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# MORTGAGES: HOW THEY REALLY WORK

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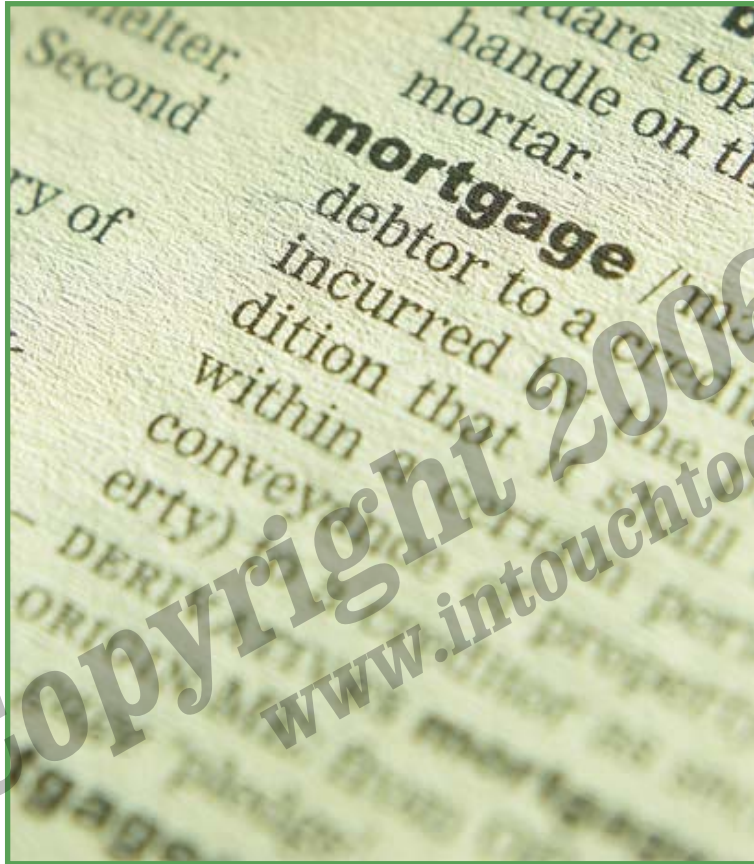
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FINANCING WON'T FEEL LIKE A FOREIGN LANGUAGE  
WHEN YOU UNDERSTAND THE BASIC TERMINOLOGY

*Presented By:*

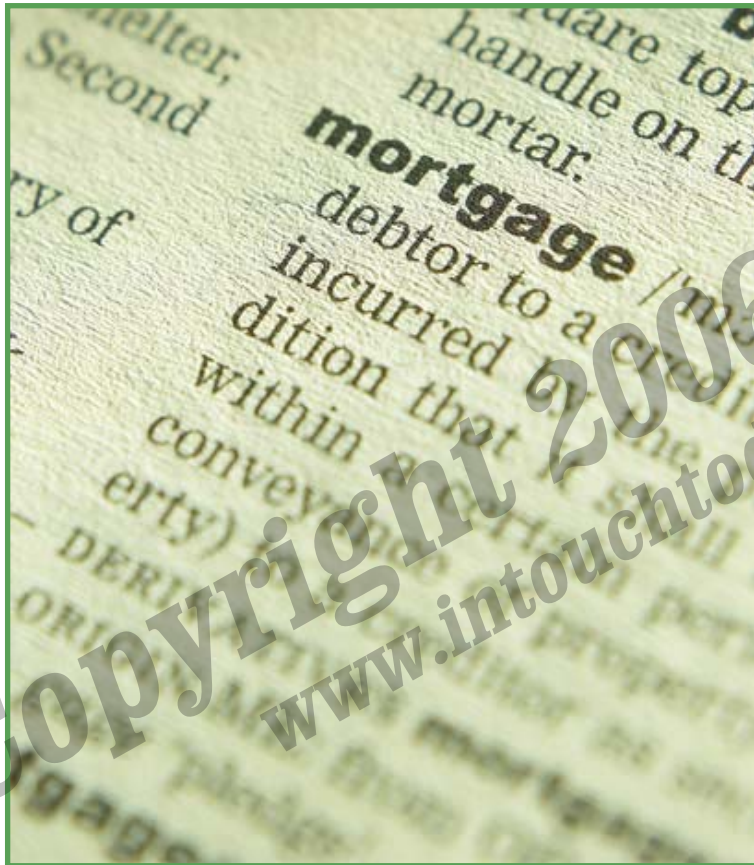
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# What We Will Discuss



- ❖ Home purchase overview
- ❖ What's involved with the pre-approval process
- ❖ What a pre-approval letter is
- ❖ Who's involved in the home buying process

# What We Will Discuss



- ❖ What's involved with the loan application process and what's required of you
- ❖ What it means to lock the rate
- ❖ GFE components
- ❖ TIL components
- ❖ What's involved with loan approval
- ❖ What happens at closing

# Home Purchase Overview

1. Complete the pre-approval process to determine how much home you can afford **before** making an offer on a home.
2. Shop for and make an offer on a home that meets your needs **and** meets the pre-approved lender financing guidelines.



