

# FHA LOAN 101

## FHA Loan Qualifying Summary

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FHA loans are the easiest type of real estate mortgage loan to qualify for. The FHA guidelines for loan qualification are the most flexible of all mortgage loans that require less than 5% down payment.

Following is the basic FHA loan qualification guidelines.

- Two Years of steady employment, preferably with same employer.
- Last two years Income should be the same or increasing.
- Credit report should typically have less than two thirty day lates in last two years with a minimum credit score of 580 or higher or no credit score at all.
- Bankruptcy's must be at least two years old, with perfect credit since discharge.
- Foreclosure's must be at least three years old, with perfect credit since.
- Your new mortgage payment should be approximately 30% of your gross (before taxes) income.

These are some of the most basic of FHA guidelines for qualifying for a FHA loan. If you have answered yes to most of these statements, you probably qualify for a FHA mortgage loan.

## FHA Loans - FHA Debt Ratio's Guidelines

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In addition to your income, an FHA lender will look at your minimum monthly debts to calculate your income to debt ratios. The debt ratio's is what will determine "how much" of a FHA loan you can afford to qualify for.

Following are the two types of debt ratio's that will be use:

- **Front-End Ratio** - this is your gross income divided by the new PITI mortgage payment. This standard guideline is 29%.

- **Back-End Ratio** - this is your gross income divided by the new PITI mortgage payment and also you minimum monthly payments from you liabilities. The standard guideline is 41%

Following is the typical debts used to determine your qualifying ratio's:

### Front-End Ratios

- your current and or future house payment

**Back-End Ratios-** the minimum required monthly payments on all of the following:

- Auto Loans - (except if there is less than 9 months left to pay off)
- Student Loans - (except if there is less than 9 months left to pay off)
- Personal Loans (except if there is less than 9 months left to pay off)
- Charge Cards - minimum required payments only.
- Child Support - (except if there is less than 9 months left to pay off)
- Alimony - (except if there is less than 9 months left to pay off)
- Federal Tax Lien Repayment Schedules - (if less than 9 months not calculated)

Following are monthly liabilities that are not used to calculate debt ratio's:

- Utility Bills
- Car & Health Insurance
- Cell Phone Bills
- any bills not reflected on your credit report.

The percentage of debts to income is called the debt-to-income (a.k.a.: back-end) ratios. A good goal is to spend no more than 38% of your income on all debts, including house payment. However, under FHA home loan guidelines you're allowed to spend up to 41% of your monthly income on housing and other debts -- if the rest of your loan application shows you can handle it.

An example of the income to debt calculation is as follows:

Income = \$3,000

New Mortgage Payment = \$900.

Minimum Monthly Payments = \$300

"Mortgage" divided by "Income" = 30%

"Mortgage + Monthly Payments" divided by "Income" = 40%

In this scenario, your front-end is 30% and back-end is 40% which is acceptable for a FHA loan.

These ratios can also be adjusted or exceeded if there are item(s) you can pay off, lower interest rate, lower the loan amount, etc.

FHA is the most flexible lender regarding debt ratios. Never rule yourself out of buying a home until you have spoken to a mortgage professional.

## **FHA Loans - Documents Needed for FHA Loan**

..... The most important thing to understand is that the loan approval process is 100% dependant on your documentation. To insure a smooth transaction, it is imperative that you have all of your documents gathered prior to your initial loan application. Following is a list of all the documents you will need. Please feel free to print this screen and use this as a checklist.

### **Employment Information**

- Most recent two years complete *tax returns* with all schedules.
- Most recent two years *W-2's*, 1099's, etc.
- Most recent *pay stubs* covering one month period.
- If Applicable: Self-Employed will need Three years Tax Returns and YTD Profit & Loss Statement.

### **Savings Information**

- Most recent three months complete *bank statements* for any and all accounts with all pages.
- Most recent statement from retirement, 401k, mutual funds, money market, stocks, etc.

### **Credit Information**

- Most recent statements from your bills, indicating minimum payments and account numbers.
- Name, Address, and Phone number of your landlord, or 12 months cancelled rent checks.
- If Applicable: Should you have no credit. Copies of your most recent utility bills will be needed.
- If Applicable: Copy of complete Bankruptcy and Discharge Papers.
- If Applicable: If you co-signed for a mortgage, car, credit card, etc, need 12 months cancelled checks. front and rear, indicating you are not making payments.

