



Educator Guide

The Mortgage Process: Mortgage Process

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Objectives for this Lesson:

- Explain the Loan Application Process
- Identify Items Listed on the Good Faith Estimate
- Identify Items Listed on the Truth-in-Lending Disclosure

Resources for this Lesson:

- Educator Guide: *Home Buying Process: The Mortgage Process*
- PowerPoint Presentation: *Home Buying Process: The Mortgage Process*
- Content Guide: *Home Buying Process PDF*
- Work Sheets:
 - *Shopping For A Mortgage Work Sheet*
 - *Application Checklist Work Sheet*
 - *Loan Application Sample (Uniform Residential Loan Application)*
 - *Good Faith Estimate Sample*
 - *Truth in Lending Sample (Blank)*
 - *Truth in Lending Sample (Completed)*

Client Packets Should Include:

- PowerPoint Presentation Handout (3 slides per page): *Home Buying Process: The Mortgage Process*
- All Worksheets Listed Above

Key Points

For Educator: What to Say

For Learner:

Slide #4:

Loan Application Process

- Meet with a loan officer.
 - Pre-qualify, if needed.
 - Voice concerns and ask questions.
 - Learn about loan options.
- Possibly complete a loan application for Pre-Approval.

Explain: When you begin the loan application process, your real estate agent already may have pre-qualified you for a certain amount, or you may have received a quote from a loan officer over the phone. If not, the pre-qualification step will be the first thing that takes place at this meeting.

Once you are pre-qualified, the loan officer may ask you to complete a loan application for pre-approval. You should only submit an application if you feel comfortable with the lender and he/she has answered your questions to your satisfaction. This meeting is the time to voice your concerns, ask questions and learn about the lender's loan options. You should not feel pressured to apply for a loan at this point, but simply take this opportunity to learn about the programs the lender offers.

Activity: Remember to shop around and compare options with at least three lending institutions before making a final decision. If you did not attend the *Shopping For A Mortgage* lesson, you may want to refer to this work sheet to help you compare your options.

Transition Statement: It is important to be prepared for these initial meetings, should you choose to complete a loan application.

Question: *What are some important things to bring with you?*

Instructor Note: Create a list of ideas on the board. Refer to the work sheet for examples of items needed.

Activity: Distribute the *Mortgage Shopping* Work Sheet to participants who did not complete the *Shopping for a Mortgage* lesson.

Discussion point: Participants will share their ideas as instructor writes them on the board.

Key Points**For Educator: What to Say****For Learner:****Slide #5:****Preparing for the Initial Meeting**

- List of questions
- Documents/Information needed for loan application
 - Refer to the *Application Checklist* Work Sheet
- Loan Application
 - Will be provided by the lender

Explain: Most important, prepare for this session by bringing a list of questions you have regarding your loan.

You also will need documents and information required to fill out the loan application.

Activity: This work sheet provides a checklist to use when preparing for these meetings.

Instructor Note: Discuss the items listed on the application checklist.

Explain: Most financial institutions use a standard loan application which is the Uniform Residential Loan Application, also called the 1003 Application. Your loan officer can fill out this application by hand or on the computer during the loan interview.

Activity: This loan application is a sample of what you can expect to complete when you decide you are ready to apply for a loan.

Activity: Distribute the *Application Checklist* Work Sheet.

Activity: Distribute the *Loan Application Sample* (Uniform Residential Loan Application)

Key Points

For Educator: What to Say

For Learner:

<p>Slide #6: Real Estate Settlement Procedures Act (RESPA) Mandates lenders to fully disclose an estimate of:</p> <ul style="list-style-type: none">• All closing costs• Lender servicing• Escrow account practices• Business relationships between closing service providers and other parties to the transaction	<p>Explain: Once the loan application has been completed, federal law requires the financial institution to comply with the <i>Real Estate Settlement Procedures Act (RESPA)</i>. It mandates that lenders provide documents that fully disclose an estimate of all closing costs, lender servicing, escrow account practices, and business relationships between closing service providers and other parties to the transaction.</p> <p>Let's discuss these three documents in detail.</p>	
<p>Slide #7: Lenders are Required to Provide:</p> <ul style="list-style-type: none">• Good Faith Estimate• Truth-In-Lending Disclosure• "Buying Your Home" Booklet	<p>Explain: The lenders must provide the applicant with a Good Faith Estimate, a Truth-in-Lending document and a Buying Your Home Booklet within three days of processing the loan application.</p> <p>These three documents are very important in the loan application process. Let's discuss each one in detail, beginning with the Good Faith Estimate.</p>	

