

# How does the mortgage process actually work?



## FULLY APPROVED!!

*Big Congratulations!*

### Final Underwriting and Drawing Loan Documents

The bank sends us what is called a “conditional loan approval.” This means that if we can give them back the information they are asking for (called “conditions”) then you can have the loan.

The conditions are usually clarification items, and not usually a big deal. We gather these together and send them in to the underwriter. Review of these items usually takes 24-48 hours.

### SUMMARY

1. Application
2. Pre-Approval
3. Property Appraisal
4. Underwriting
- 5. Final Conditions**
- 6. Loan Documents**
7. Closing
8. Lender Review
9. Money Transfer
10. County Recording
11. Here's Your Keys



With these final conditions, we send the proof of homeowners insurance. At this time, the lender checks to see if the property is located in a F.E.M.A. flood plain. If you happen to be in a flood plain, they will require flood insurance.

We order the final loan documents that you will sign and that will secure your property. After the lender signs off everything, they create your loan documents and then forward them to the title\escrow company. This usually takes 24-48 hours.

# Escrow Accounts

*Bite-sized payments for your bigger bills*

## Escrows

This is the time to decide if you are going to have the lender collect a pro-rated monthly portion of your property taxes and homeowners insurance.

These payments are held in a non-interest bearing account called “escrow.” As part of your monthly payment, the lender collects 1\12 of your property taxes and 1\12 of your homeowners insurance. This way, when these expenses are due, they have the money waiting. The lender, at closing also collects an additional 2-3 months of payments to serve as a

cushion against the rising costs of your taxes or your insurance.

If you choose to not have the lender collect these payments and, instead, pay these on your own, the lender will almost always charge you .25% of the loan amount. Your choice, but they are serious about having these items paid.



## Home Owners Insurance

The lenders call this “hazard insurance” and they require that the collateral for their loan (your home) is protected from catastrophe, such as a fire or a tornado or hurricane. We need to know who you want us to use for your homeowners insurance. If you don’t have an agent yet, we will usually suggest you use your car insurance company, as they often will

give you a multiple-policy discount. Later on, if you find a lower price for this product, you can change providers. If we are paying off another loan, the old lender will refund you the money they were holding for the old policy and have you reestablish the money for the new policy. If you have no preference, we have some excellent agents waiting to help you.

# Interest Rates and Rate Locks

*Is rate or payment more important?*

## Rate Locks

By the time the loan is underwritten, we should consider “locking” your loan. This is an event that secures your final interest rate. If we have not approached you about doing this, then you need to press the issue.

Lenders offer different “lock periods.” This is a time frame during which, if we can complete your loan, you can have the interest rate offered. The lenders offer the best rates for the shortest period of time, like a 12 or 15 days. Standard lock periods are 30 days. If you want to go longer, like 45, 60, or 120 days, the rates are progressively worse.

Interest rates are driven by economic factors and the stock market. Fixed rates are driven by the 10 year bond, and how it performs.

If everything in the market were equal, the best days to lock are Tuesday, Wednesday, and Thursday. (Of course that doesn't mean that some unemployment report might be released on a Tuesday, and rates could be worse on Tuesday or Wednesday than they were on Monday.)



If you are comfortable with the rate offered on a given day, and the lock period gives us enough time to finish your loan, take that rate and lock! People tend to agonize over this, and that is often unnecessary. Remember,  $1\frac{1}{8}$  in rate on \$100,000 makes only an \$8\text{\textbackslash}month difference in your payment.

### **PERSPECTIVE ABOUT THAT RATE**

***$1\frac{1}{8}$  of a percent or .125 in rate is equal to \$8\text{\textbackslash}per month on a \$100,000 loan***