### **Personal Information**

- Copy of *Drivers License*.
- Copy of *Social Security Card*.
- If Applicable: Copy of complete Divorce, Palimony, Alimony Papers.
- If Applicable: Copy of Green Card or Work Permit.
- If Applicable: If you own another home(s) - see below

### **If a Refinance or you own Rental Property**

- Copy of Note & Deed from current loan.
- Copy of Property Tax Bill.
- Copy of Hazard (homeowners) Insurance Policy.
- Copy of Payment Coupon for current Mortgage.
- If Applicable: If property is multi-unit, need Rental Agreements.

Additional documents may be needed upon review of your file and on a case-by-case scenario.

## **FHA Loans - Income Qualifications**

..... FHA has designed its program to assist people to purchase homes and refinance existing mortgages. Therefore the income qualifying guidelines are more flexible than traditional Fannie Mae & Freddie Mac Conventional Home Loans.

One of the first questions we will ask will consider is how much of your total income you will spend on housing. This information helps the lender decide whether you can comfortably afford a home.

When you are qualifying for a loan, we will use your gross income. That means all the money you earn before taxes, including overtime, commissions, dividends and any other sources --as long as you can show a steady two year history for these sources.

Your monthly housing expense as a percentage of your monthly income is called the housing expense (a.k.a.: front-end) ratio. FHA suggests to spend about 29% of your income on your house payment (including the mortgage, property taxes, mortgage insurance and hazard insurance).

Calculate what your new monthly mortgage payment should be by using the formula:

**Gross Monthly Income multiplied by 29% = Mortgage Payment.**

Sometimes you have to stretch that percentage when you buy a house -- and that's one of the benefits of easier qualifying FHA home loans. To qualify, you're allowed to spend up to 35% of your income on your house payment, as long as everything else in your application shows that you can handle the "stretch."

One important thing FHA will do is compare your housing expense now to the expense you'll have if you buy a home. The smaller the increase, the stronger your application looks.

## **FHA Loans - Credit Qualifying for FHA Loans**

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In addition to your ability to pay for a mortgage (as indicated by your debts and income), FHA will look at your ability to repay as indicated by your credit report. Your willingness will be judged by your credit report records -- that is, how well you've paid your loans and other debts in the past.

If you are unsure what your credit report is like, you may want to begin by getting a free credit report that you can view immediately online by clicking >> [Here](#).

To help you understand why credit is important and why FHA will look at your credit, please try to understand the following:

- Perfect credit is what you are supposed to have.

Whenever you borrow money (credit cards, auto loans, student loans, etc.) you are making a commitment to that creditor to pay them back on the terms mutually agreed upon. If you are late making the payment then you broke the commitment and the lender can indicate this on your credit report.

The lender does not know why you are late, they just know that you broke the commitment agreed upon. They are not responsible on helping you manage your bills and debt, as they simply make and offer and the borrower accepts the terms.

This is why your credit is very important in qualifying for a home loan. Although you are supposed to have perfect credit, FHA will allow for minor past credit issues, as long as there is a "reasonable" reason why there was an issue.

FHA will look mostly at the last two years of your credit history. If there are some credit issues, we may be able to overcome them with sufficient explanations and supporting documents of why the issues occurred. Following is some of the reasons FHA will accept:

- Lost of Job
- Job Transfer
- Serious Illness

As long as it seems to make sense, and it is not just because you did not make the payment or because you had too much other debt.

You should not rule yourself out of qualifying for FHA loan to buy a home or refinance your existing mortgage because of credit issues until a mortgage professional has reviewed your credit.

## **FHA Loan - Savings Qualifications**

..... As for your savings, FHA is the easiest of all types of loans to qualify. FHA does not require that you have a savings or checking account and the money you will be using for your purchase does not have to be "seasoned" (meaning in the bank for the last three months), like conventional loans.

FHA will allow for a homebuyer to receive the down payment for the purchase of a home as a "Gift" (meaning you do not have to pay it back), from a family member or non-profit organization.

When purchasing a home with FHA financing and you are receiving a "Gift", you must provide the complete papertrail of the money's being giving to you. Typically, we will need the persons bank statement whom is giving you the money (to prove that they had it to give int he first place)

Additionally, if you have a 401K or retirement account, you may be able to draw or borrow from these funds for your down payment. If you must borrower against an account, you must be able to qualify with the monthly repayment amount.

