What You Need to Know About the Mortgage Process

A Homebuyer’s Guide
Part One

So You’re Ready to Buy a Home...

Picture it: a fenced yard for your pup, a big kitchen to fill with family and friends, and walls you can paint whatever color you want. Who wouldn’t want a place of their own?

Here are a few things to consider as you start your mortgage journey:

So you start browsing homes online. After scrolling through so many listings that your eyes water, you find the perfect fit. Then you see the listing price. It jolts you back to reality. That’s a lot of money!

You know you’re financially stable and ready to be a homeowner, but to do it you’ll need a mortgage. And you have no idea where to start.

It’s okay. We’re here to help!

We are here for you. We’re here to provide you with an exceptional personalized experience. Buying a home is often the largest purchase each of us makes, so feel free to ask questions and share your needs and concerns with our team. Don’t be afraid to speak up if something doesn’t make sense!

Organization rules! Get a head start on gathering all the necessary forms to begin your mortgage process (such as recent pay stubs, tax documents, and bank statements). This will save you a lot of headache and frustration later. Ask us for a list of the most commonly requested documents.

A mortgage is a big commitment. Take time to really consider this purchase and its impact on your life – now and in the future – so you don’t have doubts later on. Make sure you’re ready (both financially and mentally) to sign on the dotted line.
Part Two

What IS a mortgage, anyway?

You may know the general idea behind a mortgage – you borrow money from a financial partner like us to help get you into a home – but did you know there are different types of mortgages and mortgage lenders? You might think that the mortgage you read about online or heard about from a friend is right for you, but there may be a better type of mortgage for your situation.

Let’s cover the mortgage basics and help find the right mortgage for you!

CHARACTERISTICS OF A MORTGAGE

Just like people, every mortgage is different. The following details of your mortgage journey should be considered and decided upon by you and your credit union (the lender) based on your unique situation:

**Interest Rate**

This is the rate that you (the borrower) are charged by the lender for using their money to purchase your home. Interest rates are typically calculated annually, and expressed as a percentage of the total funds borrowed. The lender applies the interest rate to the total unpaid portion of your loan.

*Lower Interest Rate = Better for Borrower*

**Amortization**

This is a fancy word for the payment schedule over the lifetime of a loan, or how many years you will be making payments until your loan balance is zero. Typical amortization schedules are 10, 15, 20, or 30 years.

*Longer Amortization = Lower Monthly Payment*

**Payment**

This refers to how much you pay towards your loan balance, and is directly related to the amortization period. If you want to pay the loan balance off more quickly, you will make higher monthly payments. Your payment may also include an escrow account. This account is set up to hold funds used to pay your monthly home insurance and property taxes.

**Frequency**

This refers to how often you make payments. Nearly all mortgages are based on monthly payments.
Once you have selected your lender, you should work with them to determine which type of mortgage is right for you.

**Fixed Rate Mortgage**

With a fixed rate mortgage, the interest rate never changes no matter what happens in the marketplace. Fixed rate mortgages provide the security of a payment that doesn’t change.

**Adjustable Rate Mortgage**

An Adjustable Rate Mortgage (also known as an ARM) means that the interest rate of your mortgage adjusts throughout the life of the mortgage. The interest rate is fixed for a certain duration (generally about 3-7 years), often at a below-average interest rate.

After the fixed period, the interest rate adjusts based on current rates. For example, a 5/1 ARM has a fixed interest rate for the first five years. After that period, that rate could be adjusted once every year.

If you don’t plan to be in the house for longer than the fixed term, then an ARM could reduce the interest you pay. However, unlike a Fixed Rate Mortgage, the ARM rate may go up OR down at the end of the fixed period, and continue to adjust over the life of the loan.

Credit unions provide a large portion of mortgages in the US. The credit union is the one lending the money. This money comes, in part, from the financial resources their members have on deposit in savings accounts, certificates of deposits, and money market accounts, so there is no third party involved in the mortgage process. Credit unions provide stability, as they are the institutions that develop long-term relationships with members through multiple financial offerings.

