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How Does the Mortgage Application Process Work? Part II

This is the second part in an article series designed to outline the mortgage application process for first-time home buyers. The first part described the important preparation steps which include collecting personal financial documents, obtaining a copy of your credit report and score, and shopping around to compare rates and loan terms. This segment details what a borrower should expect when it comes to the mortgage application interview.

THE APPLICATION INTERVIEW

Once you find the right lender, it is time to sit down and talk about the options. You will most likely have an interview with a loan officer who will run through the various mortgage program options available to you. For example, he may offer you a 30-year fixed, a 15-year fixed, or a one-year adjustable rate mortgage (ARM.) He would also give you basic quotes on the interest rate you would probably receive with each loan and if and how many points you would be required to pay. (A point is one percent of the loan total and it is paid to the lender at closing.)

Pre-approval

 If you have not yet picked out the home you want to buy, this may be an excellent time to get pre-approved for your mortgage funding. Once you present your loan officer with some detailed documentation of your income, assets, and debts, she can crunch the numbers and determine how much the lending company is willing to loan you. She will also pull a copy of your credit report and factor your score into the equation.

One of the generic rules lenders use to determine how much of a mortgage you will be able to take on is the 28/36 debt-to-income ratio. First, lenders will check to see if your current debt load exceeds 28% of your monthly income. Lenders may allow it to be a little higher, but 28% is the general number they like to use. Next, lenders will figure out if your normal debts plus your proposed mortgage payment will be less than 36% of your monthly income. This will help them determine just how much they are willing to let you borrow.

Once the lender has tentatively that she will loan you money and decided how much she feels is appropriate, you can ask her for a pre-approval letter. Now you can start shopping for the right home with a good source of funding behind you. It is often reported that sellers and their agents take buyers with pre-approval letters more seriously because they have done the work to get the proper financing.

Rate Lock

At the time your application is submitted or sometimes earlier, your lender will generally give you a firm quote of the rate she can offer you. You may want to consider locking in your rate at this point. Some lenders will allow you to “lock in” a certain rate and point combination at the beginning of the loan application process in order to make sure you get the quoted rate even if interest rates go up before your loan closes. The downside is that many lenders will hold you to that rate lock even if rates go down before your loan closes. Take a look at recent interest rate trends and decide carefully. If you do decide to lock in your rate, make sure that the locked period is will last long enough for your application to be completed and the loan to close.

Stay tuned for the next part of this article series that details the actual mortgage application!