If you have a bank account(s), you will need to provide three months of the complete bankstatments. FHA will review them to insure that you are balancing and managing your bills properly. Also they will look to see that the debts match up to your monthly payments and that the deposits are close to what you are netting on you paycheck. If there are any large deposits, they will need to be explained.

An occasional "NSF" may suffice if there is proper explanation as to why it occurred. At the time of your loan application, you should have your last three months bank statements with you.

If you have recently sold an item or have your money saved at home, you can still purchase a home now using your money. You will simply have to provide documents verifying the sale of the item or write a budget letter explaining how and why you save your money at home.

Should you be purchasing or refinancing a 3 or 4 unit property, FHA requires that you have a minimum of 3 months of the future mortgage payments in savings. These savings are called "Reserves".

# FHA Loan Closing Costs

..... FHA loan closing costs are regulated by HUD. There are maximum fee limits in place so that the FHA loan program remains affordable to home buyers. Additionally, some loan fee's may not be paid by the buyer / owner and are traditionally paid by the home seller / lender.

To easily understand the closing costs description below, you may want to download a sample "Good Faith Estimate" to view the form in it's entirety by clicking >> [Here](#).

The form is broken into six separate sections. Each section is located below. The item number on the right side is from all legal HUD / Respa compliant forms. Please click on "Explanation of Fee" to learn more about the fee.

## Loan Fee's

Below is a sample of a section of each section of a Good Faith Estimate that covers the loan fee's and charges of the lender. These fee's in this section are charged by the lender.

<b>800. ITEMS PAYABLE IN CONNECTION WITH LOAN</b>	
801. Loan Origination Fee %	<a href="#">Explanation of Fee</a>
802. Loan Discount %	<a href="#">Explanation of Fee</a>
803. Appraisal Fee to	<a href="#">Explanation of Fee</a>
804. Credit Report to	<a href="#">Explanation of Fee</a>
805. Lender's Inspection Fee	<a href="#">Explanation of Fee</a>
806. Mortgage Insurance Application Fee to	<a href="#">Explanation of Fee</a>
807. Assumption Fee	<a href="#">Explanation of Fee</a>
808. Mortgage Broker Fee	<a href="#">Explanation of Fee</a>
809.	
810. Loan Processing Fee	<a href="#">Explanation of Fee</a>
811. Underwriting Fee	<a href="#">Explanation of Fee</a>
812. Wire Fee	<a href="#">Explanation of Fee</a>
813. Flood Certification	<a href="#">Explanation of Fee</a>

Following is a description of the normal non-reoccurring closing costs for a FHA loan. These fee's are typically paid by the buyer or owner. It may be negotiated that all or part of these fee's may be paid by the home seller or lender.

**801. Loan Origination:** This fee is usually known as a loan origination fee but sometimes is called a "point" or "points." It covers the lender's administrative costs in processing the loan. FHA regulates this fee to a maximum of 1% of the loan amount. Often this is expressed as a percentage of the loan. Generally, the buyer pays the fee, unless otherwise negotiated.

**802. Loan Discount:** Also often called "points" or "discount points," a loan discount is a one-time charge imposed by the lender or broker to either lower the rate at which the lender or broker would otherwise offer the loan to you or may be used to lock-in the interest rate for an extended period. This fee may vary.

**803. Appraisal Fee:** This charge pays for an appraisal report made by an independent FHA appraiser. Typically range from \$300 - \$500.

**804. Credit Report Fee:** This fee covers the cost of a credit report, which shows your credit history. The lender uses the information in a credit report to help decide whether or not to approve your loan and how much money to lend you. Typically \$40 - \$55.

**805. Lender's Inspection Fee:** This charge covers inspections, often of newly constructed housing, made by employees of your lender or by an outside inspector. (Pest or other inspections made by companies other than the lender are discussed in line 1302.)

**806. Mortgage Insurance Application Fee:** This fee covers the processing of an application for mortgage insurance.

**807. Assumption Fee:** This is a fee which is charged when a buyer "assumes" or takes over the duty to pay the seller's existing mortgage loan.

**808. - 809. Mortgage Broker Fee:** Fees paid to mortgage brokers would be listed here. A CLO fee would also be listed here.

