

What is the "typical" mortgage loan process?

pre-approval

Most first time homebuyers will opt to go through a pre-approval process through their desired lender. This process allows a potential homebuyer to learn up-front how much money they qualify for BEFORE they actually start house-hunting.

Pre-approval requirements:

The pre-approval process is much like the actual application process for most lenders. You will need the following information:

- 30 days worth of RECENT pay stubs (for all applicants)
- 2 years worth of recent W-2 forms
- 2 months worth of recent bank statements

At this point in the process, lenders will review:

- Landlord information for last two (2) years
- Employment history (*NOTE: most lenders prefer you to have stayed at the same place of employment or at least the same field of employment for a two-year time period*).
- Saving ability (*most lenders look favorably upon people who demonstrate the ability to save, even minimal amounts of money, for possible down payment, closing costs, or other homebuying expenses*).
- Credit history



Hint:

Before applying for a home loan, avoid applying for any new credit cards or taking on any additional financial responsibilities.

credit history

From your credit history, lenders will review your debt vs. income ratio. This is calculated by:

$$\frac{\text{Total monthly debt}}{\text{Total monthly income}}$$

Lenders generally look for a debt-to-income ratio of 36% to 41%, depending on the type of loan. For example, if your gross monthly income was \$1,000 then your maximum monthly debt would be \$360 to \$410.

Items considered in totaling your monthly debt includes:

- Car loans
- Installment loans
- Credit card balances
- Student loans
- Alimony & child support
- *and* the proposed home loan

credit scoring

Credit scoring is a process which is being relied on more and more by lenders. Each of the three National Credit Bureaus will give you a "credit score" based on the information they have in your credit file. (*NOTE: Not all Credit Bureaus have the same credit information in their files*). This score is used to determine your likelihood to repay the loan.

The score looks at:

- Past delinquencies
- Derogatory payment behavior
- Current debt level
- Length of credit history and type of credit established, and
- Number of inquiries on your credit report

Credit scoring places an potential borrower in one of three categories:

Score of 680 and above: this applicant would be considered an "A+" loan applicant. this applicant generally receives a better interest rate and close their loan within a couple of days.

Score of 620-680: this applicant will require a closer look by the lender for determining potential risks. Loans within this score may still obtain "A" pricing, but closing may still take several days or weeks because of additionally documentation being required (such as supplemental credit documentation and letters of explanation).

Score below 620: this applicant may find themselves locked out of the best possible interest rate and terms offered by lenders. These borrowers may be diverted to alternative lending sources such as FNMA and FHLMC.

*****ALL CONSUMERS CAN AND SHOULD REQUEST A CREDIT REPORT FROM EACH MAJOR CREDIT BUREAU ONCE A YEAR AND UPDATE ANY INACCURACIES OR OTHER ERRORS.***

How Can I Obtain a Copy of my Credit Report?

Experian (formerly TRW): 1-800-682-**7654**
Equifax: 1-800-685-1111

closing

Closing is when the actual mortgage papers are legally signed and executed. Closing costs vary by loan amount and type of loan, but generally closing costs will include:

- Credit report costs
- Title searches
- Attorney fees
- Recording fees
- Inspection fees
- Surveys
- Underwriting fees

On the average, closing costs run approximately 2% to 3% of the house price.

HINT:
Sometimes the seller is willing to pay for some or all of the closing costs. Be sure to inquire about this option before the actual closing date.



What does my mortgage payment include?

Many times, a mortgage payment includes more than just the repayment of the loan amount. Several things may be included in your monthly mortgage payment including:

Homeowners insurance: Sometimes, an option is to pay your homeowners insurance premiums monthly, right along with your mortgage payment.

Property taxes: Another payment which may be included with your mortgage payment is your yearly property taxes. These are kept in an escrow account by your mortgage company, and at the end of the year, your property taxes are paid out of this escrow account.

Mortgage insurance: Mortgage insurance is money you have to pay when you do not have a down payment of 20% or more.

Tips for saving on homeowners insurance

Shop around: get a wide range of prices from various companies. Let them know when you call that you are shopping around, they may give you discounted prices if you choose them.

Raise your deductible: a deductible is the amount of money you pay before the insurance company pays. A higher deductible often results in lower premiums.

Buy all home and auto insurance policies from the same provider: many companies offer discounted rates the more policies you hold with their company.

Before buying your home, consider how much insurance you will have to carry on it: be sure to check the construction, wiring, plumbing, etc. of the home before closing. (NOTE: the closer you house is to a fire station or fire hydrant the lower your premium will be. Be sure to mention this when getting your estimates).

Insure your house, not the land: do not include the price of the land when quoting house values to prospective insurance agents. You will end up paying for possible theft, windstorm, or fire damage to your land!

Improve home security and safety: some companies offer discounts for smoke detectors, burglar alarms, dead-bolt locks. Some even offer major discounts for sophisticated fire and burglar alarm systems. Be sure to check with your provider before you invest too much!

Seek out discounts for seniors: persons 55 and older are eligible for discounts, possibly up to 10%.

Check your place of employment for options: some companies offer "group discounts" through places of employment to get employees to insure through their company.

