Behind The Scenes of Your
MORTGAGE LOAN

Your Best Interest is Our Top Priority SM

Mortgage Capital Associates

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Mortgage Capital Associates (MCA)’s eBook, *“Behind the Scenes of Your Mortgage Loan”!*

The mortgage process start to finish can seem complicated and overwhelming. Unfamiliar words and terms compete with weird acronyms in an alphabet soup of banking bureaucratese. But it’s all just shorthand for a professional language you’ll quickly learn to understand, speak and translate for yourself.

This guide walks you through the entire home mortgage process, from getting your credit in order to signing your name on all the dotted lines. We’ll explain industry jargon and give you the information you need to get the best loan that’s out there. You’ll have the confidence you need to make the right decisions.

Use this guide as a reference as you move through the mortgage process. If you have questions, get in touch with us! It’s our job to give you the answers you need, and we’re easy to reach by phone, email or online.

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TABLE OF CONTENTS

SHOPPING FOR A MORTGAGE

SECURING YOUR HOME LOAN

CLOSING YOUR HOME LOAN

Shopping For a Mortgage

1. Choosing a Lender

It's not hard to find brokers and lenders eager for your business. Your challenge is to find a lender that you can comfortably work with, one whose people make it their business to look out for clients' financial interests. You should feel confident that your broker and lender are trustworthy, and that they will take the time to ensure that your loan is expertly researched and executed so that you end up with the best terms and lowest cost.

At a minimum, the lender you choose should be a well-established financial institution, and the representatives extremely knowledgeable. They should also be available to answer your questions and concerns. Think of the dollar figure you plan to borrow, and insist on a level of customer service commensurate with the size of the product you're buying.

2. Mortgage Shopping Timeframe

When shopping lenders and authorizing credit checks, you're going to lower your credit score. It's how the system works. At the same time, you have the right to shop with as many lenders as you like. Just do your mortgage shopping within a 45-day time frame. The inquiries won't hurt your score at all within the first 30 days. Then all mortgage lender inquiries within a 45-day period will count as a single single inquiry (older FICO scoring models had a 14-day time frame). This means that you can have your credit checked by an unlimited number of lenders within a 45-day period without harm to your credit score, enabling you to compare mortgage rates and fees. Keep in mind that rates can change daily, so getting several quotes in one day will make it easier to compare offers.

3. Key Factors When Choosing a Mortgage

Choosing a mortgage seem very overwhelming. Here is some basic components that you should know in order to make an informed decision. Take the time to learn about the loans offered as you shop around, and find a lender willing to guide you through the process.

Note:

If a loan has a very low interest rate, the chances are the fee structure is high. Similarly, if there are lots of features attached to the loan, you will usually pay for them via higher rate or more fees. We believe structure is the first thing to get right before you choose your rate or lender.

A. Mortgage Interest Rate

Interest rates rise and fall like bubbles in a lava lamp, subject to many influencing market factors. A quoted rate is only good at the moment it is quoted, unless you formally lock it in. Even a small difference in rates can add up to tens of thousands of dollars over the lifetime of the loan. Ask lenders for a good-faith estimate (GFE) so you can compare rates and fees. A GFE is the lender’s best estimate of your loan terms and settlement (closing) costs, but terms and fees can change until you lock in your rate. Keep in mind that the APR represents the fees spread over the entire loan term, meaning if you sell your home after one year, your actual APR will be higher.

B. Origination/Discount Points By Lender

Points are fees paid upfront to reduce the interest rate on your loan – essentially a form of pre-paid interest. One point costs one percent of the loan principal and typically lowers your total interest rate by an eighth of a percent (0.125%). Ask for the cost of points in dollar amounts, as well as a comparison of monthly payments and interest rates associated with purchasing points. Paying for points usually only makes sense if you plan to stay in your home for several years or longer.