# Home Purchase Overview

3. Complete the loan application.
4. Obtain loan approval.
5. Close the loan and take possession of your new home.



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# Pre-approval/Lender Letter

You provide the following basic information:

- ❖ Income/ other sources of money
- ❖ Time on job
- ❖ Monthly debts (not living expenses)
- ❖ Social Security Number
- ❖ Current address

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# Pre-approval/Lender Letter

We complete the following tasks:

- ❖ Order credit report
- ❖ Use automated underwriting software to determine how much home you can afford
- ❖ Provide a pre-approval letter used for real estate offer

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# Who's Involved in the Home Buying Process

- ❖ **Lender** – company who provides the funds for the home purchase.
- ❖ **Buyer** – person purchasing a home.
- ❖ **Seller** – person selling a home.
- ❖ **Real estate agent** – two types of agents:
  - ❖ Seller's agent – earns a commission on a home sale
  - ❖ Buyer's agent – earns a commission on a home purchase
- ❖ **Home inspector** – inspects home prior to closing; details condition of home
- ❖ **Home appraiser** – sets a dollar value for a home's worth



# Loan Application Information



1003 (loan application) includes:

- ❖ Name, date of birth, SSN
- ❖ Address information
- ❖ Employment information
- ❖ Assets
- ❖ Co-applicant information

# What to Bring to Your Application Meeting

- ❖ Bank statements (checking and savings)
- ❖ W-2's and pay stubs
- ❖ Purchase agreement
- ❖ Personal and business tax returns (self-employed)
- ❖ Driver's license
- ❖ Second form of identification such as credit card – comply with Patriot Act
- ❖ Check – appraisal and credit bureau report fee

# Disclosures

- ❖ At the time of application you will receive copies of:
  - ❖ 1003
  - ❖ Truth in Lending (TIL)
  - ❖ Good Faith Estimate (GFE)
  - ❖ Pamphlet about lending process
- ❖ If the TIL and GFE aren't provided at time of the loan application, they are sent within 3 days of applying

# What Happens Next

- ❖ Request title work to ensure clear title to property
- ❖ Verify:
  - ❖ Assets
  - ❖ Employment
  - ❖ Salary
  - ❖ Debts
- ❖ Identify any additional documentation needed



# Locking Your Rate



- ❖ Do you lock your rate the day you apply for your loan or do you “float”?
- ❖ Locking or floating is like playing the market – will the rates go up or down?

# Who Controls the Market?

- ❖ Banks used to control the mortgage market
- ❖ Wall Street now controls Mortgage Backed Securities (MBS)
- ❖ MBS's are sold on the open market
- ❖ Collateral for this investment is a group/pool of home mortgages

# Why Rates Vary

- ❖ Interest rates fluctuate with Wall Street pricing throughout the day
- ❖ Depending on when mortgage companies check daily prices rates may vary



# Do You Lock or Float?



- ❖ How much of a risk taker are you?
- ❖ How much do you know about the market and its swings?
- ❖ Do you have access to a financial planner or stock analyst?

