listed is correct. Remember that falsifying loan documents is fraud. In addition to the fact that it is not in your best interest to get a loan that you are not qualified for, it is against the law. The 1003 includes the following information:

- Type of mortgage and terms of the loan, including whether the loan is conventional, VA, FHA or other, and whether it is a fixed-rate or an adjustable-rate mortgage.
- Property information and purpose of loan, including the property address and the fact that you are refinancing.
- Borrower information, including contact information about you and the co-borrower, if applicable.
- Employment information about you and the co-borrower.
- Monthly income and housing expense information.
- Assets and liabilities, including bank accounts, retirement accounts, car debt, credit card debt and student loan debt.
- Details of the transaction, including loan amount and estimated closing costs.
- Declarations, which are potential warnings to your lender, including whether there are outstanding judgments against you and whether you have declared **bankruptcy** in the past seven years.
- Acknowledgement and agreement that everything in your application is valid and correct.

When you apply for your loan, you will probably be asked to pay for the credit report and appraisal fees, which can cost several hundred dollars. You normally will have to wait for loan approval after all your documents have been reviewed and verified by the lender's underwriters. The time it takes to approve a loan varies from lender to lender and loan to loan, but your loan officer should be able to provide you with an estimate of how long this process will take. Much of this process is streamlined through automated underwriting and electronic credit scoring, which can expedite loan approval.

During the **underwriting** process, the lender will refer to your credit report to verify the accuracy of the information you provided. Any discrepancies can delay your loan approval, so it is important to be sure that the information you provide on your application is correct. Let your lender know if you have had past credit problems. Lenders understand that a change in your marital status, significant medical expenses or unemployment can negatively affect your credit rating. Consider including a written explanation of your situation with your loan application if there was an extenuating circumstance. If you have corrected your past credit problems, your situation may be handled quite differently than if you have a history of chronic late payments or loan defaults. If you have been through bankruptcy within the past seven years, you will have to provide full details, including a copy of relevant documents.

Within three business days of you submitting your loan application, the lender must give you two important documents: a Truth-in-Lending statement and a Good Faith Estimate of your closing costs. Sample documents are provided on pages 43–44. The Truth-in-Lending statement includes the loan's APR and provides other specific about the loan, such as the total finance charge, the schedule of payments, the total amount of all payments, late payment charges, and whether there are any prepayment penalties. The Good Faith Estimate details every fee you will likely pay as closing costs and adds up the total amount of those costs. If you need help understanding these documents after you receive them, visit a reputable housing counselor or licensed attorney.

Loan Processing

After you have completed your loan application, your loan officer turns it over to the loan processing department. It is the loan processor's responsibility to gather all of the information and documentation needed to make a loan decision. The loan processor verifies that the information you provided is correct, orders and reviews your credit report and property appraisal, **verifications** and other documents. The loan processor may contact you during this process to ask you for additional documents or explanations.

Loan Underwriting

Once the loan package is complete, the underwriter reviews all the facts about your loan — your capacity to repay the loan, your credit risk and the value of your **collateral**. The underwriter compares your information with the policies and criteria of the lender's loan program and determines whether or not to approve the loan. Once your loan is approved you will receive a written **commitment letter**, guaranteeing you the loan at specific terms for a set period of time. The commitment is a legal

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document, so it is important that you understand everything in it. If you wish to accept the loan, you must sign and return a copy of the commitment letter to the lender before the specified deadline.

Loan Closing

Once your lender approves the loan, the closing agent (title company, attorney or escrow company, depending your state) will prepare the HUD-1 Settlement Statement, check the title report, prepare the mortgage documents to be recorded, and close the transaction. According to federal law, you have the right to see your HUD-1 Settlement Statement 24 hours before your closing. You just need to call the closing agent several days or more in advance to let them know that you would like to have a copy of the statement to review prior to the closing.