C. Loan Type

A mortgage is a promissory note – an I.O.U. – on a specific property, your home. It is a personal pledge in writing to repay a specified sum of money, plus interest, at a specified rate and for a specified length of time, usually 15 or 30 years but sometimes as few as 10 or 12, depending on what the borrower can afford. The sheer number of mortgage options is often a source of confusion for homebuyers. **Here are the most common types:**

Fixed-Rate Mortgages	Adjustable-Rate Mortgages	FHA & VA Loans
For a fixed-rate mortgage, the interest rate is guaranteed to remain fixed for the stated period of the loan. That predictability makes it easier to set your budget. Advantages include predictable monthly payments and the ability to spread payments out over a long period of time. Fixed-rate mortgage loans are available in a variety of repayment terms, with 30-, 20-, and 15-year fixed-rate mortgages being the most popular.	Adjustable-rate mortgages (ARMs) have an interest rate that may change periodically depending on changes in a financial index associated with the loan. Advantages include lower early payments and lower rates during the introductory fixed-rate period. ARMs are ideal for borrowers anticipating moving into a fixed payment program later or who have shorter-term ownership plans. Interest rate is fixed for 3, 5, 7, or 10 years (based on the chosen ARM product), and becomes variable for the remaining loan term, adjusting every year thereafter, based on the movement of the index.	The Federal Housing Adminiatration (FHA) and the U.S. Department of Veterans Affairs (VA) loans are insured by the governement. Advantages of FHA loans include a low down payment and greater flexibility for those with less-than-perfect credit. Advantages of VA loans include no down payment for qualified borrowers. Both loans are availalbe as a fixed-rate or an adjustable-rate mortgage.

D. Closing Costs

Mortgages include a variety of fees that vary from one lender to another. ("No-fee" or "no-cost" loans come with higher interest rates.) Closing costs include lender fees and amounts paid to others, like title insurance, escrow companies and appraisers. There are likely to be prepaid expenses as well, such as property taxes and homeowners insurance. Costs related to obtaining the loan will be identified on the Good Faith Estimate (GFE). Every transaction is unique and you may be responsible for any number of costs. For detail breakdown of closing costs, please refer to page [13] *What Fees and Charges Are On The Good Faith Estimate*.

> **Did You Know?**
>
> No-closing-cost mortgage saves thousands in upfront fees. The trade-off for skipping closing costs is a higher mortgage rate.
>
> Avoiding closing costs sensible for some borrowers, but not others.

E. Lock Period

Be sure to note the lock period on loans. The longer you need to lock the rate in, the more you'll pay. Know what happens if you close after the rate lock expires. Also pay attention to the underwriting timeline. The sales contract on your new home likely specifies how long you have to secure financing, so make sure it allows ample time for underwriting. Your lender can tell you how much time they'll need.

F. Prepayment Penalties

Read your mortgage documents carefully to find out whether there are any prepayment penalties, or fees charged for early repayment of your loan. This is important information in case you decide to make extra payments or otherwise pay off your loan early. Lenders lose money in interest charges when you pay off a loan early, which is why the more you pay off early, the higher the potential penalty will be. Prepayment penalties typically range from 1-3% of the total cost of your loan.

Securing Your Home Loan

1. Pre-Qualification vs. Pre-Approval

Pre-Qualification is a preliminary step that indicates whether you may qualify a mortgage. The lender doesn't verify any of your financial information, and you can often get pre-qualification online or over the phone within just a few minutes.

Pre-Approval is more accurate, with the lender verifying the information you've provided. The lender pulls your credit score in order to tell you whether you're likely to be approved for a loan of a given size.

Pre-approval is not a guarantee of financing, but it may give you an edge when making an offer. Many sellers prioritize offers that aren't contingent on financing, and pre-approval means your financing is already in the bag. You can speed up the home buying process by getting pre-approved right away.

What are the benefits of being Pre-Approved:

- A pre-approval from a respected lender signifies to sellers that you are a serious buyer with the ability to purchase their home.
- When competing against investors and other buyers, your pre-approval becomes a critical component to getting an offer accepted.
- During the pre-approval process your lender has become familiar with your financial situation and will be prepared with a home loan that is tailored to your needs.

