Understanding the Loan Application Process

Introduction
Buying a home may be the most exciting, confusing and stressful financial transaction you ever undertake. Even if you have done it several times you can still find the process complicated and intimidating, particularly when it comes to getting a mortgage loan. Countless loan documents, unfamiliar terminology and uncertainty serve to temper the joy of buying a new home. As soon as the sales contract is signed, obtaining the financing for the purchase becomes paramount for all but a very few buyers. If you understand the steps required to qualify for a mortgage loan, however, much of the stress can be avoided. The following explanation of the loan application process is intended to help you through the complexities of obtaining a mortgage loan.

The Loan Application Interview
Prior to the advent of Internet lending, once you had selected a lender, the next step would probably have been a meeting with a loan officer or other lender representative, whose job was to begin the collection of information the lender needed to approve the loan. Now, you can fill out an application on-line at your convenience. You’ll still have a contact person at Citizens Bank to answer your questions. They will explain the types of mortgage loans available to you, the interest rates and fees for each type and the qualification requirements. If you have any problems with the on-line application, your Citizens loan officer will help you complete it.

The total cost of a mortgage loan consists of the interest rate on the loan, origination fees, discount points, and miscellaneous other charges. One point is equal to one percent of the amount of the loan and is usually collected at the loan closing, or settlement. The interest rate affects the amount of the monthly payment, while points affect the amount of cash you must have at closing.

Citizens offers a range of interest rate/point combinations to meet your needs. In general, the higher the interest rate, the lower the points. For example, if the current market provides for an 6.5 percent interest rate with 2 points, a 7.5 percent rate may be offered at no points. If you are a first-time home buyer, the larger monthly payments on the 7.5 percent loan may be easier to handle than the 2 points that will require additional cash at settlement. If you are a corporate transferee, however, your company's relocation policy may pay all or part of origination costs and the lower rate will have more appeal. The loan officer is prepared to explain all of your options to you.

When discussing the terms of the loan, make sure you understand how and when the rate and fees on the loan are going to be set. Most lenders will quote a rate and fee at the time the application is taken and then will guarantee, or “lock” the rate quote for a specified length of time. A rate lock protects you from rising interest rates while the loan is being processed, but it also typically commits you to close the loan at the rate and the fee even if rates decline prior to closing. Lock periods may run from 10 to 60 days, with longer periods available in some cases at an additional fee. The lock period must be long enough to get you through the estimated closing date. A 30-day lock affords you no protection if closing is at least 60 days away.

You may have the option to let the rate "float," getting the final rate and fees set nearer the settlement date. If you believe rates are declining and are willing to run the risk that interest rates could rise during the processing of your loan, you may select this alternative. Before you take a floating rate, make sure that the rise in interest rates will not create a problem for you because you have insufficient income to cover the higher mortgage payments. In either case, make sure you understand exactly the terms of the lock-in agreement.

Completing the Loan Application
The full loan application asks for information on the property you are buying or refinancing, terms of the purchase contract and the employment and financial history of all loan applicants, including your spouse and/or other co-borrowers. You can complete the entire application online to get the process started. The loan officer will then call you and take it from there.

You can complete the loan application process much more easily and accurately if you prepare for it ahead of time. A great deal of detail will be asked about your personal finances, including bank account numbers and balances, current loan amounts and payments, and credit card account numbers. However, our on-line applications are much less detailed than traditional written ones. You will want to be thorough and precise in your answers, so it will be to your benefit to assemble this kind of information before the speaking with the loan officer. The following is a summary of the major kinds of information required on the loan application, the documents that may be needed and the questions that you should be prepared to answer.
Details of Purchase Contract and the Property
Because the property is security for the loan, the lender will have an appraisal made of the property, and you need to have the following information available:

- A complete copy of the sales contract, including any addendum's, signed by all parties, showing the full names of the sellers and buyers as they will appear on the new deed, the amount of earnest money deposit and who is responsible for closing costs, origination fees, etc.
- If the house is to be built, or is still under construction, a set of plans and specifications.
- The complete mailing address of the property, its age and its full legal description.
- Name, address and telephone number of the real estate agent and/or the seller of the property who will assist the appraiser in obtaining access to the property.