As you may remember from when you took out your original mortgage, you will have to sign many pieces of paper at the closing. Once you have completed the necessary paperwork, your refinance or equity loan transaction is complete. During a closing borrowers sometimes experience significant pressure to sign the mortgage documents and complete the transaction quickly. Plan on taking your time at the closing and follow the tips provided below:

- *Ask any questions you have* about your mortgage documents before you sign them.
- *Bring documents*, such as your Good Faith Estimate, Truth-in-Lending statement, and worksheets, with you to compare them with your closing documents. Make sure all numbers and terms are what you expected.
- *Read all disclosures*, even if the lender says that they are not important.
- *When in doubt, do not sign anything*. Consult a licensed attorney or other trusted source to review your documents.

Federal law gives you the right to rescind, or cancel, a refinance or home-equity transaction during the three business days following your closing. This **Right of Rescission** is designed to protect you against lenders who may have pressured you into agreeing to a loan that may put your home at risk. During this three-day period, you can share your documents with a licensed attorney or other trusted source to ensure that your loan is fair and affordable.

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The Truth-in-Lending Act is aimed at promoting the informed use of consumer credit by requiring disclosures about terms and costs.

SAMPLE TRUTH-IN-LENDING DISCLOSURE STATEMENT

(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

Applicants:
Property Address:
Application No:

Because you may be paying points and other fees, the APR disclosed is often higher than the interest rate on your loan. The APR can be compared to other loans to give you a fair method of comparing prices.

Prepared By:
Date Prepared:

The mortgage amount minus prepaid finance charges (loan origination fees, points, adjusted interest and initial mortgage insurance premium) and any required balance. It represents a net figure to allow you to accurately assess the amount of credit actually provided.

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate %	The dollar amount the credit will cost you \$	The amount of credit provided to you or on your behalf \$	The amount you will have paid after making all payments as scheduled \$

The estimated total amount you will have paid, including principal, interest, prepaid finance charges and mortgage insurance, if you make minimum payments for the entire loan term.

REQUIRED DEPOSIT: The annual percentage rate does not take into account your required deposit

PAYMENTS: Your payment schedule will be:

Number of Payments	Amount of Payments**	When Payments Are Due	Number of Payments	Amount of Payments**	When Payments Are Due	Number of Payments	Amount of Payments**	When Payments Are Due
	<i>Principal, interest and mortgage insurance if applicable.</i>	Monthly Beginning:		<i>The estimated total amount of interest payments for the term of the loan, the amount of interest paid at closing, origination fee and any other charges paid to the lender.</i>	Monthly Beginning:			Monthly Beginning:

Defines circumstances under which the remaining principal and interest amount of the loan is due and payable on demand.

DEMAND FEATURE: This obligation has a demand feature.

VARIABLE RATE FEATURE: This loan has a variable rate feature. A variable rate disclosure has been provided earlier.

CREDIT LIFE/CREDIT DISABILITY: Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life		I want credit life insurance. Signature: _____
Credit Disability		I want credit disability insurance. Signature: _____
Credit Life and Disability		I want credit life and disability insurance. Signature: _____

INSURANCE: The following insurance is required to obtain credit:

Credit life insurance Credit disability Property insurance Flood insurance

You may obtain the insurance from anyone you want that is acceptable to **creditor**

If you purchase property flood insurance from creditor you will pay \$ _____ for a one year term.

SECURITY: You are giving a security interest in:

The goods or property being purchased Real property you already own

FILING FEES: \$ _____ *An estimate of the cost of recording the legal documents (mortgage or deed of trust) connected with the transaction, which will be charged at closing.*

LATE CHARGE: If a payment is more than _____ days late, you will be charged _____ % of the payment

PREPAYMENT: If you pay off early, you _____ *Defines whether a fee will be charged and if you would be eligible for a refund if you wish to repay part or all of the loan in advance of the regular schedule. If you are not entitled to a refund, you will be charged interest for the period of time you used the money loaned to you. Your prepaid finance charges and any interest already paid are generally not refundable. If you pay off early, you should not have to pay the full amount of the finance charges shown on the disclosure.*

may will not have to pay a penalty.
 may will not be entitled to a refund of part of the finance charge.

ASSUMPTION: Someone buying your property _____

may may, subject to condition may not assume the remainder of your loan on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date and prepayment refunds and penalties.

** NOTE: The Payments shown above include reserve deposits for mortgage insurance (if applicable), but exclude property taxes and insurance.