While you’ve got options when it comes to types of mortgage lenders, we believe that home ownership is best accomplished through credit unions.
How to Shop for a Credit Union Loan

A mortgage is (most likely) your biggest financial commitment to date, so be sure to give it the time and research it deserves. We’re here to help!

The most significant factor in how much your financing will cost you is the interest rate. Although interest rates are primarily out of your control, one option to consider is paying points on your mortgage. Paying mortgage points means paying more up front to get a reduced interest rate. Often referred to as “buying down the rate,” this option is enticing for borrowers who a) have additional cash to use at closing and b) plan to own their home for a long period of time. A point is equal to one percent of the principal amount of your mortgage.

For example, if you get a mortgage for $100,000, one point means you pay $1,000 to the lender. The amount your interest rate is reduced per point varies from lender to lender, so be sure to ask for more details about the points system from each credit union lender you are considering.

In addition to interest rates, lenders have different fees and special offers. Be sure to review all fees provided by each credit union lender you are considering. There are some fees that vary by lender, while others are more or less the same no matter who you choose to borrow from.

The chart below shows the major fees that you’ll need to consider. In addition to the fees shown below, there are other minor fees that can add up quickly! Every lender is required to provide you with a line-by-line breakdown of each of these costs within 3 days of your application.

**ADDITIONAL COSTS AND FEES**

<table>
<thead>
<tr>
<th>Appraisal</th>
<th>Interest Rate</th>
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<tr>
<td>Flood Certification</td>
<td>Discount Points (if applicable)</td>
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<tr>
<td>Title Insurance</td>
<td>Underwriting Fee</td>
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<td>Closing/Settlement Fee</td>
<td>Origination Fee</td>
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<td>Transfer Taxes</td>
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<td>Homeowner’s Insurance</td>
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<td>Credit Report Fee</td>
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Shopping for a mortgage lender also extends beyond comparing rates and fees. Like shopping for airline tickets, you may choose one flight over another not because it's the cheapest, but because you get a better seat, better service, or fewer connection hassles. The same logic applies to the mortgage process!

**Here's a list of questions to ask each credit union lender:**

**Who will be my main point of contact and how do I get in touch with them?**

Due to the nature of a home purchase, the loan process can sometimes be emotional or stressful. Because of this, it's important to know who you can contact with questions.

**How long, on average, will it take to process my loan application?**

Although length of processing varies depending on the circumstances, it's good to get an idea of how long it will take each credit union to move your application through the process. Depending on whether they use manual paper processes or an automated workflow, there could be quite a discrepancy in how long it takes. Loans typically close within 30-60 days, and in addition to the credit union's efficiency, your efficiency as the borrower (how quickly you provide necessary documentation, your responsiveness) also impacts this time frame.

**How will I be notified of the status of my application?**

If you are interested in transparency about the status of your mortgage throughout the process, be sure to ask how you will be kept in the loop. Some credit unions have systems that allow you to log-in and receive real-time updates about the status of your application or have status updates pushed to you electronically. If this is important to you, seek out a credit union who offers this option.

**Do you have a secure method of communication that ensures my personal and financial information remains in the right hands?**

It seems like there's a news story every day about identity fraud or security and privacy breaches at financial institutions. Ask your credit union what actions they'll take to ensure your private information and funds are secure. Do they use email to submit private documents? How do they communicate with and transfer information to third-party providers? If they use email for any communication or data transfer, your personal data is absolutely at risk and you should look elsewhere.

**INSIDER TIP**

Taking out a mortgage from your credit union is often a good option to consider. We may be able to offer special discounts and rates based on your current status with us. As an added bonus, we already have access to much of the information you'll need to provide when applying for a loan, which will save you a lot of time and frustration.
It’s go time!

So, you’ve selected a credit union lender, and now it’s time to talk about the process of going from loan application to closing. Here’s a breakdown of the key players you’ll be working with.

ROLES YOU SHOULD KNOW

**Loan Officer**
LO for short, this is the person who will guide you through the process from start to finish by giving you an overview of what needs to be done, providing a timetable, and reviewing all costs associated with your mortgage.