All of this information should be in the purchase contract. If not, consult the Realtor or the seller.

Personal Information
The loan officer will want the social security numbers of you and your spouse (or other co-borrowers), age, number of years of schooling, your marital status, number and ages of dependents and your current address and telephone number. If you have lived at your current address less than 2 years, be prepared to furnish former addresses for up to seven years. You will also be asked to detail your current housing expenses, including rent or mortgage payments, real estate taxes and insurance (your mortgage payment may include tax and insurance funds). You will need the name and address of your landlord(s) or mortgage lender(s) for the past two years.

Employment History and Sources of Income
Your ability to make the regular payments on the mortgage and to afford the costs associated with owning a home are primary considerations is the lender's loan approval process and should be your primary concern. Required information includes:

- At least two years employment history with employer's name and address, your job title or position, length of time on the job, salary, bonuses, commissions and average overtime pay.
- Recent paycheck stubs and Federal W-2 forms for two years (some lenders may require full Federal tax returns).
- Records of dividends and interest received from investments.
- If you are self-employed, full tax returns and financial statements for 2 years, plus a profit and loss statement for the current year to date.
- A written explanation if there are gaps in your employment record, because of circumstances such as illness or layoffs, or for any other reason.

The loan officer will have you sign a Verification of Employment (VOE) form. This will be sent to your employer to verify your employment and earnings. One will be sent to previous employers if you have been on the job less than two years. Many lenders now use a general authorization form which allows them to verify employment and other financial information on the application.

If you are relying on income from other sources, such as rental property, social security or disability payments, child support, etc., you must provide adequate proof of the source. Appropriate documents could include canceled checks, copies of leases, certification of benefits, divorce decrees and similar evidence.

Personal Assets
A detailed listing of your personal assets is required on the loan application form. You will need to have the following information available to complete the form:

- All bank accounts, both checking and savings, and money market accounts, with the name and address of the institution, name(s) on the accounts, account numbers and current account balances. Usually this information is taken from monthly or quarterly statements (see below).
- Recent bank statements for at least two months.
- Current market value of stocks, bonds, CDs and other investments.
- Vested interest in all retirement funds.
- Face amount and cash value of life insurance policies in force.
- Make, model, year and value of automobiles owned.
• Address and market value of all real estate owned along with the amount of rents collected, the mortgage on the property and the monthly mortgage payments (a profit and loss statement will be required for investment properties).

• Value of other personal property such as furniture.

As with the Verification of Employment, the loan officer will have you sign Verifications of Deposit (VOD) for each of the institutions (or a general authorization) where you have savings or checking accounts. Differences between the account balances reported by the institution and the balance you give for the loan application have to be reconciled, so be sure you have your correct current balances.

The lender will look for the source of funds with which you will make the down payment and pay closing costs and fees. Gifts from a relative, church, municipality or non-profit organization may sometimes be used, but must be verified in writing. If you are providing less than 5 percent of the sales price, the donor must be a relative and must provide a letter stating the donor's relationship to you, the amount of the gift and the fact that no repayment is expected.

Personal Indebtedness

Liabilities are usually taken directly from your credit report.

If you have had credit problems, you should inform the lender. Lenders recognize that unemployment, illness, marital problems or other financial difficulties can temporarily impair your credit rating. Provide a written explanation of the circumstances regarding the problem to be included with the loan application. The lender must consider such a written explanation as part of the underwriting analysis. If the problem has been corrected and your payments have been made on time for a year or more, your credit will probably be judged as satisfactory. Chronic late payments, judgments or loan defaults, however, severely damage your credit standing and may change the type of loan programs available or the rates charged. Almost anyone can get a loan - it's just a matter of the price.

If you have been through bankruptcy or foreclosure proceedings within the past seven years, be prepared to give full details and copies of applicable documents regarding them.

You will also be asked to explain the details if you are obligated to pay alimony, child support or separate maintenance. Such obligations are treated like debt payments by most lenders and will be part of the underwriting analysis.

Additional Information

You will be asked to sign a section of the loan application form which contains your certification that the information you have provided is correct to the best of your knowledge; your promise to advise the lender of any material changes in the information; and your consent to (1) verification of the application data, (2) submission of account history to credit reporting agencies, and (3) transfer of the loan or loan servicing to successors to the original lender.