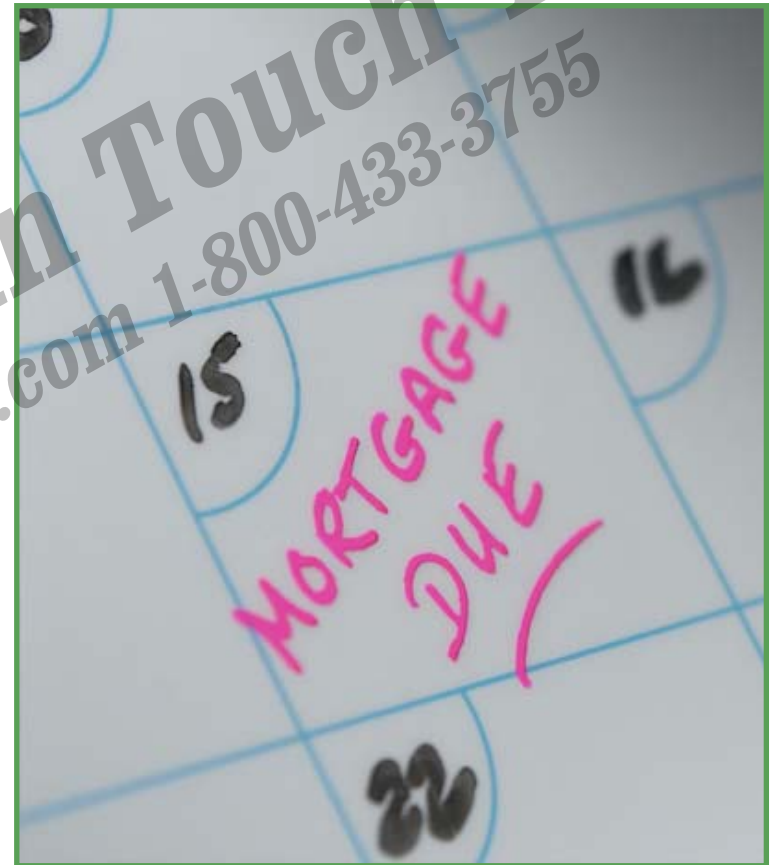


# Locking the Rate

- ❖ Once you choose to lock the rate we:
  - ❖ Notify our investor in writing of the desired interest rate
  - ❖ Receive confirmation from the investor
- ❖ Unless otherwise noted your rate is typically locked for 30 days
  - ❖ There is no charge for locking a rate for 30 days; extended locks usually cost one or more points

# Discount Points

- ❖ Paying points is one way to permanently lower your interest rate
- ❖ One discount point is 1% of the loan amount
- ❖ Buying down your rate lowers your monthly payment
- ❖ One discount point doesn't typically translate to a 1% interest rate reduction



# Good Faith Estimate Basics



❖ GFE provides a line by line description of costs associated with your loan

❖ Lender's fees

❖ Paid in advance fees

❖ Insurance fees

❖ Title fees

❖ Recording fees

❖ Settlement fees

# Why the Good Faith Estimate can be Confusing

1. No industry standard for fee names
2. No industry standard for fee pricing structure
3. No industry standard for which fees are charged
4. Closing costs include costs set by others including:
  - ❖ Local, state and city fees
  - ❖ Attorney or title company fees
  - ❖ Pre-paid interest (based on the day you close)
  - ❖ Pre-paid escrows (based on the month you close)
  - ❖ Underwriting fees (based on the loan type and rate)

# GFE – Lender and Paid in Advance Fees

- ❖ Origination fee
- ❖ Interest rate discount fee
- ❖ Appraisal fee
- ❖ Credit report
- ❖ Tax service fee
- ❖ Underwriting review
- ❖ Yield Spread Premium
- ❖ Processing fee
- ❖ Escrow waiver fee
- ❖ Accrued interest from date of funding to the end of the month
- ❖ Mortgage insurance premium (PMI)
- ❖ Hazard insurance premium plus impounds
- ❖ Flood insurance premium plus impounds
- ❖ Reserves (escrows)
- ❖ Property taxes

# GFE – Title Fees and Additional Settlement Charges

- ❖ Services rendered
- ❖ Escrow fee
- ❖ Document preparation fee
- ❖ Notary fee
- ❖ Attorney fee
- ❖ Title insurance
- ❖ Title search
- ❖ Recording transfer fees
- ❖ City/county taxes
- ❖ State tax/stamps
- ❖ Survey
- ❖ Flood certification
- ❖ Funding fee – wire transfer
- ❖ Paid fees/costs (credited to you at closing)

# GFE – Pre-paid Costs and Escrow Fees

- ❖ Interest – based on the number of days from the date of close to the end of the same month
- ❖ Homeowner's insurance – based on property value and pre-paid a year in advance
- ❖ Homeowner's insurance – based on property value and equals two month's payments
- ❖ PMI impound – LTV ratio equals one month's payment
- ❖ Property tax impound – varies based on property tax due date

# What is the TIL (Truth in Lending)?

## ❖ Federal disclosure

- ❖ Helps borrowers understand that their total borrowing cost is more than just the interest rate
- ❖ If all mortgage related closing costs were lumped into the interest rate rather than paid separately, this would be the increased interest rate needed to pay these costs

## ❖ Contains the following parts:

- ❖ APR (Annual Percentage Rate)
- ❖ Finance charge
- ❖ Amount financed
- ❖ Payment information
- ❖ Prepayment penalties
- ❖ Assuming the loan
- ❖ Insurance and debt cancellation