Become a non-smoker: some insurance companies offer reduced premiums if all residents in the house are non-smokers.

** Source: Mortgage 101

Lexington-Fayette Urban County Human Rights Commission

162 East Main Street, Suite 226
Lexington, KY 40507
(859) 252-4931
Fax & TDD: (859) 252-7057
e-mail: lexhrc@gte.net

Department of Housing and Urban Development (HUD)

Louisville Office
601 W. Broadway
Louisville, KY 40201
1-502-582-5250

Kentucky Commission on Human Rights (KCHR)

Heyburn Building, 7th Floor
332 West Broadway
Louisville, KY 40202
1-800-292-5566

*If you feel you have been
discriminated against in a housing
transaction because of your:*

**Race
Color
Gender
National Origin
Disability
Religion
Familial Status**

*Please contact one of the agencies
listed above to discuss filing a claim of
housing discrimination.*

ALL INQUIRIES ARE CONFIDENTIAL!

Thinking of buying a home?



Here's what you need to know!

- **WHAT IS THE TYPICAL MORTGAGE LOAN PROCESS?**
- **WHAT INFORMATION DO I NEED TO APPLY?**
- **WHAT ABOUT MY CREDIT REPORT?**
- **WHAT IF I AM TURNED DOWN?**

PLUS....

VALUABLE TIPS ON IMPROVING YOUR CREDIT REPORT, AVOIDING CLOSING COSTS, AND MUCH MORE!

Tips to expedite your homebuying process

- Before beginning the pre-approval process, obtain a copy of your credit report. Check to make sure there are no errors, and if there are, take the measures necessary to correct them. This may reduce the possibility of your getting denied a loan based on your credit report.
- Before beginning the pre-approval process, take the time to figure your debt to income ratio. This will allow you to know when you begin to choose a lender, how much you can afford for a monthly mortgage payment.
- Research the different types of mortgages available before seeking out a lender. Have questions ready to ask a lender and make sure the lender explains the differences to your satisfaction.
- Check your local newspapers for current mortgage rates, you'll find that they differ from lender to lender, and depending on the loan term and type. If you are quoted a unusually high interest rate, be sure to question the lender about why the rate is different from the national average.
- Remember that a mortgage payment includes Principal, Interest, Real Estate Taxes, Home Insurance, and Mortgage Insurance Premiums (*where applicable*).
- Be prepared with the proper documentation before beginning the pre-approval process (*including: social security numbers, previous addresses/ landlords, names and addresses of employer(s) for last two (2) years, proof of monthly salary, names, addresses, and account numbers for all checking and saving accounts and investments, last two (2) years W2 forms, addresses on all real estate already owned, original recent pay stubs*).
- If you have been denied credit within the past 60 days, each of the three (3) National Credit Corporations, under Kentucky law, must send you a free copy of your credit report.
- If you have recently graduated from college, and are working in your field of study, that may count towards proving your employment stability. Be sure to take a copy of your diploma's to verify your graduation date(s).

What if i am turned down for a loan?

If your application for a mortgage loan is denied, be aware that the Equal Credit Opportunity Act (ECOA) requires the lender to give you written notification of the reasons for your denial within 30 days. Factors which may be cited as reasons for your denial may include:

Downpayment: The amount you have planned for down payment may not be sufficient. Ask the lender about financing the down payment into your mortgage, or about other types of mortgages with lower or no down payment requirements.

Appraisal: The amount requested for the mortgage may be too high as compared to the appraised value of the home. Suggest that the lender request another appraisal, perhaps by another appraiser. Be aware that you have the right to receive a copy of the appraisal if you have paid for it.

Credit History: Ask how your debt ratios compare to the lender's standards. If there were special circumstances surrounding a specific concern the lender has regarding your credit, ask for a chance to explain the problem.

were you discriminated against?

BE AWARE that discrimination in mortgage lending is **ILLEGAL!** If you feel that you were denied a mortgage loan based on your *Race, Color, Gender, National Origin, Disability, Religion, or Familial Status* know that you have the right to file a charge of housing discrimination with your local Fair Housing Enforcement Agency or the Department of Housing and Urban Development.

Unlawful Practices by Lenders may include:

- Failure to provide information or services regarding any aspect of the lending process
- Discourage or selectively encourage applicants with respect to inquiries about or applications for credit
- Vary the terms of credit offered, including the amount, interest rate, duration, and type of loan.
- Use different standards to evaluate collateral.
- Use different standards for pooling or packaging a loan in the secondary market.
- Express orally or in writing a preference based on prohibited factors.

Lending discrimination statutes and regulations

The Equal Credit Opportunity Act: prohibits discrimination based on race, color, religion, national origin, gender, marital status, age, income derived from public assistance program, or the applicant's exercise in good faith of any right under the Consumer Credit Protection Act.



The Fair Housing Act of 1968: prohibits discrimination in all aspects of residential real estate transactions, including:

- Making loans to buy, build, repair, or improve a dwelling
 - Purchasing real estate loans
 - Selling, brokering, or appraising residential real estate
 - The sale or rental of a dwelling.
- on the basis of the applicants Race, Color, Religion, National Origin, Gender, Familial Status, or Disability.