The last part of the application form requests information on the race and gender of the applicants. The Federal Government uses this data to monitor lenders' compliance with fair housing and equal credit opportunity laws. Providing this information is strictly voluntary on your part and has no effect on your loan application. The lender, however, is required by federal law to request the information.

Because of the particular circumstances surrounding a loan application, the lender may require additional information or documentation regarding you or the property after the application has been submitted for approval. Loan officers make every effort to collect all data at the outset, but cannot foresee every eventuality. Requests for additional information are not necessarily bad omens and your primary concern should be in responding promptly with the information.

When you have completed your application, you will be asked to pay in advance for the appraisal and credit report. You can give us your credit card number on line or phone it in to us.

After the on-line application is completed, you can see an analysis of the information that will give you a good idea whether or not you qualify for the loan based on income alone. This is not an approval, however. Preliminary approvals are usually issued within 48 hours or less. Final approvals are only issued by our underwriters after all documents and information have been received and verified.

After The Loan Application - What Next?

After the loan application has been completed, it will be turned over to the our loan processing department and then to the underwriter, where the decision to approve or reject the loan will be made. Loan processors send out the Verifications of Employment and Deposit and order the credit report, property appraisal and other documents. The time it takes to receive these documents affects the length of time required for approval of the loan. If you are transferring from out of the local community, it may take longer to receive the credit and employment information. Processing times vary from one lender to another, but the loan officer should be able to give an idea of the processing time for your application.
Within three business days after completing the application, the lender must provide you with a Good Faith Estimate of the anticipated closing costs. It will show costs associated with the loan settlement, such as origination fees, mortgage insurance, title insurance, escrow reserves and hazard insurance.

Within the same three days you will also receive a Truth-in-Lending Disclosure statement. This statement shows, among other things, the estimated monthly payment. The total cost of all finance charges on your loan is also shown, stated as an Annual Percentage Rate (APR). The APR represents the dollar amount of finance charges you pay either up front or over the life of the loan, converted to an annual interest rate. Since the APR includes origination fees and other charges as well as interest on the mortgage loan, the APR is usually higher than the interest rate on the loan.

After the lender has approved the loan, you will usually receive a commitment letter which sets out the terms of the loan and the length of time for which those terms are offered. If the loan does not close within the specified commitment period, the terms are subject to change. You usually must accept the commitment by returning a signed copy to the lender within five to ten days and may have to pay part or all of the origination fees at this time. The commitment may contain conditions that you will still have to satisfy, so you should read it carefully.

In cases where closing is scheduled soon after approval, the lender may give you verbal approval instead of a commitment letter. This is not unusual, but make sure you understand the terms of the approval.

Once the commitment letter or approval has been received, you are assured the financing you need to complete the purchase of your home and you need to turn your attention to completing the details required for settlement.

**Reducing The Anxiety of Waiting**

For many home buyers, the period of time between the submission of the loan application and receipt of the commitment letter is one of uncertainty and concern. Requests for additional information, unexpected delays and lack of communication all serve to increase the tension. There are a number of things that both you and the lender can do to reduce the stress.

Keep in mind that the lender wants to make the loan. Loan underwriters are looking for ways to approve loans, not reject them. If you have come to the interview with the loan officer fully prepared and have provided good documentation, you have done a great deal to assure prompt processing of your application and approval of your loan.

You and the lender need to make sure that lines of communication are kept open. Your contact person may be the loan officer, but often it might be someone in the lender’s loan processing department who can tell you the status of your application. Remember, however, that it may take several weeks to process the application and frequent inquiries from you prior to that time will not speed things up.

You should be accessible if the lender needs additional information or documents during processing. If you are from out of town, use your real estate agent as a contact if necessary. Quick response to lender requests helps keep the process on schedule. In order to protect both you and the lender, mortgage loans require much more paperwork and legal documentation than an automobile or other installment loan, and lenders do not ask for more than is absolutely necessary.

Obtaining a mortgage loan need not be an ordeal that dampens the thrill of acquiring a new home. If you understand the lending process and are prepared to do your part, it simply becomes a key step in owning a home.