**810. Loan Processing Fee:** This fee is for the administrative cost of processing your loan files required paperwork.

**811. Underwriting Fee:** Fee charged by investor for underwriting the submitted loan file and all of its paperwork.

**812. Wire Fee:** Fee charged by investor for wiring out the required funds to close the loan.

**813. Flood Certification:** Every FHA loan request a flood report to insure that it is not located in a flood zone. If property is in flood zone, owner required to obtain flood insurance.

## Prepaid Items

The following fee's are reoccurring pre-paid fee's. You may be required to prepay certain items at the time of settlement / closing. Some of these items would be accrued interest, mortgage insurance premiums, and homeowners / hazard insurance.

900. ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE	
901. Interest from to @ \$___ per ___ day	<a href="#">Explanation of Fee</a>
902. Mortgage Insurance Premium for months to	<a href="#">Explanation of Fee</a>
903. Hazard Insurance Premium for years to	<a href="#">Explanation of Fee</a>
904. years to	<a href="#">Explanation of Fee</a>
905.	

**901. Interest:** Lenders require borrowers to pay the interest that accrues from the date of settlement / closing to the first monthly payment which is prorated daily based on the new loans interest rate.

**902. Mortgage Insurance Premium:** FHA Mortgage Insurance Premium fee is 1.5% of the loan amount. This fee may be financed into the loan amount. If you pay the FHA loan off within the first seven years, you may be entitled to a prorated refund of the MIP.

**903. Hazard Insurance Premium:** Hazard insurance protects you and the lender against loss due to fire, windstorm, and natural hazards. Lenders often require the borrower to bring to the settlement a paid-up first year's policy or to pay for the first year's premium at settlement.

**904. Flood Insurance:** If the lender requires flood insurance, it is usually listed here.

## Escrow Impound Account Reserves

All FHA loans require the establishing of an escrow impound account. This account allows your property taxes and homeowners / hazard insurance to be included in your monthly payment and paid annually as needed.

1000. RESERVES DEPOSITED WITH LENDER	
1001. Hazard Insurance months @ \$___ per ___ month	<a href="#">Explanation of Fee</a>
1002. Mortgage insurance months @ \$___ per ___ month	<a href="#">Explanation of Fee</a>
1003. City property taxes months @ \$___ per ___ month	<a href="#">Explanation of Fee</a>
1004. County property taxes months @ \$___ per ___ month	<a href="#">Explanation of Fee</a>

1005. Annual assessments months @ \$____ per ____ month	<a href="#">Explanation of Fee</a>
1006. months @ \$____ per ____ month	<a href="#">Explanation of Fee</a>
1007. months @ \$____ per ____ month	<a href="#">Explanation of Fee</a>
1008. Aggregate Adjustment	<a href="#">Explanation of Fee</a>

**1001. Hazard Insurance:** Usually 2 months prorations of your annual homeowners / hazard insurance policy.

**1002. Mortgage Insurance:** Usually 2 months of the monthly FHA mortgage insurance premium. This monthly fee is calculated as .5% of the final FHA loan amount divided by 12 for the monthly prorations.

**1003. City Property Taxes:** Some cities have assessed property taxes which would be collected here. This will vary from city to city.

**1004. County Property Taxes:** The amount of property taxes collected will vary and would be prorated based on the number of payments made on the new loan to until your property taxes are due. May be from zero to eleven months in advance.

**1005-1007. Other Prorations:** These would be any other fee's such as HOA dues.

**1008. Aggregate Adjustment:** The lender is not allowed to collect more than a certain amount. The individual item deposits may overstate the amount that can be collected. The aggregate adjustment makes the correction in the amount on line 1008. It will be zero or a negative amount.

### Title & Other Fee's

This fee's are all other fee's associated with obtaining a FHA loan. Although these are not lender fee's, lenders must provide a quote of the estimated fee. These quotes may vary significantly. Title charges may cover a variety of services performed by title companies and others. Your particular settlement may not include all of the items below or may include others not listed.

1100. TITLE CHARGES	
1101. Settlement or closing fee to	<a href="#">Explanation of Fee</a>
1102. Abstract or title search to	<a href="#">Explanation of Fee</a>
1103. Title examination to	<a href="#">Explanation of Fee</a>
1104. Title insurance binder to	<a href="#">Explanation of Fee</a>
1105. Document preparation to	<a href="#">Explanation of Fee</a>
1106. Notary fees to	<a href="#">Explanation of Fee</a>
1107. Attorney's fees to	<a href="#">Explanation of Fee</a>

<i>(includes above items numbers; )</i>	
1108. Title Insurance to	<a href="#">Explanation of Fee</a>
<i>(includes above items numbers; )</i>	
1109. Lender's coverage \$	
1110. Owner's coverage \$	
1111.	
1112.	
1113.	