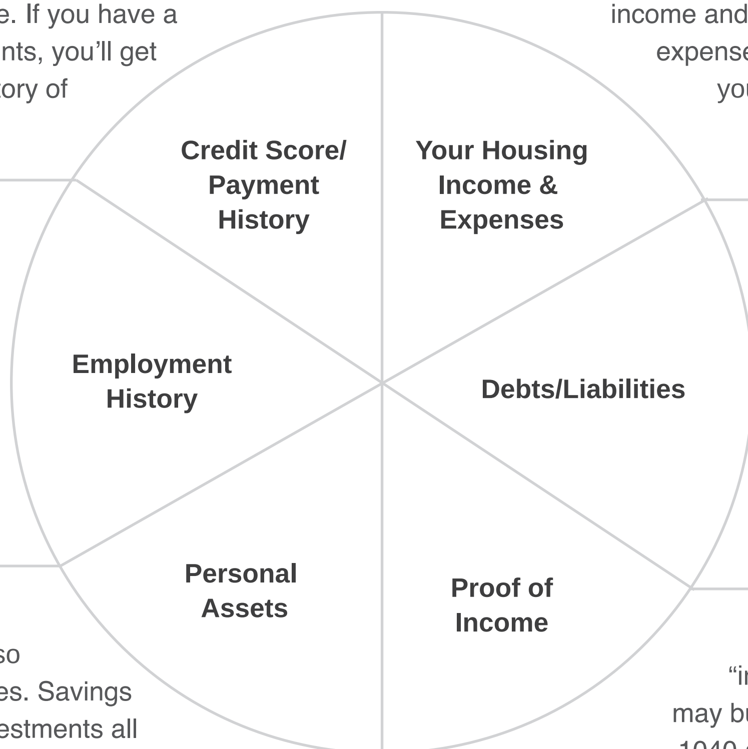
Important Message!

Read our Do's and Don'ts during mortgage process.

Remember, the lender is looking for stability and consistency.

2. What Lenders Look For

Understanding what lenders look for is key to preparing yourself for the mortgage process. Getting your finances in order ahead of time means you'll get the best possible rate and terms when you apply for your mortgage, which can save you tens of thousands of dollars in the long run. Position yourself to get the best loan by knowing what lenders look for before you apply.



Good payment habits are crucial to securing a mortgage, and they are reflected in your credit score. If you have a history of making regular, on-time payments, you'll get much better terms than if you have a history of collections accounts or even bankruptcy.

Lender will consider the relationship between your income and expenses. Generally, your fixed housing expenses should not be more than 28 percent of your gross monthly income, although this is not an absolute rule.

Job stability is a factor that mortgage lender will look for, and you'll need to show stable income for the past two years by providing W-2s and tax returns. If you change jobs but stay in the same line of work, you should not have a problem- especially if the job change is an advancement or increase in income.

Your debt load – auto loan, credit card debt, student loans, etc. – plays a big role in whether and how much a bank will lend you for a home loan. The more you reduce your debts prior to applying for a mortgage, the better terms you will get.

You need enough cash to pay for the down payment and closing costs. You also need three months' worth of cash reserves. Savings accounts, retirement funds and other investments all qualify as recordable assets. However, only cash on hand counts towards your down payment. Special requirements apply to gifted funds that you plan to use toward your down payment, and you must provide documentation showing the source of the gift.

Note the two key words - "proof" and "income". Your hard work as a landscaper may buy you a nice living, but unless you file a 1040 at tax time, you'll be having a lot of short conversations with lenders. Even in an age when contracting and freelancing is widely accepted, conventional employees with pay stubs have a leg up over the self-employed.

3. Understanding The Good Faith Estimate (GFE)

The **Good Faith Estimate(GFE)** is a form provided by your lender that gives you basic information about the cost of your loan. It is required by federal law. Prior to 2010, the GFE was purely an estimate. Lenders are now committed to most of the dollar amounts quoted on the estimate. The final costs might differ slightly from those on the GFE, but only the third party costs, and by no more than 10%. The GFE is not a contract. Receiving a GFE does not obligate you to accept the loan, nor does it obligate the lender to make the loan.

The GFE is a standard form used by all lenders and brokers. Each box on the forms you receive from competing lenders or brokers must contain the same information so that you, the borrower, can compare the loans in a way that makes sense.

The GFE will include origination fees and settlement fees. Pay close attention to the fees that the lender controls directly. Third party fees (title search, notary, title insurance, and so on) are fairly consistent in the industry and won't vary much from one GFE to the next. Taxes and government fees should be the same no matter what lender or broker you choose. The major differences will be in lender/broker-controlled fees like underwriting, mortgage insurance application or tax-related service fees.

Your lender cannot guarantee costs if you choose your own provider of third-party services. If you choose to use a title company, real estate attorney, notary public or other third-party vendor not on the lender's approved list, the lender understandably cannot predict or control the cost and is not obligated to honor any price noted on the GFE.