Key Points

For Educator: What to Say

For Learner:

Slide #8:

Good Faith Estimate

- Outlines the costs for which the applicant is responsible at closing.
- Must be issued within 48 hours of the time the application is completed.
- Most lenders will provide the most accurate quote possible. Some lenders purposely under quote the costs to encourage the buyer to take the loan.

Explain: The Good Faith Estimate is a document that requires the lender to outline the costs the applicant is responsible for at the time of closing.

Federal law requires lenders to issue the Good Faith Estimate within 48 hours of the time you apply for the loan.

Most lenders are very ethical and will provide you the most accurate Good Faith Estimate possible. However, although not illegal, some “unscrupulous” lenders may purposely under quote the cost on this document. This tactic is used to encourage the buyer to take the loan. This is why it is important for you to research the institution with which you are dealing before you commit to its loan product.

If you need more information about researching a financial institution, refer to the lesson in this section on *Shopping For A Mortgage*.

Activity: Let’s look at this *Good Faith Estimate Sample* as we discuss the items that can be found on this form.

Activity: Distribute the *Good Faith Estimate Sample*.

Key Points

For Educator: What to Say

For Learner:

Slide #9:

Good Faith Estimate

Loan Application Origination, or Processing Fee (Line 801)

Fee that covers the expenses of preparing mortgage documents, legal service, borrower credit investigation, notary charges, appraisal fee and any other fees.

Explain: Your Good Faith Estimate will include numerous line item charges. This sample includes several fees that we should discuss in detail. Let's begin with Line 801 – The Loan Application Origination Fee.

Explain: The Loan Application Origination or Processing Fee (Line 801) is a charge that covers the expenses of preparing mortgage documents, legal service, borrower credit investigation, notary charges, appraisal fee and any other fees. These expenses are sometimes itemized.

When FHA or VA financing is obtained, the origination fee is limited to 1% of the mortgage. Other expenses may be added to this fee.

Key Points

For Educator: What to Say

For Learner:

Slide #10:

Good Faith Estimate

Discount Points (Line 802)

- 1 point=1% of mortgage value.
\$93,380 mortgage = \$933.80
- Points are interest paid up front and can be negotiable depending on the loan product.
- Points are a fee to cover the costs of originating a loan or a way to buy down the interest rate of a mortgage loan.

Question: *Another common fee you will find on the Good Faith Estimate is discount points. Is anyone familiar with points? How are these used by lenders in the loan process?*

Instructor Note: Bullets will appear upon a second mouse click.

Explain: A discount point is 1% of the mortgage value. On Line 802 you can see a 1% discount point listed. The borrower must pay 1% of the \$93,380 mortgage, totaling a \$933.80 discount point fee.

Points must be paid up front and can be used to cover the costs of originating a loan. They also are used by lending institutions as a way for buyers to buy down the interest rate of a mortgage loan. The points are often negotiable depending on the loan product.

It is common to pay 1 to 2 points on a loan; however, if it is not regulated by your state, some lenders may charge an excessive amount of points.

Points are paid at the time the deal is formally closed and are a one-time charge.

Discussion: Participants share how point fees are used in a loan.

Key Points

For Educator: What to Say

For Learner:

Slide #11:

Good Faith Estimate

Appraisal Fee (Line 803)

Fee for an independent appraiser to determine the market value of a house.

Title Examination and Title Insurance (Line 1100)

Fee to guarantee the title to be good.

Attorney's Fee (Line 1107)

Fee for legal advice during the various stages of buying.