# TIL Form Defined - APR

## ❖ APR (Annual Percentage Rate) calculation includes:

❖ Amount of interest paid over the life of the loan

❖ Closing cost fees including:

❖ Origination fee

❖ Loan discount fee

❖ Appraisal

❖ Credit report fee

❖ Loan discount fee

❖ Tax service fee

❖ Life of loan coverage flood fee

❖ MPI and impound cushion

❖ Administrative fee

❖ Commitment fee

❖ Escrow fee

❖ Lender's attorney fees

❖ Loan tie-in

❖ Sub escrow – pay off existing loan liens

❖ Title company fax and courier fees

❖ Wire transfer fee

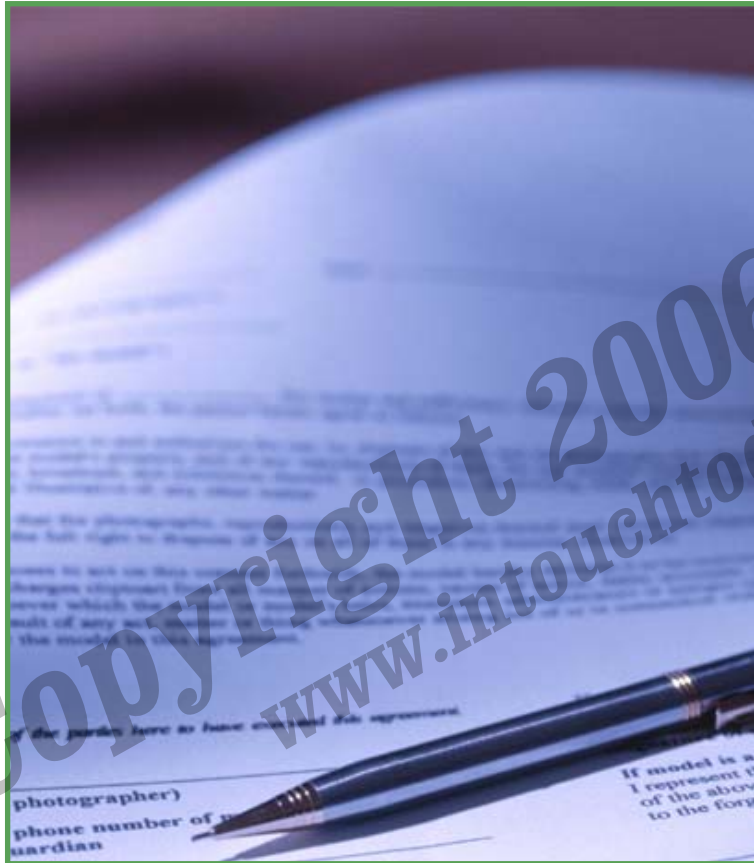
❖ Signing fee

# APR Calculation Warning

- ❖ Can only be calculated on your specific loan amount and final closing statement
- ❖ Changes to closing costs or loan amount changes APR
- ❖ When comparison shopping, compare similar loan products and same loan amounts



# TIL Form Defined – Finance Charge



- ❖ Defined as the cost of credit over the life of the loan and includes charges such as:
  - ❖ Interest
  - ❖ Points
  - ❖ Document prep fees

# TIL Form Defined – Amount Financed

- ❖ Different from the amount financed
- ❖ Mortgage amount minus:
  - ❖ Points
  - ❖ Certain closing fees



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# TIL Form Defined – Payment Schedule



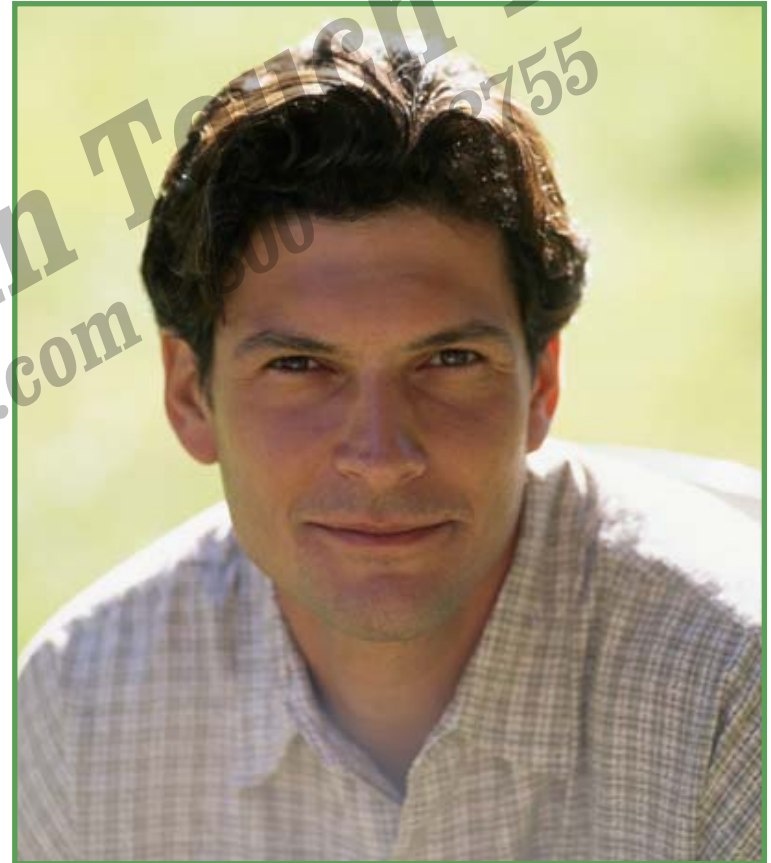
- ❖ Payment schedule includes:
  - ❖ Number of payments (based on loan term)
  - ❖ Amount of monthly payment (estimate) includes:
    - ❖ Mortgage insurance premiums
  - ❖ Payment due date