When you review the GFE, you should check out the lender's/broker's reputation. Some details on a GFE can be changed up to 3 days before closing. Unscrupulous brokers/lenders in the industry may use that as a bait-and-switch loophole, luring you into a favorable loan only to change the terms at the last minute. Reputable lenders will not, as a matter of course, change (or "redisclose") pertinent loan details at a late stage in the loan process. Ask your lender if they expect any details to change or fluctuate – the interest rate, for example – during the weeks leading to closing.

The 800 Section

The 800 section of the GFE is where the lender, broker, appraisal fees are. These are the fees to compare with different lenders and brokers. An origination fee is commonly set forth on Line 801, discount points paid by the borrower are set forth on Line 802, and the appraisal and credit report fees are set forth on Lines 803 and 804 respectively. The remainder of the fees paid to the mortgage brokers and lenders will be set forth on the remainder of the other lines in the 800 section of the GFE.

The 900 Section

The 900 section of the GFE includes “Items Required by the Lender to be paid in Advance” such as prepaid interest that is paid by the borrower on the new loan from the date of closing through the last day of the month on Line 901, and prepaid hazard or casualty (homeowner’s) insurance that the borrower is required to pay in advance on Line 903.

The 1000 Section

The 1000 section of the GFE lists escrow reserves where the deposits made by the borrower to an escrow account (sometimes referred to as an “impound” account) maintained by the lender for the payment of taxes and insurance premiums on the property securing the loan.

The 1100 Section

The 1100 section of the GFE includes “Title Charges” incurred by the title and escrow company, referred to as a third party fees. These fees are not controlled by lenders. The borrower has an option to select their own settlement agent.

The 1200 and 1300 Section

The 1200 section includes “Government Recording and Transfer Charges” and the 1300 section includes other charges in connection with the transaction.

4. The Five Factors of Credit Scoring

Your credit score determines the rate and terms you'll get on your mortgage (and thus the total cost of your home loan). You'll get the best rates if you have a credit score of 760 or higher. Consider these five factors when trying to improve your credit.

Payment History has a 35% impact	Your payment history is the single most influential factor in your credit score. Even if you have debt, a history of on-time payments will take you to the top of this category.
Outstanding Credit Balance has a 30% impact	Keep your balances to no more than 10% of your limits. The points aren't based on dollar amounts, but rather on the debt you carry as a percentage of the total debt available to you.
Length of Credit History has a 15% impact	The longer your accounts have been open, the higher your score will be. Opening new credit cards will decrease the average length, and therefore hurt this portion of the score.
Type of Credit has a 10% impact	You should have a diverse mix of credit accounts in your name.
Inquiries has a 10% impact	Each time you apply for new credit, the inquiry registers on your credit report and your score takes a dip.

5. Do's and Don'ts During The Mortgage Process

Getting a mortgage can present a minefield of unexpected difficulties, and many mistakes can derail the process altogether. Here we've compiled a list of the most important do's and don'ts when it comes to obtaining financing for your home.

DO

- Let the lender know if any information you've provided changes. This can include an address change, job change, salary change, or anything else the lender has asked for as part of the process.
- Keep records of all bank transactions, especially if you transfer large amounts from one account to another. Deposits slips, copies of checks, and statements are all helpful.
- Get homeowners insurance with coverage equal to the total mortgage amount or replacement value of your home.
- Join a program to watch your credit. You'll want to stay on top of any little change that may impact your loan.
- Educate yourself. If you've never bought a home before, participate in a free first-time homebuyer's workshop offered by a lender, nonprofit, or local government. The more you know, the smarter decisions you'll make (you'll also avoid expensive mistakes).
- Call your Loan Originator if you have any questions. Stay on top of the mortgage process and check your loan status periodically.

DON'T

- Make any significant purchases during the mortgage process. (It's tempting to start furnishing, we know!). It could negatively affect your debt-to-income ratio.
- Consolidate credit cards or get any new lines of credit. This could also negatively affect your debt-to-income ratio.
- Pay off collections or charge-offs. This can actually cause your credit score to drop (strange, we know).
- Max out or use your credit cards for significant purchases. Keep your utilization rate below 30%
- Change jobs if possible. It's usually more desirable to show a two-year work history, and a new job could affect that.
- Cosign for another borrower. This will show up as additional debt, and could affect your credit.
- Change your overall asset picture. This could include changing investments, opening accounts, closing accounts, or making large, unexplained deposits.