Question: *Another fee listed on the Good Faith Estimate is an appraisal fee. What does this fee cover?*

Explain: The appraisal fee (Line 803) covers the charge for an independent appraiser to determine the market value of a house.

Most lending institutions require an appraisal before establishing a new loan. The buyer frequently pays for the appraisal. If obtaining a VA or FHA loan, appraisals are required.

Question: *The closing costs also may include fees for a clear title. What is the value of having a clear title?*

Explain: A clear title guarantees that the title is good. Most lenders require title insurance to protect them against unrecorded title defects.

The Title Examination or Search and Title Insurance (Line 1100) almost always is paid for by the seller because he/she guarantees the title to be good. The buyer usually pays for what is known as a mortgagee title policy which protects the lender against unrecorded title defects.

Question: *Line 1107 lists an attorney fee. Why might you need an attorney in the home buying process?*

Explain: Some people choose to use an attorney for legal advice during the various stages of buying. This fee is charged by the attorney for his professional services.

Discussion: Explain what an appraisal fee covers.

Discussion: Participants share the value of having a clear title.

Discussion: Participants share reasons that a home buyer might need an attorney.

Key Points

For Educator: What to Say

For Learner:

Slide #12:

Good Faith Estimate

Deed Recording Fee (Line 1200)

County clerk's office fee to legally record your deed.

Survey (Line 1300)

- Determines the precise legal boundary lines of a property, location of improvements, easements, rights of way, encroachments and other physical features.

Explain: Another fee you will see listed in the Good Faith Estimate is the Deed Recording Fee (Line 1200). The county clerk's office charges this fee to legally record your deed.

Question: *The closing cost also may include a fee for a survey. What would this fee cover?*

Explain: The survey (Line 1300) determines the precise legal boundary lines of a property, location of improvements, easements, rights of way, encroachments and other physical features. The seller may incur this expense if he/she is requested to do so.

Discussion: Participants explain what a survey fee covers.

Key Points

For Educator: What to Say

For Learner:

Slide #13:

Good Faith Estimate

Prepaid Property Taxes (Line 1004)

1 to 6 months of the property taxes deposited into an escrow account.

Unpaid Special Assessments

Any assessment for streets, sidewalks, sewers, etc. that are levied or pending against the property.

Explain: The closing cost listed in the Good Faith Estimate also may include Prepaid Property Taxes (Line 1004). At the time of closing, the lender often will require the buyer to deposit 1 to 6 months' property taxes in an escrow account.

An escrow account is an account that a lender establishes on behalf of a borrower to pay taxes, insurance premiums or other charges when they are due. We will discuss escrow accounts in more detail later in this lesson.

Explain: Finally, you also may have some Unpaid Special Assessments listed in the Good Faith Estimate. These assessments vary greatly. There are none listed on this sample, however, examples include any assessments for streets, sidewalks or sewers that are levied or pending against the property. These usually must be paid before closing if mortgage financing is obtained.

If the buyer obtains FHA or VA financing, the seller is required to pay these assessments. When the buyer assumes the seller's mortgage or obtains conventional financing, the buyer and seller may negotiate these payments.

Key Points

For Educator: What to Say

For Learner:

Slide #14:

Good Faith Estimate

- Estimate of your loan expenses.
- Use to compare loan options.
- HUD-1 = Itemized list of all expenses, received at closing.
- Good Faith Estimate and HUD-1 should be comparable.
- If NOT comparable:
 - Ask questions.
 - Close at a later date.

Explain: Keep in mind, your Good Faith Estimate is an “estimate” of all the expenses you will incur by accepting the loan. It should be very comparable to your final costs, but some charges may vary slightly. By obtaining several Good Faith Estimates from different lenders with different loan products, you can compare your options line by line.

When you close on your house, you will receive an itemized list of the exact expenses you incurred. This second list is called your HUD-1.

Although the Good Faith Estimate is an “estimate” of your expenses, it should be very comparable to the final closing costs listed on your HUD-1. If, at closing, the fees are not comparable, ask questions. If you do not feel comfortable with how the questions are answered, the best option is to walk away and close at a later date.