# TIL Form Defined – Prepayment

- ❖ Outlines prepayment conditions:
  - ❖ Pre-payment penalty – fee assessed if pay off loan before its due date
  - ❖ No pre-payment penalty and no refund given for interest paid in previous years

# TIL Form Defined – Insurance

- ❖ Identifies fees excluded from finance charge:
  - ❖ Insurance premiums
    - ❖ Hazard
    - ❖ Flood
    - ❖ Private mortgage insurance
  - ❖ Debt cancellation fees
    - ❖ Credit life
    - ❖ Accident, health or loss of income insurance



# TIL Form Defined – Assumption

- ❖ Assuming the loan:

- ❖ Transferable to another borrower with no change in rate or conditions

- ❖ Person assuming the loan may or may not have to qualify

- ❖ Very few mortgages offer this feature anymore

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# Preparing for Loan Approval



- ❖ Submit all requested paperwork in a timely manner
- ❖ Not submitting paperwork results in unnecessary delays
- ❖ Provide your insurance carrier's name and contact information

# Loan Approval

- ❖ Loan processor:
  - ❖ Compiles all necessary documentation
  - ❖ Creates a loan file that tells your “story”
  - ❖ Submits file to the underwriter



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# Loan Approval

- ❖ Underwriter:
  - ❖ Reviews your application
  - ❖ Verifies that application complies with loan guidelines established by loan guarantor
- ❖ Receive approval confirmation within 48 hours



# The Big Day - Closing



- ❖ Closing instructions are faxed to closing company:
- ❖ Prepare HUD-1 settlement statement
  - ❖ Outlines both sides' financial obligations in transaction
- ❖ Meet seller, closer, real estate agents and lender at closing table

# The Big Day - Closing



- ❖ Bring driver's license/form of ID
- ❖ Bring funds due at closing:
  - ❖ cashier's check or certified funds
- ❖ Sign all documents, receive copies of all documents

# Key Take Aways

- ❖ Pre-approval letter used to speed up acceptance by seller of your offer
- ❖ Pre-approval letter is NOT loan approval or commitment for funds
- ❖ Loan application provides basic information needed to begin loan process
- ❖ Bring all requested documentation to loan meeting to reduce additional requests for required information

# Key Take Aways

- ❖ Receive copies of 1003, Truth in Lending and Good Faith Estimate at end of loan application meeting
- ❖ Loan process begins by verifying all information supplied
- ❖ Interest rate is locked for 30 days at no cost to you
- ❖ Interest rates vary based on Wall Street pricing throughout the day

# Key Take Aways

- ❖ Rates may vary more than once a day
- ❖ Paying discount points is a way to lower your interest rate
- ❖ One discount point doesn't typically mean a 1% interest rate reduction
- ❖ Good Faith Estimate provides description of certain costs incurred



# Key Take Aways

- ❖ Truth in Lending shows that total borrowing cost is more than just the interest rate
- ❖ Annual Percentage Rate indicates how much interest is paid over the life of the loan
- ❖ Provide all additional required information to process your loan in a timely manner
- ❖ Underwriter reviews your file against the loan guidelines

# Key Take Aways

- ❖ Loan approval granted and closing date finalized
- ❖ On the day of closing, bring your ID and funds due
- ❖ Sign all paperwork and receive closing documents

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# Thank You!

For more information:

Your Name

Your Telephone Number

Alternate Contact Number

Your email address

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