



LOAN  
APPROVED

HOW  
THE **LOAN**  
Process  
Works

Presented by:



**MARK PULASKI**

Home Mortgage Specialists, Inc.  
NMLS #2358825

 312-788-4429  
 mpulaski@hmsmtg.com

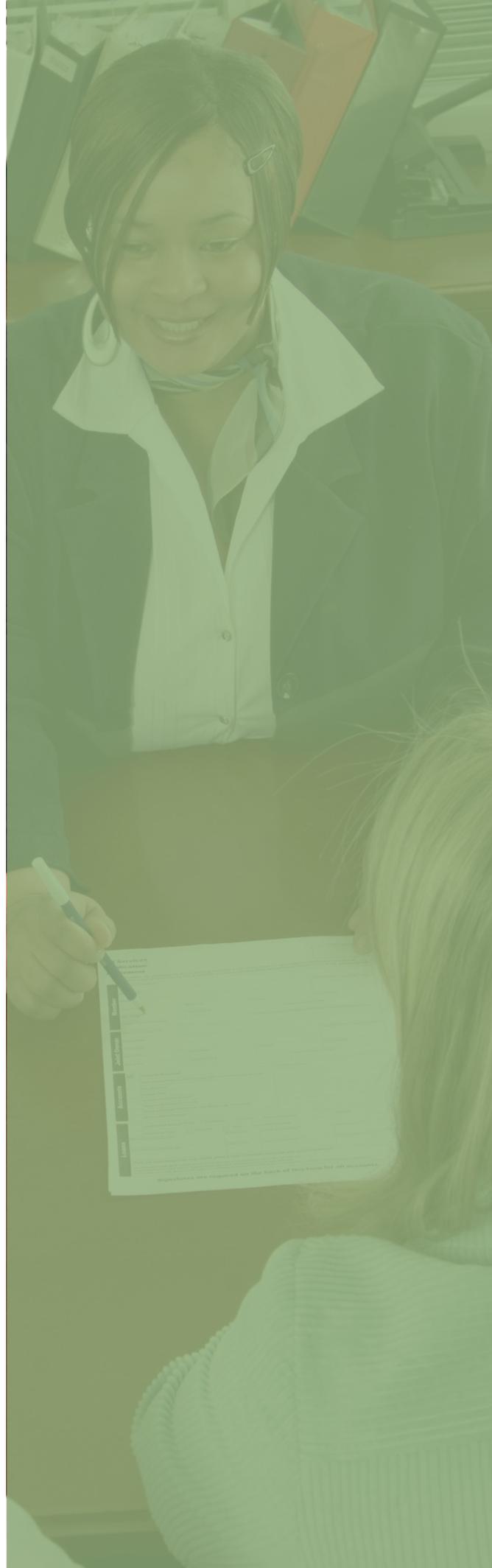
# How the Loan Process Works

---

The mortgage loan process can be intimidating. There are many moving parts, and you're borrowing a large sum of money - potentially more than you have in the bank.

Don't panic-millions of homeowners have done this successfully, and come out wealthier and more satisfied in the long run, with a legacy to leave to the next generation.