6. Required Documents for the Loan Process

Here's a list of the documents commonly needed in order to apply for a mortgage loan. You may need additional documents depending upon the type of loan you're applying for, so be sure to check with the lender.

Personal identification

- Copy of your Driver's License
- Copy of your Social Security Card
- Copy of your Permanent Resident Card or Visa, if applicable

Income information

- Copies of your W-2 forms for the past 2 years
- Pay stub(s) for the last 30 days, showing year-to-date and current period earnings
- Copies of your signed Federal 1040s for the past 2 years (all schedules and all pages) if you're self-employed
- Proof of Social Security or Pension Income, if applicable
- Copy of divorce decree, separation agreement, or property settlement agreement, if applicable
- Proof of child support/alimony income, if you want to have it considered as qualifying income

Asset information

- Copies of your statements for past 2 months, or your last quarterly statement, for all checking, savings, IRA, 401(k) or other retirement program, stock and mutual fund accounts

For a refinance transaction

- Copy of your monthly mortgage statement(s)
- Copy of your homeowner's insurance (declaration page)
- Copy of your yearly property tax bill

For a purchase transaction

- Copy of your signed and executed purchase agreement and all addenda
- Copy of your canceled deposit check
- Your Realtor's name and contact information

If you're receiving money from a relative for the down payment

- Copy of gift letter (mortgage consultant will provide a form)
- Proof of the donor's ability to give funds
- Documentation of your receiept of gift

If you are selling real estate and the proceeds will be used for the down payment

- Copy of the executed sales agreement
- Copy of the HUD-1 Settlement Statement

Miscellaneous information

- Name and contact information of closing attorney and/or title company
- Explanation(s) of any derogatory credit
- Explanation(s) of any gaps in employement
- Explanation(s) of all credit inquiries made in last 120 days

Condos and PUDs

- Copy of master insurance policy including HO-6
- HOA name and contact information

7. People You Will Work With

You'll work with several key people over the course of the mortgage process. Here's what you need to know about each of them.

Appraiser:
The lender hires an appraiser to assess the value of the property before determining how much to lend towards its purchase or refinance. Real estate appraisers determine a home's value in a number of ways, including comparing the value of similar homes that recently sold nearby.

Loan Officer:
The loan officer originates the loans, working with individuals to find the right mortgage to match your financial capacity. Your loan officer will also help you complete your mortgage loan application and keep track of what's happening during the loan approval process.

Loan Processor:
A loan processor works behind-the-scenes on loans originated by the loan officer. The loan processor's job is to prepare your mortgage loan information and application for presentation to the underwriter. This person ensures the loan is packaged correctly and verifies all documentation.

Underwriter:
The underwriter works for lender to assess if you are eligible for the mortgage loan you are applying for. They have final responsibility to check that the factors determing your loan amount (appraisal, income, debt, etc.) all meet standard guidelines. You'll probably never meet the underwriter, but this person plays an important role in securing your mortgage.

Closing Agent (Settlement Agent):
The closing agent orchestrates the final paperwork required to close on your home. This person can be an attorney, a title agent or an independent third party hired to facilitate payment and transfer of the property.

Title Agent:
A title agent issues title insurance and can also conduct real estate closings. Their main responsibility is to ensure the home is legally available for sale by the seller, searching records to determine legal ownership of the property and identify any liens, unpaid taxes, or other property restrictions.

Closing Your Home Loan

1. Preparing For Closing

The closing is the last step in getting your mortgage. As soon as you receive final loan approval, you should confirm the time and date of settlement with the lender. Communicate ahead of time with your broker, agent and the lender to make sure you know what you need to bring to closing. You'll need to pay closing costs and the down payment at closing if those funds aren't already in escrow, so it's important to prepare any cashier's checks or wire transfers in advance. You'll probably see and sign more legal documents at your closing than at any other event in your life.

2. Who Goes To Closing

Who attends a mortgage closing will vary depending on where you live, but in general, these parties are likely to attend a closing:
The buyer, the seller, the escrow/closing agent, attorneys for both the buyer and the seller (if required), the seller or their representative. A representative of the lender may also attend, and it's not uncommon for a real estate attorney or two to be present.