**1101. Settlement or Closing Fee:** This fee is paid to the settlement agent or escrow holder. Responsibility for payment of this fee should be negotiated between the seller and the buyer.

**1102-1104. Abstract of Title Search, Title Examination, Title Insurance Binder:** The charges on these lines cover the costs of the title search and examination.

**1105. Document Preparation:** This is a separate fee that some lenders or title companies charge to cover their costs of preparation of final legal papers, such as a mortgage, deed of trust, note or deed.

**1106. Notary Fee:** This fee is charged for the cost of having a person who is licensed as a notary public swear to the fact that the persons named in the documents did, in fact, sign them. Usually \$40 - \$120.

**1107. Attorney's Fees:** You may be required to pay for legal services provided to the lender, such as an examination of the title binder. Occasionally, the seller will agree in the agreement of sale to pay part of this fee. The cost of your attorney and/or the seller's attorney may also appear here. If an attorney's involvement is required by the lender, the fee will appear on this part of the form, or on lines 1111, 1112 or 1113.

**1108. Title Insurance:** The total cost of owner's and lender's title insurance is shown here.

**1109. Lender's Title Insurance:** The cost of the lender's policy is shown here.

**1110. Owner's (Buyer's) Title Insurance:** The cost of the owner's policy is shown here.

### **Recording and Transfer Fee's**

These fees are city, county and state fee's. They may be paid by you or by the seller, depending upon your agreement of sale with the seller. The buyer usually pays the fees for legally recording the new deed and mortgage (line 1201).

Transfer taxes, which in some localities are collected whenever property changes hands or a mortgage loan is made, can be quite large and are set by state and/or local governments. City, county and/or state tax stamps may have to be purchased as well (lines 1202 and 1203).

<b>1200. GOVERNMENT RECORDING AND TRANSFER CHARGES</b>	
1201. Recording fees: Deed \$ ; Mortgage \$ ; Releases \$	
1202. City/county tax/stamps: Deed \$ ; Mortgage \$	
1203. State tax/stamps: Deed \$ ; Mortgage \$	
1204.	
1205.	

### **Additional Settlement Charges:**

These may be other third party fee's for services rendered in order to satisfy all loan, buyer, and seller requirements. All FHA loans require a termite report and clearance. Again, these fee's are negotiable between buyer and seller.

<b>1300. ADDITIONAL SETTLEMENT CHARGES</b>	
1301. Survey to	<a href="#">Explanation of Fee</a>
1302. Pest inspection to	<a href="#">Explanation of Fee</a>
1303.	<a href="#">Explanation of Fee</a>
1304.	
1305.	

**1301. Survey:** The lender may require that a surveyor conduct a property survey. This is a protection to the buyer as well. Usually the buyer pays the surveyor's fee, but sometimes this may be paid by the seller.

**1302. Pest and Other Inspections:** This fee is to cover inspections for termites or other pest infestation of your home.

**1303-1305. Lead-Based Paint Inspections:** This fee is to cover inspections or evaluations for lead-based paint hazard risk assessments and may be on any blank line in the 1300 series.

If your transaction is a purchase, the total of all of these fee's would then be added to the amount of your down payment, which would total the amount needed to close your transaction.

For a refinance, these fee's could be added to your new loan amount, paid out of pocket, or financed into the interest rate with a lender credit.

# FHA Loans - FHA Loan Processing

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The loan processing of your file is the most time consuming aspect of the loan process. This is the preparation of your file for presentation to the FHA investors. All documentation is reviewed to insure there is no discrepancies in presentation and any possible issues are worked on at this stage.

If at your initial application you did not provide all of the original documents needed, this is the stage where they will be requested for again.

The processing stage is comprised of gathering all of the following documents.