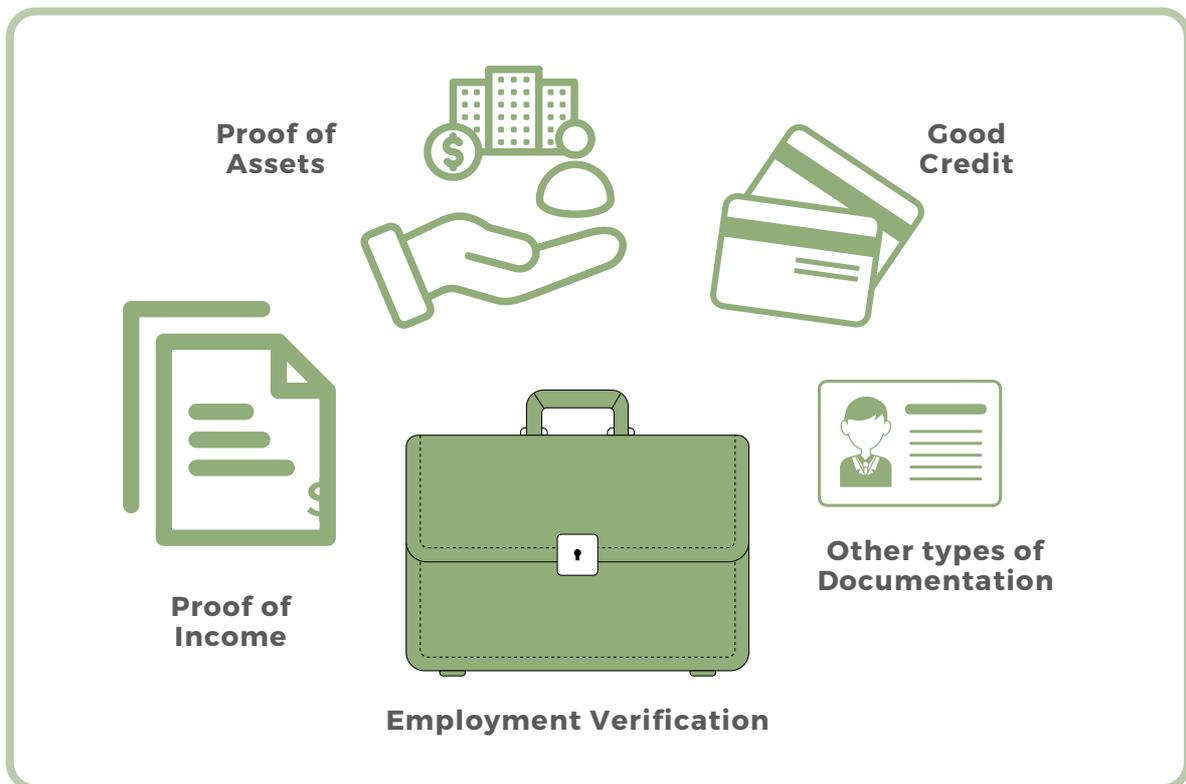
Let's walk through the process step-by-step, so there's no mystery about where you are in the process and what comes next.



# Prepare Documents

Before you even tour one house, consider getting pre-approved for a mortgage. This will make your ultimate offer a lot stronger, but also give you a chance to meet with your broker to go over your options. Pre-approval requires a lot of documentation, so start pulling these together. Make sure to have:

- Your ID- driver's license, passport, etc.
- Your two most recent pay stubs.
- Your last two completed tax returns.
- A personal financial statement - a statement of all your assets and liabilities, income and recurring expenses.
- All recent bank account and investment account statements.
- The title to any assets.



## 2. Get Pre-approved for a Mortgage

All of the documents noted in Step 1 will be required for a lender to pre-approve you. Note that pre-approval is a much more intensive process than pre-qualification, and sellers take it much more seriously. Pre-approval is worth the effort. A pre-approval letter from a reputable lender makes your offer much stronger. It gives the seller confidence that the deal will actually close because a lender has thoroughly vetted you as a borrower and given you a verified stamp of approval.

As your mortgage broker leads you through the pre-approval process, they will help you compare interest rates, origination fees, loan-to-value tolerances, discount points, and explain the different loan programs available to you (Conventional, VA, FHA, USDA)

## 3. Estimate Your Budget

After your pre-approval, you will have a very good idea of how much you can borrow. Add that to the down payment you can afford, and you have your maximum budget for a home.

Note that you can always borrow less than the maximum your lender is willing to lend. There's no law saying you have to buy "as much house as you can afford."

Look at the monthly payment described in the pre-approval letter. Are you willing to pay that much every month, or do you have other expenses or savings goals you want to devote some of your income to? If so, consider a lower budget for your home.

## 4. Shop For Your Home and Make An Offer

Now that you know your budget, you can start reviewing homes within that price range. When you find one you like, make an offer. Your pre-approval letter will make your offer much stronger- provided that the pre-approved loan balance and your down-payment reserve will cover the entire offer price. If you have a buyer's agent, they will help you prepare the offer and give tips on how to make it stronger.

If the seller accepts your offer, you will need to turn over an earnest money deposit and execute a purchase contract. Congrats! You are now "under contract. The real fun is about to start!