**Loan Processor**
A loan processor works in your loan officer’s organization and is responsible for collecting all necessary documentation and verification to get your application ready for approval.

**Mortgage Underwriter**
The underwriter is the decision-maker on the loan. They review all information and ultimately make the call to approve or deny your application.

**Closer**
When a loan has gone through all other steps in the process, the closer verifies that all documents are signed and that nothing has changed since both parties (the borrower and the lender) saw them last.
**The Loan Life Cycle**

**Mortgage Application**

Here’s what you’ll need to get started on your mortgage application.

As a part of this process, the lender will run your credit report. This report considers your credit card balances, bill payment history, and number of credit accounts to generate your overall credit score. This will impact your lender’s decision to lend to you, and at what interest rate.

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<tr>
<th>INFORMATION NEEDED FOR YOUR APPLICATION</th>
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<tr>
<td>Employment history for the past 2 years</td>
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<tr>
<td>Residential history for the past 2 years</td>
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<tr>
<td>Outstanding balance of any current debt (such as student loans or car loans)</td>
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<tr>
<td>Social Security number</td>
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<tr>
<td>Pay stubs from the past 30 days</td>
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<tr>
<td>W-2s for the last 2 years</td>
</tr>
<tr>
<td>Bank statements for all financial accounts</td>
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**Processing**

Processing is when the lender verifies that all the information you have provided is accurate. They also verify all information related to the house you want to purchase. It includes the following three elements:

**Appraisal**

The appraisal is what determines the official value of the house. An appraiser uses their industry knowledge and expertise to determine the home’s market value and judge whether this is in-line with the asking price. This appraisal value impacts how much the lender will ultimately loan you.

**Title Search**

This is when a third party performs research into the history of the house. This includes uncovering all previous transactions on the property, any unpaid property taxes or other claims that may be outstanding against the property.

**Underwriting**

This is where the underwriter makes the decision to approve or deny your application. The underwriter double-checks all aspects of your application to assess the potential risk of lending to you. This could include re-pulling your credit score, confirming your income, verifying the appraisal, etc.

**Closing**

This is when your new purchase is made official and the property title passes from the seller to you, the buyer. This involves signing multiple closing documents. For more information on the legal purpose of these forms, ask your Loan Officer to walk through these documents with you in advance.

**Tasks to be completed in this phase:**

- Filling out your application, gathering all necessary documentation. Asking your employer how your employment and income can be verified, and reporting your finding to your loan officer.
- Other than responding in a timely manner to the loan processor or loan underwriter if they need additional information, there isn’t much to be done here on your end. The good news is you can keep busy packing up your belongings for your upcoming move!
- Be sure to read all the forms carefully before signing, and ask all of the questions you have. Once you complete the closing requirements, you will officially be given the keys to your new home. Congratulations!
Servicing
The servicing of your mortgage is the process by which your loan payments are collected, your escrow account is managed, and your taxes and property insurance are paid. Even though your loan was granted by your lender, this may not be the same institution collecting the payments and providing you with statements.

You may also be required to have an escrow account. An escrow account holds funds to pay your mortgage insurance and property taxes. Typically, these types of property taxes and mortgage insurance charges are paid to the insurance companies and taxing authorities in 1 or 2 lump sums per year, but with an escrow account, you’ll contribute a portion of each monthly payment to this. When these payments are due, your mortgage servicer will be responsible for paying them on time with the funds you have already set aside in your escrow account.

Go Team!
Remember that we, your credit union, are on your team. We want to help you through this process and make it as easy as possible for you. If you have questions or concerns at any point, reach out to us. We’re here to help!

Happy Homebuying!

Sincerely, your friends at:

Education First Credit Union

TASKS TO BE COMPLETED IN THIS PHASE:

It’s important to keep to your budget each month so that you can consistently make your mortgage payments on time! Also be sure to read all applicable documents so that if your loan is sold, the transition will be a seamless one.