- **FHA Case Number** - We will request from FHA a FHA case number. If a condo, PUD or townhome, will need to verify property is an FHA approved complex. If property was previously in escrow, may need to request case number from other lender. Usually 1-2 days.
- **Verifications of Employment** - Form sent to past and present employers for last two years to verify income and time on the job (some employers have an automated 900 # for employment verification). Unusually takes 1-2 weeks.
- **Verifications of Deposit** - Form sent to banking institutions to verify average bank account balances for past 3 months (some banks will charge borrower a fee of up to \$20 for this verification). Usually takes 1-3 weeks.
- **Credit Report** - May need to order a full factual credit report which is the three major credit report bureau's blended onto a single report, with all accounts and balances verified. Usually takes 2-5 days.
- **Escrow Instructions\*** - Escrow instructions are drawn up by the escrow company detailing the transaction details. Escrow is an independent third party of the transaction who acts as the accountant. \*California, some states use closing attorney's or title companies. Usually takes 2-7 days.
- **Preliminary Title Reports** - This comes from the title company who will insure the title of the home. They research the property and borrower for any legal items, liens, loans that may affect title to the property. Usually takes 1-2 weeks.
- **Appraisal** - Appraisal will be order from a FHA approved appraiser. The appraiser will go to the property, measure square footage, verify FHA required conditions, check other recent comparable home sales, and

determine value of the home. Appraisals usually take 1-4 weeks to complete.

- **Purchase Contract, Counter Offers, and Transfer Disclosure statements** - This is for purchase transactions only. These are the original contracts regarding the terms of the purchase of the property. We need all of the completed signed (by both parties) forms prior to ordering the appraisal, as the appraiser requires a copy of the contract. This will typically be provided by the realtors. Usually takes 2-10 days.
- **Letters of Explanation** - Letters written and signed by borrower to explain any issues on the credit report, work history, bank account deposits or variances, source of funds, etc. Usually complete after receipt of all other documents.
- **Additional supporting documents** - Additional paperwork possibly needed on a case by case scenario, such as: 12 months cancelled checks to verify not making payments or receiving income, complete bankruptcy, divorce, child support papers. This will vary by borrower's individual scenario.
- **Any Documents missing from initial loan application** - Any paperwork missing from original loan application and loan opening such as: 2 months recent paystubs, 3 months complete bank statements, last 2 years tax returns, etc.

Since we are requesting and receiving all of these documents from various companies and individuals, this is most often where there are delays. This portion of the loan process will normally take 1 to 3 weeks.

## FHA Loan Underwriting Process

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Once your file has been submitted to the investor, it will be underwritten. This is when an underwriter will review your file and render a loan decision. This portion of the loan normally takes 2-5 days.

The underwriter will review the information and make sure that it conforms to the guidelines that FHA has set forth. The underwriter will review all of the following aspects of the file:

- **Income and Debt Ratios**
- **Employment History**
- **Credit History**

- **Savings / Source of Money for Down Payment**
- **Appraisal**

Once the underwriter have reviewed all of the file provided, they will issue a writing decision. This may be one of the following:

- **Approved** - everything is file meets FHA guidelines for final approval
- **Suspended** - additional documentation is needed to issue final approval
- **Denied** - aspects of the file do not conform to FHA guidelines

The underwriter will then issue a written loan approval, with any additional items documents that may need to be provided. This items are called "Conditions". A loan may be approved but still require updated "conditions" or items.

There are two types on conditions:

- **Prior to Loan Documents** - These are items that must be provided and reviewed by the underwriter before the loan documents can be requested.
- **Prior to Closing** - These are items that must be provided and reviewed by the underwriter and/or loan funder before the loan can close.

Once the underwriter or loan funder has received this conditions, they typically require 24 hours to clear them before we can order loan documents or fund the loan.

If your file meets most FHA guidelines initially, your file will be electronically underwritten for approval. This type of underwriting uses a computer and artificial intelligence to issue a decision on your file. The underwriter will simply review all of the information provided to insure that it matches to the information provided to obtain the electronic loan approval.

## **FHA Loans - FHA Loan Documents**

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The loan document process is the stage when your loan documents are being prepared by the investor. These loan documents are the legal binding documents to finalize your transaction. They will include some of the following important items to be signed:

- **Note** - Promissory Note indicating amount borrowed, interest rate charged, and terms or repayment, and the monthly payment amount.

- **Deed of Trust** - this documents places the property as security to the loan and note. (recorded with county recorders office)
- **HUD 1** - this document is the itemized break-down of all fee's incurred for obtaining the loan.