Transition Statement: The HUD-1 form and the closing process will be discussed in more detail in the next lesson, “Closing.” For now, let’s continue discussing the three items your lender will provide you within three days of applying for a loan.

Question: *Before we move on, do you have any questions about the Good Faith Estimate Sample?*

Explain: In addition to the Good Faith Estimate, you will receive the Truth-in-Lending Document.

Participant questions.

Key Points

For Educator: What to Say

For Learner:

Slide #15:

Truth in Lending

- Requires lenders to fully disclose to the consumer all the terms and conditions of the loan.
- Most important document in the loan process

Explain: The Truth-in-Lending Disclosure requires lenders to fully disclose to the consumer all the terms and conditions of the loan.

This document is the MOST important document in the Home Buying Process. The Truth-in-Lending Disclosure is used in all forms of loan transactions (auto loans, school loans, personal loans, etc.)

Activity: Let's look at these *Truth-in-Lending Samples* as we discuss the items that can be found on this form.

Activity: Distribute *Truth in Lending Samples* (Blank and Completed)

Slide #16:

Truth in Lending

TRUTH-IN-LENDING DISCLOSURE STATEMENT
(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

Applicants: Applicant's name(s) go here Prepared By: Bank address goes here

Property Address: Property address goes here

Application No: Application number goes here Date Prepared: Date goes here

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate * 6.413 %	The dollar amount the credit will cost you \$ ** 111,520.82	The amount of credit provided to you or on your behalf \$ * 90,897.77	The amount you will have paid after making all payments as scheduled \$ * 202,398.59

REQUIRED DEPOSIT: The annual percentage rate does not take into account your required deposit

PAYMENTS: Your payment schedule will be:

Number of Payments	Amount of Payments **	When Payments Are Due	Number of Payments	Amount of Payments **	When Payments Are Due
112	588.62	08/01/2004	Monthly Beginning		
247	550.29	12/01/2013	Monthly Beginning		
1	551.92	07/01/2034	Monthly Beginning		

- Largest single determinant of the cost of your loan
- Variations of 1/4% or more

Explain: The terms and conditions in your Truth-in-Lending Document include the Annual Percentage Rate. This is the largest single determinant of the cost of your loan.

There may be variances of 1/4% or more in some areas. Such a small percentage seems insignificant, but over the term of the loan (which could be up to 30 years), it can amount to a sizable sum of money.

Key Points

For Educator: What to Say

For Learner:

Slide #17: Rate of Interest



Annual Percentage Rate

Principal	Payment	APR	Total Interest	Total Loan Value
\$100,000	\$599.55	6.00%	\$115,838	\$215,838
Principal	Payment	APR	Total Interest	Total Loan Value
\$100,000	\$615.72	6.25%	\$121,659	\$221,659

Difference: \$5,821

- If a lender promises a lower than market interest rate, the difference may be made up through other financing charges.
- If a lender promises a lower-than-market interest rate, the difference may be made up through other financing charges.

Explain: Consider these two loan options.

Example: One is offered at **6.0%** APR and the other at **6.25%** APR. The difference after 30 years of payments is **\$5,821**.

Do not be misled, however, if a lender should promise a lower-than-market interest rate, because the difference may be made up through other financing charges (points, application fees, processing fees, etc.).

Key Points

For Educator: What to Say

For Learner:

Slide #18:

Truth in Lending

Annual Percentage Rate (APR)

The APR is a measure of the cost of your loan expressed as a yearly percentage rate

- APR may differ from what your loan officer disclosed.
- APR includes all fees and costs associated with the loan.
- It is normal to see a slight difference because of the normal costs of the loan.
- If the APR is different from the original quoted interest rate, do not hesitate to ask questions.

Explain: Your Annual Percentage Rate is very important! The APR is a measure of the cost of your loan expressed as a yearly percentage rate, such as 6% or 8%.

In the Truth-in-Lending Disclosure, you will notice the APR may differ from what your loan officer disclosed to you. This is because the APR includes all fees and costs associated with the loan.

It is normal to see a slight difference between the interest rate and the APR because of the normal costs of the loan.

