

How Purchase Loans Are Made

A Step-By-Step Walkthrough

- 1. Pre-approval** - Getting pre-approved for a mortgage allows borrowers to know exactly how much house they can afford. Viewed as "cash buyers", pre-approved borrowers have greater negotiating power as well.
- 2. Loan Search** - Buyers should seek the advice of an experienced mortgage professional, someone who will help determine which financing options best suit their needs today *and* in the future.
- 3. Loan Application** - It's crucial that consumers supply the lender with as much information as possible, as accurately as possible. All outstanding debts as well as assets and income should be included.
- 4. Documentation** - Buyers must submit paperwork supporting the application as well. Information commonly sought includes pay stubs, two years' tax returns, and account statements verifying the source of the down payment, funds to close and reserves.
- 5. The Hunt** - The buyer begins shopping for a house. When the right one is found, the terms of the sale will be negotiated, including the price and potential terms of the loan being sought.
- 6. Appraisal** - Lenders require an appraisal on all home sales. By knowing the true value of the home, the borrower is protected from overpaying.
- 7. Title Search** - This is the time when any liens against the property are discovered. A lien may have been placed on a property to ensure payment of outstanding debts by the owner. All liens must be cleared before a transaction can be completed.
- 8. Termite Inspection** - While most purchase loans do not require a formal inspection for termite and water damage, some loans (especially government loans) allow for the possibility. If problems are found, repairs may be necessary.
- 9. Processor's Review** - The mortgage professional packages all pertinent information and sends it to the lending underwriter, including any explanations that may be needed, such as reasons for derogatory credit.
- 10. Underwriter's Review** - Based on the information put together by both the loan executive and the processor, the underwriter makes the final decision regarding whether or not a loan is approved.

11. **Mortgage Insurance** - Many lenders require private mortgage insurance when borrowers put down less than 20 percent on a loan.
12. **Approval, denial or counter offer** - In order to approve a loan, the lender may ask the borrowers to put more money down to improve the debt-to-income ratio. The borrower may also need a bigger down payment if the property appraises for less than the purchase price.
13. **Insurance** - Lenders require fire and hazard insurance on the replacement value of the structure. Flood insurance will also be required if the property is located in a flood zone. In California, some lenders require earthquake insurance on condominiums.
14. **Signing** - During this step, final loan and escrow documents are signed.
15. **Funding** - At this point, the lender sends a wire or check for the amount of the loan to the title company.
16. **Confirmation of Recording** - The lender authorizes the disbursements of loan proceeds.
17. **Close of Escrow** - Documents transferring title will now be recorded with the County Recorder.
18. **Buyer Begins Making Mortgage Payments**