THE UNDERSIGNED ACKNOWLEDGES RECEIVING A COMPLETED COPY OF THIS DISCLOURE.

Defines whether the loan can be passed on from a seller of a home to another buyer, where the buyer "assumes" all outstanding payments.

(Applicant) (Date)

(Lender) (Date)

Lenders are required by law to provide the information on this statement in a timely manner. Your signature merely indicates that you received this information and does not obligate you or the lender in any way.

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The Real Estate Settlement Procedures Act (RESPA) is designed to inform consumers when shopping for a mortgage loan by disclosing the estimated costs associated with obtaining the loan.

SAMPLE GOOD FAITH ESTIMATE

Applicants:
Property Address:
Prepared By:

Application No:
Date Prepared:
Loan Program:

The information provided below reflects estimates of the charges that you are likely to incur at the settlement of your loan. The fees listed are estimates - actual charges may be more or less. Your transaction may not involve a fee for every item listed. The numbers listed beside the estimates generally correspond to the numbered lines contained in the HUD-1 settlement statement, which you will be receiving at settlement. The HUD-1 settlement statement will show you the actual cost for items paid at settlement.

Total Loan Amount \$	Interest Rate: %	Term: mths	PFC	S	F	POC
800 ITEMS PAYABLE IN CONNECTION WITH LOAN:						
801	Loan Origination Fee	\$				
802	Loan Discount					
803	Appraisal Fee					
804	Credit Report					
805	Lender's Inspection Fee					
808	Mortgage Broker Fee					
809	Tax Related Service Fee					
810	Processing Fee					
811	Underwriting Fee					
812	Wire Transfer Fee					
1100 TITLE CHARGES:						
1101	Closing or Escrow Fee:	\$				
1105	Document Preparation Fee					
1106	Notary Fees					
1107	Attorney Fees					
1108	Title Insurance:					
1200 GOVERNMENT RECORDING & TRANSFER CHARGES:						
1201	Recording Fees:	\$				
1202	City/County Tax/Stamps:					
1203	State Tax/Stamps:					
1300 ADDITIONAL SETTLEMENT CHARGES:						
1302	Pest Inspection	\$				
Estimated Closing Costs						
900 ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE:						
901	Interest for _____ days @ \$ _____ per day	\$				
902	Mortgage Insurance Premium					
903	Hazard Insurance Premium					
904						
905	VA Funding Fee					
1000 RESERVES DEPOSITED WITH LENDER:						
1001	Hazard Insurance Premium	months @ \$ _____ per month				
1002	Mortgage Ins. Premium Reserves	months @ \$ _____ per month				
1003	School Tax	months @ \$ _____ per month				
1004	Taxes and Assessment Reserves	months @ \$ _____ per month				
1005	Flood Insurance Reserves	months @ \$ _____ per month				
Estimated Prepaid Items/Reserves						
TOTAL ESTIMATED SETTLEMENT CHARGES						
\$ _____						
TOTAL ESTIMATED FUNDS NEEDED TO CLOSE:				TOTAL ESTIMATED MONTHLY PAYMENT:		
Purchase Price/Payoff (+)		New First Mortgage (-)		Principal & Interest		
Loan Amount (-)		Sub Financing (-)		Other Financing (P & I)		
Est. Closing Costs (+)		New 2 nd Mtg Closing Costs (+)		Hazard Insurance		
Est. Prepaid Items/Reserves (+)				Real Estate Taxes		
Amount Paid by Seller (-)				Mortgage Insurance		
				Homeowner Assn. Dues		
				Other		
Total Est. Funds needed to close				Total Monthly Payment		

These estimates are provided pursuant to the Real Estate Settlement Procedures Act of 1974, as amended (RESPA). Additional information can be found in the HUD Special Information Booklet, which is to be provided to you by your mortgage broker or lender, if your application is to purchase residential real estate property and the lender will take a first lien on the property. The undersigned acknowledges receipt of the booklet "Settlement Costs," and if applicable the Consumer Handbook on ARM Mortgages.

Applicant _____

Date _____

Applicant _____

Date _____