This is an area in which some lenders may take advantage of people. They may offer you a competitive “interest rate” but add extra fees. This increases the disclosed APR of the loan. If the APR is extremely different from the original quoted interest rate, do not hesitate to question it.

Key Points

For Educator: What to Say

For Learner:

Slide #19: Truth in Lending

Truth-In-Lending

TRUTH-IN-LENDING DISCLOSURE STATEMENT
(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

Applicants: Applicant's name(s) go here Prepared By: Bank address goes here
Property Address: Property address goes here
Application No: Application number goes here Date Prepared: Date goes here

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate • 6.413 %	The dollar amount the credit will cost you • \$ 111,530.82	The amount of credit provided to you or on your behalf • \$ 90,867.77	The amount you will have paid after making all payments as scheduled • \$ 202,398.59

- Total dollar amount the credit will cost.
- Includes all fees and costs associated with the loan.

Explain: The second item listed on the Truth-in-Lending Document is a finance charge.

The finance charge is the total dollar amount the credit will cost you. Like the APR, this includes all fees and costs associated with the loan.

Notice in this sample that the credit will cost the buyer \$111,530.82, which is more than the amount being financed (\$90,867.77).

This is why the Truth-in-Lending Document is so important. It states the exact amount you are financing and how much it will cost you to obtain this loan product.

Slide #20: Truth in Lending

Truth-In-Lending

TRUTH-IN-LENDING DISCLOSURE STATEMENT
(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

Applicants: Applicant's name(s) go here Prepared By: Bank address goes here
Property Address: Property address goes here
Application No: Application number goes here Date Prepared: Date goes here

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate • 6.413 %	The dollar amount the credit will cost you • \$ 111,530.82	The amount of credit provided to you or on your behalf • \$ 90,867.77	The amount you will have paid after making all payments as scheduled • \$ 202,398.59

- The amount of credit provided to you or on your behalf.

Explain: The third box on the Truth-in-Lending Statement lists the amount of credit provided to you. This is the amount of the loan before interest or fees.

Key Points

For Educator: What to Say

For Learner:

Slide #21: Truth in Lending

TRUTH-IN-LENDING DISCLOSURE STATEMENT
(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

Applicants: Applicant's name(s) go here Respond By: Bank address goes here
Property Address: Property address goes here
Application No: Application number goes here Date Prepared: goes here

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate • 6.413 %	The dollar amount the credit will cost you \$ • 111,530.82	The amount of credit provided to you or on your behalf \$ • 90,867.77	The amount you will have paid after making all payments as scheduled \$ • 202,398.59

- The amount you will have paid after making all payments as scheduled.

Explain: The final box on the Truth-in-Lending Statement is very important!!!

This box states the total dollar amount you will pay for the house after making all payments as scheduled.

This amount can be lowered by making additional payments; however, this is the best indication of how much your home will cost! When reading this document, pay special attention to this figure.

As you can see in the example, this buyer will pay \$202,398.59 for a house he financed at \$90,867.77.

Slide #22: Truth in Lending

Schedule of Payments

- States the exact dates of your first and last payments.
- States when a payment is considered late.
- States the total number of monthly payments.

Explain: Information about your payments also will be included on the Truth-in-Lending Disclosure statement.

This section of the document will tell you the exact date of your first and last payments. It will state when the payment is considered late. This document also states the number of monthly payments (e.g., 180 or 360 payments) you will be making throughout the life of the loan.

You can see this information on the sample, below the four boxes.

Key Points**For Educator: What to Say****For Learner:****Slide #23:****Truth in Lending****Penalty for Late Payment**

- Lender may offer a “grace period.”
- Late fees vary with lenders.
- 2 to 5% of the monthly payment is a common penalty.

Explain: You also will find penalties for late payments. Many lenders offer a “grace period” of about 10 days before a late fee is charged. The amount of the late fee varies with the lender; however, from 2 to 5% of the monthly payment is a common penalty.

For example, if your monthly payment of \$700 is late, you would owe an additional \$14 (2%) to \$35 (5%).