If the interest rate has already been locked-in, the loan documents are drawn by the document person. Once the loan documents are printed, they are then overnighted to the escrow company, who then will contact the borrower to set-up an appointment to sign the loan documents. This process from document order to signing will normally take 2-5 days.

Some lenders, like FHA-Home-Loans.com, Secure Funding are currently using technology to have this documents delivered via email which can help save time.

## **FHA Loans - Property Appraisal Qualifying**

..... Once you have found the home you wish to purchase or you have decided to refinance, FHA will want to know that the house is worth the price you pay or the value indicated.

The FHA loan amount that the lender approves for you will be based on the appraised value of the property or the sales price, the lower of the two. Under FHA loan guidelines, you may obtain a FHA mortgage loan up to 98.15% of the property appraisal value.

The value of the property is a lender's best assurance that they can recover the money they lend, even if you stop making house payments. If you stop making payments, the lender has the right to sell your home to pay off the loan - this process is called foreclosure.

The lender wants to insure that the property could be sold at a price that's worth the loan amount. Also, should you decide to sell your home before you have finished paying off your mortgage loan, you'll also want to sell the house for a price that allows you to pay off the remaining loan balance and perhaps make a profit as well.

That's why FHA allows only FHA approved licensed appraisers to appraise of the value of your home. We will require a professional appraisal of the home you choose to buy before the loan amount for your mortgage is finalized.

The appraiser will check for required FHA items to insure that the property does not contain any health or safety issue. FHA does not guarantee the condition of the property at the time of purchase and borrowers are suggested to obtain a home inspection report. Learn what a FHA appraiser must look for by viewing the actual form they must complete by clicking >> [Here](#)

In order to determine value, the appraiser must typically use the 3-5 most recent sales within a 1 mile radius of the subject property, that have sold within the last 12 months. The properties should be approximately the same size, with the same bedroom and bathroom count.

The appraiser will look at all of the properties and make adjustments to the sales prices based on the differences in size, condition, location, bedrooms, bathrooms, pools, etc. Based on an averaged of all of the properties with their price adjustments, the appraiser will then arrive at a value of the home.

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The FHA loan amount that the lender approves for you will be based on the appraised value of the property or the sales price, the lower of the two. Under FHA loan guidelines, you may obtain a FHA mortgage loan up to 98.15% of the property appraisal value.

The value of the property is a lender's best assurance that they can recover the money they lend, even if you stop making house payments. If you stop making payments, the lender has the right to sell your home to pay off the loan - this process is called foreclosure.

The lender wants to insure that the property could be sold at a price that's worth the loan amount. Also, should you decide to sell your home before you have finished paying off your mortgage loan, you'll also want to sell the house for a price that allows you to pay off the remaining loan balance and perhaps make a profit as well.

That's why FHA allows only FHA approved licensed appraisers to appraise of the value of your home. We will require a professional appraisal of the home you choose to buy before the loan amount for your mortgage is finalized.

The appraiser will check for required FHA items to insure that the property does not contain any health or safety issue. FHA does not guarantee the condition of the property at the time of purchase and borrowers are suggested to obtain a home inspection report. Learn what a FHA appraiser must look for by viewing the actual form they must complete by clicking >> [Here](#)

In order to determine value, the appraiser must typically use the 3-5 most recent sales within a 1 mile radius of the subject property, that have sold within the last 12 months. The properties should be approximately the same size, with the same bedroom and bathroom count.

The appraiser will look at all of the properties and make adjustments to the sales prices based on the differences in size, condition, location, bedrooms, bathrooms, pools, etc. Based on an averaged of all of the properties with their price adjustments, the appraiser will then arrive at a value of the home.

## FHA Loans - Possible Loan Delays

Did you know that a typical Real Estate Transaction involves the timely cooperation of up to 53 different parties? Due to the number of people involved, there can be problems...

Since no escrow is closed until it is closed, the following items are potential roadblocks. We have placed a time delay of closing estimate next to each problem and the ones with asterisks (\*) are potential transaction killers.