## 5. Order a Home Inspection (ASAP)

Your purchase contract will most likely have an inspection contingency a period of time in which you are allowed to inspect the property, with the help of a professional home inspector. If you don't like what you see, you can cancel the contract with no penalty and get your earnest money deposit back.

This is important-don't delay! Home inspectors tend to book in advance. If you wait too long and can't get a home inspector to the property in time, the inspection contingency might expire. If you want to pull out of the contract after that date, you won't get your deposit back and may face other repercussions

As soon as you have an address to give them - basically as soon as the ink is dry on the purchase contract-find a home inspector with availability before the date of the expiration of the contingency and book the inspection.

## 6. Choose a Lender

Now it's time to work with your broker to pick your lender. Different lenders may offer different rates and terms, although they rarely differ wildly in what they can offer. You don't have to pick the lender who pre-approved you, though the process may go more smoothly since they have already vetted you.





## 7. Complete Your Lender's Mortgage Application

You will need to submit documentation for the final mortgage application. Much of the documentation will have already been gathered during the pre-approval process, but you will need your most recent pay stubs and will need to authorize another credit pull.

## 8. Wait for Processing and Underwriting

Once your application is complete, it goes to the lender for processing and underwriting. Your documentation will be thoroughly reviewed. The lender will pull your credit and verify employment.

The lender will also evaluate the property to determine its eligibility to act as collateral for a loan. More on that in Step nine.

## 9. Have the Home Appraised

A lender will always require a professional appraisal of the property. That appraisal will act as its official value for the purposes of underwriting the loan. The lender usually picks the appraiser, but you will have access to that appraiser's name and credentials.



## What happens if the home does not appraise?

What happens if the appraiser estimates a value of the home that is worth lower than the price in the purchase contract? This can have serious implications for the buyer's ability to close the deal.

Let's game it out. A lender usually has a maximum loan-to-value ratio that they will accept. Suppose a lender has an LTV tolerance of 95%. The buyer and the seller agree to a purchase contract for a price of \$400,000.

95% of \$400,000 is \$380,000. Theoretically, the lender will loan \$380,000, and the buyer will need to put \$20,000 down.

But let's say the appraiser comes back and says the house is only worth \$360,000. Oops. What happens now?

The lender will still only lend that 95% LTV. That means a maximum loan of \$342,000. To satisfy the purchase contract at \$400k, the buyer now has to come up with \$58,000 for a down payment. Ouch. The buyer was expecting to put down \$20,000... now he needs to put down almost three times that amount.

What can the buyer do in this situation?

- If he has the money and really wants the house, he can suck it up and make the bigger down payment.
- If he doesn't have the money, he can go to the seller and try to renegotiate the contract for a lower price. If the seller doesn't agree, however, then the deal may fall through. If contingencies have already expired, the buyer may lose his earnest money deposit.

Let's say, however, that the buyer intended to make a bigger down payment anyway - say, 20% so he doesn't have to pay PMI (private mortgage insurance, required for down payments below 20%).

This buyer plans to put \$80,000 down on that \$400,000 house and borrow \$320,000. If the appraiser comes back with a value of \$360,000, the lender will still only agree to lend \$342,000... but that doesn't matter, because the buyer wasn't going to borrow that much anyway! He was only going to borrow \$320,000.

This is just an illustrative example. If you only have the money for a small down payment, be very careful about bidding a home above the value it is likely to appraise for. If you do that, the deal is much more likely to fall apart in financing.

## 10. Celebrate Closing Day!

There will be a bunch of other paperwork and disclosures to sign, but the deed and the note are the two most important documents in a mortgage. The deed establishes your ownership of the home, subject to a lien held by the lender. The note establishes the terms of the loan.

With all the paperwork executed and the necessary approvals complete, the lender wires the loan proceeds to escrow, you wire your down payment to escrow.

Once enough funds are in escrow to satisfy the purchase contract and closing costs, the escrow holder distributes funds to everyone who is owed money for the transaction - most importantly the seller. The deed is recorded with the County Clerk, and you get the keys- you are officially the owner of that property.

Congrats and welcome home!

Ready to get started on your mortgage application? Give me a call today!

**MARK PULASKI**

HOME MORTGAGE SPECIALISTS, INC.

NMLS #2358823

312-788-4429

MPULASKI@HMSMTG.COM



