

Loan Approval Process

In this document, we discuss how the home loan is being processed. The steps given below are not necessarily the same for each of the lenders. But it is mostly the same, and some steps could be broken down further.

This will help us understand the whole process and decide which predictors we can use for our model.

- **Step 1: Mortgage Pre-Approval**

Gather information about the applicant's income and debt. Analyze the applicant on how much likely he is willing to repay the loan and how much ability the applicant has to repay the loan.

Willingness is decided by what will the property be used for, report of rent payments and the credit score. *Ability* is determined by the income. Is it consistent and is the applicant employed at the same place for more than 2 years or at least is working in the same line of work for more than two years?

Every case is handled differently. If the applicant falls short in one category and is excellent in the other, he may get qualified for the loan.

- **Step 2: Mortgage Programs and rates**

There are various types of loan available for different categories. If the applicant wants to sell the house after a few years, an adjustable loan might be suitable for him. If he wants to keep the house and don't wish to sell, he may take a fixed loan. On the basis of loan type, the interest rates and period of the loan varies.

- **Step 3: Mortgage Loan Application**

The application is where the real loan procedure starts. The applicant completes the application and provides the required information and documentation. The various fees and closing cost estimates will have been discussed while examining the many mortgage programs and these costs will be verified by the Loan Estimate (LE) which the borrower will receive within three days of the submission of the application to the lender.

A Loan Estimate is a three-page form that you receive after applying for a mortgage. It tells you important details about the loan you have requested. When you receive a Loan Estimate, the lender has not yet approved or denied your loan application. The Loan Estimate shows you what loan terms the lender expects to offer if you decide to move forward. If you decide to move forward, the lender will ask you for additional financial information.

- **Step 4: Decision of the applicant**

After receiving the estimate, it is up to the applicant if he wants to move forward with the rates and cost or not. If not, the process ends here. If the applicant intends to move forward, the applicant has to tell the company about this in writing or on the phone call. The terms of the estimate stand for 10 business days after they are drafted. If the applicant takes more than 10 days to accept the offer, the terms may be revised after that.

In short, the applicant has 10 days to decide whether to move forward with the application or not.

- **Step 5: Mortgage Processing**

The processors then demand for the credit report of the applicant, appraisals and title report. The information on the application is verified. If there are any prior late payments, defaults or any actions due to which credit report is badly affected, such actions require a written explanation.

Appraisal is a property document quoting its recent information, information about similar properties, condition and location of the property and details of the neighborhood on how it affects the current value of the property.

Title report is the legal document which outlines the legal status of the property and information on its ownership. It carries most of the weight to decide the quality of the property. Title reports are, after all, the best and most efficient way to ensure a property is free of defects — legally, defects refer to “anything attached to the land, such as another person’s rights, that could affect how you use the land or decrease its value.

More details credit report and appraisals.

Appraisals

An appraisal of real estate is the valuation of the rights of ownership. As the appraiser compiles data pertinent to a report, consideration must be given to the site and amenities as well as the physical condition of the property. Considerable research and collection of data must be completed prior to the appraiser arriving at a final opinion of value.

There are 3 common approaches for getting the estimate value or opinion.

The first approach to value is the **COST APPROACH**. This method derives what it would cost to replace the existing improvements as of the date of the appraisal, less any physical deterioration, functional obsolescence, and economic obsolescence.

The second method is the **COMPARISON APPROACH**, which uses other "benchmark" properties (comps) of similar size, quality, and location that have recently sold to determine value.

The **INCOME APPROACH** is used in the appraisal of rental properties and has little use in the valuation of single-family dwellings. This approach provides an objective estimate of what a prudent investor would pay based on the net income the property produces.

Credit Reports

It is a picture of how you paid back the companies you have borrowed money from, or how you have met other financial obligations. It does not include race, religion, health, driving record, criminal record, political preference, or income.

There are five categories of information on a credit profile:

- Identifying Information
- Employment Information
- Credit Information
- Public Record Information
- Inquiries

Credit scores are based on five factors: **35%** of the score is based on payment history, **30%** on the amount owed, **15%** on how long you have had credit, **10%** percent on new credit being sought, and **10%** on the types of credit you have. The scores are useful in directing applications to specific loan programs.

• **Step 6: Mortgage Underwriting**

Once all the required documents are gathered and verified, the file is sent to the lender. The underwriter determines if the loan application will be approved or not. The underwriter will double-check to ensure both the property and the borrower match the eligibility requirements for the specific mortgage product or program being used. The underwriter's primary responsibility is to evaluate the level of *risk* associated with your loan. The underwriter also has the rights to reject the loan application if it does not meet the pre-established criteria. If more information is required, it is demanded to make the right decision.

• **Step 7: Mortgage Loan Approval and Closing**

If the mortgage underwriter is satisfied that the borrower and the property being purchased meet all guidelines and requirements, he will label it "clear to close." This means all requirements have been met, and the loan can be funded.

NOTE: All the information in this document is based on the readings done from the articles below.

[Farmer Bank Home Mortgage](#)

[Homebridge Mortgage Loan Process Overview](#)

[Title Report](#)

[Mortgage Processor](#)