The Investor	Typical Time Delay
<ul style="list-style-type: none"> <li>Decides last minute they don't like information provided</li> </ul>	2 weeks or *
<ul style="list-style-type: none"> <li>Decides last minute they don't like the property</li> </ul>	2 weeks or *
<ul style="list-style-type: none"> <li>Wants property repaired/cleaned prior to close</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>Borrower does not qualify because of a late addition of information</li> </ul>	2 weeks or *
<ul style="list-style-type: none"> <li>Requires at last minute a re-appraisal</li> </ul>	2 weeks or *
<ul style="list-style-type: none"> <li>Investor loses file</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>The Investor asks for additional information (these are called Conditions) from the buyer</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>Investor too busy</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>Investor waits to verify all income information with</li> </ul>	1 week or *

IRS	
<b>The Real Estate Agents</b>	<b>Typical Time Delay</b>
<ul style="list-style-type: none"> <li>Does not get all documents signed promptly</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>Did not structure the transaction properly</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>Did not pre-qualify the client for motivation</li> </ul>	2 weeks or *
<ul style="list-style-type: none"> <li>Misunderstands-understands or lacks real estate experience</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>Won't return phone calls</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>Transfers to another office</li> </ul>	1 week
<ul style="list-style-type: none"> <li>Goes on vacation leaving no one to handle file</li> </ul>	1 to 4 weeks
<ul style="list-style-type: none"> <li>Has poor people skills with client</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>Gets client(s) upset over minor points</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>Does not communicate with their client(s)</li> </ul>	1 to 4 weeks
<b>The Escrow Company</b>	<b>Typical Time Delay</b>
<ul style="list-style-type: none"> <li>Fails to notify agents of unsigned or unreturned documents so that the agents can cure the problems</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>Fails to obtain information from beneficiaries, lien holders, title companies, insurance companies, or lenders in a timely manner.</li> </ul>	1 week or *

<ul style="list-style-type: none"> <li>• Incorrectly prepares paperwork</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>• Incorrect at interpreting or assuming aspects of the transaction and then passing these items on to related parties</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>• Lets principals leave town without getting all necessary signatures</li> </ul>	1 to 2 weeks
<ul style="list-style-type: none"> <li>• Too busy</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>• Loses paperwork</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>• Does not pass on valuable information fast enough</li> </ul>	1 to 4 weeks
<ul style="list-style-type: none"> <li>• Does not coordinate well so that many items can be done simultaneously.</li> </ul>	1 to 4 weeks
<b>The Seller</b>	<b>Typical Time Delay</b>
<ul style="list-style-type: none"> <li>• Loses motivation (i.e. lost job transfer, etc)</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>• Nets less money from sale than originally believed</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>• Cannot find another home to purchase</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>• Illness, divorce, etc</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>• Unknown defects are discovered</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>• Home inspection reveals average amount of small defects that seller is unwilling-willing to repair</li> </ul>	1 week or *

<ul style="list-style-type: none"> <li>Removes property from the premises that the buyer believed was included</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>Is unable to clear up problems or liens</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>Last minute solvable liens are discovered</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>Did not own 100% of property as disclosed</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>Seller thought partners signatures were "no problem" but they were!</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>Leaves town without giving power of attorney</li> </ul>	1 to 4 weeks
<ul style="list-style-type: none"> <li>The notary did not make a clear stamp when notarizing the seller's signatures</li> </ul>	3 days - 1 wk
<ul style="list-style-type: none"> <li>Seller delays the projected move-out date.</li> </ul>	1 day or *
<b>Acts Of God:</b>	<b>Typical Time Delay</b>
<ul style="list-style-type: none"> <li>Earthquake, fire, rain, etc.</li> </ul>	1 week or *
<b>The Inspection Company</b>	<b>Typical Time Delay</b>
<ul style="list-style-type: none"> <li>Too picky.</li> </ul>	1 day or *
<ul style="list-style-type: none"> <li>Infuriates seller.</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>Makes mistakes.</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>Delays completing report</li> </ul>	1 week or *
<b>The Title Company</b>	<b>Typical Time Delay</b>

<ul style="list-style-type: none"> <li>• Takes extended amount of time to deliver Prelims</li> </ul>	1 to 2 weeks
<ul style="list-style-type: none"> <li>• Does not find liens or problems until last minute</li> </ul>	1 week or *
<ul style="list-style-type: none"> <li>• Does not "bend the rules" on small problems</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>• Poor service</li> </ul>	1 to 3 weeks
<ul style="list-style-type: none"> <li>• Loses paperwork</li> </ul>	1 to 2 weeks

We appreciate the time you have spent to understand the challenges between contract acceptance and the close of escrow.

We want you to understand the loan process as to understand the importance of getting preapproved for your mortgage before starting your home buying process.