In this sample, the document states that if the payment is more than 15 days late, you will be charged 4% of the payment, which is approximately \$24.

Slide #24:**Truth in Lending****Prepayment Penalties**

- Fee if loan is paid off early.
- Not customary in special, government-insured or conventional loans
- Common in sub-prime lending.
- Take caution on loans with this penalty.

Explain: Finally, you also will find prepayment penalties in your Truth-in-Lending Document. In this sample, you can see that there is no penalty if you pay off early. However, some mortgages charge a fee if the loan is paid off early.

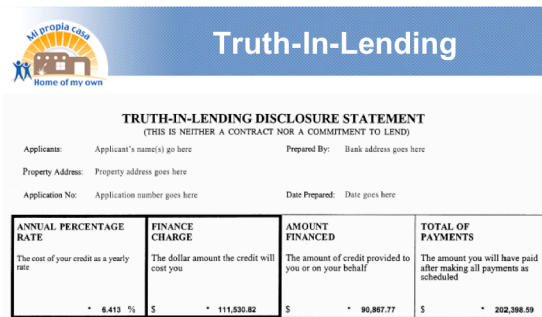
Although this type of penalty is not customary in special, government-insured or conventional loans, it may be more common with companies that do sub-prime lending. Sub-prime lending is a type of lending that relies on risk-based pricing to serve borrowers who cannot obtain credit in the prime market. Prepayment penalties are an important fee to consider. If the interest rates fall a couple of years after you close on the loan and you want to take advantage of a lower rate by refinancing your mortgage loan, you could be assessed a penalty of several thousand dollars, making it financially impractical to refinance your current home loan.

Key Points

For Educator: What to Say

For Learner:

Slide #25: Truth in Lending



The image shows a sample Truth-In-Lending Disclosure Statement form. At the top left is a logo with the text "No proppia case" and "Home of my own". The title "Truth-In-Lending" is in a blue box. Below the title, it says "TRUTH-IN-LENDING DISCLOSURE STATEMENT (THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)". There are fields for Applicant, Property Address, Application No., and Date Prepared. At the bottom, there is a table with four columns: ANNUAL PERCENTAGE RATE, FINANCE CHARGE, AMOUNT FINANCED, and TOTAL OF PAYMENTS.

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate * 6.413 %	The dollar amount the credit will cost you \$ * 111,530.82	The amount of credit provided to you or on your behalf \$ * 90,887.77	The amount you will have paid after making all payments as scheduled \$ * 202,388.59

Slide #26:

“Buying Your Home” Booklet

- Provides unbiased information on topics such as how to choose the best mortgage and how to negotiate during the home buying process.
- Available at HUD website:

<http://www.hud.gov/offices/hsg/sfh/res/stcosts.pdf>

Explain: The Truth-in-Lending Disclosure is a very important document that you need to review closely. Regardless of why you are borrowing money, never let a lender rush you through this document.

Take your time when signing the document. If you do not feel comfortable with the loan terms, do not sign this form. Remember that you can always walk away and sign at a later date if you so choose.

Question: *Do you have any questions about this form?*

Transition Statement: There is one other item you will receive from the lender after applying for a loan.

Explain: This item is a “Buying Your Home” Booklet. This booklet can serve as a pocket guide to assist you in the home buying process. It provides unbiased information on topics such as how to choose the best mortgage and advice on how to negotiate during the home buying process. This booklet also is available at the HUD website.

Participant questions.

Key Points**For Educator: What to Say****For Learner:****Slide #27:****Summary**

- Explained the Loan Application Process
- Identified Items Listed on the Good Faith Estimate
- Identified Items Listed on the Truth-in-Lending Disclosure

Transition Statement: Once you receive these three documents from several lenders, you can begin comparing your loan options as discussed in the next lesson.

Lesson Summary:

Congratulations! You have completed *The Mortgage Process Part I* in this Home Buying Process series of classes.

Today we have explained the loan application process and identified the items listed on the Good Faith Estimate and Truth-in-Lending document.

Question: *Are there any questions?*

Participant questions.