



## ***Understanding the Loan Process:***

### ***A Step-By-Step Walkthrough***

***By Stephanie Riley, [Stephanie.Riley@CatalystFunding.com](mailto:Stephanie.Riley@CatalystFunding.com)***

- 1. Lender Search** – As you probably are aware of, unless you are planning to pay all cash for your real estate, financing is a key component of any real estate transaction. There are different types of lenders that you can choose from. Many borrowers choose to contact a mortgage broker who has access to a wide variety of loans, but the most important thing is that you do your homework and find someone you trust.
- 2. Finance Consultation** – Once you have chosen the lender that you are going to work with, the next step is to sit down with one of their consultants to discuss the right loan program for you in your particular situation.
- 3. Loan Application** – A Loan Application is nothing to be afraid of. It is not a binding contract, an agreement for you to get a loan, nor an agreement for the lender to give you a loan. Rather, just as it sounds, it is an application that simply begins the discovery process on what loan you qualify for. It's crucial to supply the lender with as much information as possible, as accurately as possible, as soon as possible. All outstanding debts as well as assets and income should be included.
- 4. Documentation** - Paperwork supporting the application must also be submitted. Information commonly sought includes pay stubs, two years' tax returns, and account statements verifying the source of the down payment, funds to close and reserves. Some lenders do not gather this documentation until after you are in contract. This is not a good idea. Not only does it extend the process from the time you get into contract, but many red flags in a package may come out of the documentation and it is best to be aware of these and deal with them before you go shopping for a property.
- 5. Pre-Approval** – It is very important that you are pre-approved before you begin looking for a property. This way, you know ahead of time how much property you can afford – and so does your seller! Currently, it would be considered improper business practice if your Real Estate agent helped you make an offer without a Pre-Approval Letter from your lender. Now, there are many different types of Pre-Approvals, but that is a whole other topic by itself. Suffice it say, you want to be as far along the financing process as you can possibly be before you go shopping. Some lenders will Pre-Qualify you without documentation, but again, you are far better off to be as prepared as possible with your financing before you get into contract.
- 6. Shopping** - At this point, the buyer begins shopping for a house. When the right one is found, the terms of the sale are negotiated. It is important that you and your Real Estate agent make sure that your lender will be able to perform with all the financing terms put forth in the contract.
- 7. Appraisal** - Lenders require an appraisal on all property sales. This step could jeopardize a deal if a big discrepancy were to exist between the home's



sale price and appraised value. Your Real Estate agent will most likely always have an Appraisal Contingency in your contract for this reason.

8. **Title Search** - This is the time when any liens against the property are discovered. A lien may have been placed on a property to ensure payment of outstanding debts by the owner. All liens must be cleared before a transaction can be completed.
9. **Processor's Review** - The lender's loan processor packages all pertinent information to be sent to the lending underwriter, including any explanations that may be needed, such as reasons for derogatory credit. Some lenders will do steps 9, 10 & 11 even before you are in contract. Remember, you always want to do as much of the financing work as you can before you get into contract. If you have this opportunity, you should always take advantage of this.
10. **Underwriter's Review** - Based on the information put together by both the loan executive and the processor, the underwriter makes the final decision on whether a loan is approved. Typically, the underwriter is checking to make sure that your loan package complies with all of the underwriting guidelines set forth for the particular loan product that has been selected. They do this in order to ensure that your loan package can be sold on the Secondary Market.
11. **Approval, denial or counter offer** - In order to approve a loan, the lender may ask for a variety of things. Do not be alarmed, this is normal. However, do make sure that you are responsive in supplying these to your lender.
12. **Rate Locking** – At any point in the process, you can lock in your rate. However, it is mandatory that you do this at this step in order for the lender to be able to draw up the loan documents. A good Finance Consultant will do a Rate Lock Consultation with you to help you choose the right rate for you.
13. **Loan Documents** – After you have been approved and locked in your rate, the lender will draw up the loan documents and send them to the Escrow Officer. These include the Lender's Instructions to the escrow company, the Note, Deed of Trust, and a lot of Disclosures.
14. **Insurance** - Lenders require fire and hazard insurance on the replacement value of the structure. Flood insurance will also be required if the property is located in a flood zone. In California, some lenders require earthquake insurance on condominiums.
15. **Signing** - Final loan and escrow documents are signed. Typically, you will sign-off at the title company. A good Real Estate agent and Finance Consultant will be there with you to answer any questions you have about the paperwork. You always want to make sure your Note is correct.
16. **Funding Review** – Once all loan documents are returned to the lender, they are reviewed to make sure that no changes were made. At this stage, there still may be a few items that the underwriter will require in order to fund the loan. Again, you will want to be responsive with these requests. Then a final Verification of Employment and Credit Report will be done. Again, do not be



alarmed, this is normal. After you sign-off, do not go buy a big screen TV for your new house!

**17. Funding** - The lender sends a wire or check for the amount of the loan to the title company.

**18. Close of Escrow** - Documents transferring title are recorded with the County Recorder and the escrow company is authorized to draft a check to the seller.

**19. You are the new proud owner!**