Kentucky Fair Housing Act and Local Ordinance 199-94: prohibits discrimination in all aspects of residential real estate transactions by financial institutions (*NOTE: Both statutes have been found by HUD to be substantially equivalent to the Federal Fair Housing Law*).

Home Mortgage Disclosure Act (HMDA): seeks to prevent lending discrimination and redlining by requiring public disclosure of certain information about mortgage loan applications.

Community Reinvestment Act (CRA): seeks to affirmatively encourage institutions to help meet credit needs of the entire community served by each institution covered by the statute, and the CRA rating taking into account lending discrimination by those institutions.

The Americans with Disabilities Act (ADA): prohibits discrimination against persons with disabilities in the provision of goods and services, including credit services.

community resources

There are a number of agencies in the Lexington-Fayette County area which are designed to help first-time homebuyers with counseling & mortgage assistance programs including:

Home Ownership Counseling Programs:

R.E.A.C.H., Home Program: Is a non-profit housing counseling agency for low to moderate income families. Eligible clients may receive a second mortgage up to 25% (*not to exceed \$15,000*) of the purchase price to be applied towards downpayment and closing costs. Interests vary from 0% to 2% depending in income level (*Applicants who are below 50% of the median income average are eligible for a non-repayable loan*). Applicants in this program are required to go through housing counseling courses. For more information, call 258-3535.

Community Reinvestment Alliance of Lexington (CRAL): CRAL is a housing counseling agency whose program consists of eight (8) seminars designed to prepare participants for homeownership. One benefit of this program is that persons completing the program will receive a certificate which will enable them to obtain a lower interest rate through participating lenders. For more information about this program, call 231-7055.

Community Action Program: This program develops low-income housing for the elderly as well as families. They also assist in the home ownership process by performing various services and seek financing for those wishing to purchase a home. For more information, call 233-4600.

Tenant Services and Housing Counseling, Inc.: This is a private, non-profit organization that is a HUD certified housing counseling agency. They work with default and pre-ownership loans while also working with emergency default counseling. They do an array of services in the home purchasing process not related to HUD. For more information, contact 258-3960.

Home Ownership Down Payment Programs

Vacant Lot Program: This program provides housing through government partnerships with builders of low-moderate income housing, reimbursing them for land costs when a housing unit is sold. This partnership results in substantial savings to the homeowner when the cost of the land is reduced from the sale price. The Kentucky Housing Corporation provides low interest rate, permanent financing to the homeowner. For more information, call 285-3260.

The REACH Home Program: This is a special program developed by REACH to aid low to moderate income individuals and families achieve home ownership. Eligible recipients may received up to 25% of the purchase price (*not to exceed \$15,000*) at 0% interest. For more information, call 258-3535.

R.E.A.C.H. Lease-Purchase Program: Homes will be purchased by R.E.A.C.H. and leased to clients who have too much debt, bad credit, no credit, unstable work histories, or other factors which prohibit them from obtaining mortgage loan. For more information, call 258-3535.

Lexington-Fayette Urban County Housing Authority: This program provides the driving force behind an extraordinary partnership comprised of the Housing Authority Staff, area lending institutions, low-income families and community professionals who donate their time and expertise to prepare leaseholders to become homeowners. For more information, call 281-5060.

Lease Purchase Program for the Bluegrass: This program provides homeownership opportunities for first-time homebuyers in Fayette County. Homes are leased to participants for not less than 12 months and not more than 30 months, during which time outstanding and existing credit problems must be repaired. Applicants must enroll in the Homebuyer Education and Counseling Program and be willing to work with Consumer Credit Counseling, if recommended by housing counselor. For more information on this program, contact Community Ventures Corporation at (606) 231-0054 or 1-800-299-0267.

First-time Homeowners Assistance Program: This is a Federally funded affordable housing program designed to assist low and very low income persons in homeownership. Once certified eligible, the homebuyer may receive mortgage buydown assistance and closing cost assistance. The market value (appraised) of the potential home cannot exceed \$89,000.00. For more information about this program, contact the Urban League at 233-1561.

Home Rehabilitation

Division of Housing and Community Development: This division operates housing rehabilitation programs in the Fayette County area. For more information, call 258-3070.

Countywide Housing Rehabilitation Program: This program provides assistance to owner-occupants for the elimination of substandard housing conditions. Up to \$18,000 can be provided to income-eligible homeowners which allow them to correct life safety and other code related violations.

Downtown Rental Rehabilitation Program: This programs provides deferred payment subsidy of up to 50% of rehabilitation costs to landlords who rehabilitate substandard rental property in any low-moderate income area. After rehabilitation, the landlord must rent 70% of the assisted units to low-moderate income families and at least 70% of the units must have two or more bedrooms.

Elm Tree Lane Redevelopment Project: R.E.A.C.H. and LFUCG will provide 19 single family detached units on Elm Tree Lane for low to moderate income families. R.E.A.C.H. will provide counseling and non-repayable mortgage assistance of up to \$15,000 for qualified applicants. For more information, contact 258-3535.