3. What Happens At Closing

At a mortgage closing, all legal documents - both those related to the mortgage loan and those related to the transfer of the property from the seller to the buyer - are signed. These documents may include your mortgage note, in which you promise to repay your lender; the home deed, which grants you ownership of the home; the Real Estate Settlement Procedure Act paperwork, which states that you understand the closing process and financial obligations related to your mortgage; the Truth in Lending Disclosure Statement, which lays out the terms of the loan including the annual percentage rate and information on points; and the HUD-1 Form, which itemizes all the costs related to the mortgage transaction.

It's not just about signing a bunch of papers and walking away. Remember, it's your responsibility to understand everything you sign, so don't be afraid to ask your broker or lender questions about closing documents or any other documents you encounter during the process of obtaining your loan.

4. Recording And Closing

If you are refinancing a mortgage on your primary home, there is a 3-day right of rescission before the loan funds. This period allows you to cancel your mortgage refinance if you change your mind.

Once all of the paperwork is complete, the closing agent will provide you with copies of all documents signed and the key to your new home. You'll receive the deed to your home once the closing agent records it at the courthouse or the county recorder's office.

The mortgage process is now complete, and you are officially a homeowner. Enjoy your new home!

Congratulations!

You've made it to the final step. After all your hard work, you finally have the key to unlock your new home!

5. Glossary Of Mortgage Terms

Adjustable-Rate Mortgage (ARM):
A mortgage with an interest rate that changes during the life of the loan according to movements in an index rate.

Amortization:
The gradual repayment of a mortgage loan, both principal and interest, by installments.

Annual Percentage Rate (APR):
The cost of credit, expressed as a yearly rate including interest, mortgage insurance, and loan origination fees. This allows the buyer to compare loans, however APR should not be confused with the actual note rate.

Appraisal:
A written analysis prepared by a qualified appraiser that estimates the value of a property.

Closing Costs:
These are expenses, over and above the price of the property, that are incurred by buyers and sellers when transferring ownership of a property. Closing costs may include an origination fee, property taxes, charges for title insurance and escrow costs, appraisal fees, etc. Closing costs will vary according to the area of the country and the settlement companies used.

Credit Scores:
A computer-generated number that summarizes your credit profile and predicts the likelihood that you'll replay future debts.

Escrow (aka Impounds):
A deposit by a borrower to the lender of funds to pay property taxes, insurance premiums, and similar expenses when they become due.

Homeowners Insurance:
A policy that protects you and the lender against losses due to fire, flood, or other acts of nature. It also offers protection against liability in the event that a visitor to your home is injured on your property.

HUD-1 Uniform Settlement Statement:
A standard form that discloses the fees and services associated with closing your mortgage loan.

Liabilities:
A person's financial obligations. Liabilities include long-term and short-term debt (i.e. mortgage payment, revolving charge accounts, etc.).

Lien:
A claim or charge on a property for payment of a debt. A mortgage is a lien, meaning the lender has the right to take the title to your property if you don't make the mortgage payments.

Loan-to-Value (LTV) Percentage:
The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a $100,000 home with an $80,000 mortgage has an LTV of 80 percent.

Mortgage Servicer:
The financial institution or entity that is responsible for collecting your mortgage loan payments.

Mortgage Note:
A legal document that provides evidence of your indebtedness and your formal promise to repay the mortgage loan, according to the terms you've agreed to. The note also explains the consequences of failing to make your monthly mortgage payments.

Principal:
The amount of money borrowed from the lender to buy your house or the amount of the mortgage loan that has not yet been repaid to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan minus the amount you've repaid.

Private Mortgage Insurance (PMI):
Mortgage insurance provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

Rate Lock Commitment:
A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate and lender costs for a specified period of time.

Truth-in-Lending Disclosure Statement:
A form required by federal law for lenders to provide to you full written disclosure on the mortgage loan amount being financed, fees and charges, the payment schedule, the interest rate, the annual percentage rate, and any other costs associated with the mortgage loan.

Underwriting:
The process that your lender uses to assess your eligibility to receive a mortgage loan. Underwriting involves the evaluation of your ability to repay the loan.

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