Mortgage Checklist - A Home Loan Checklist for First-time Buyers

This checklist explains some of the most important steps you should take when applying for a home mortgage loan. While most mortgage checklists focus on the application process alone, or the documents needed, we will start at the very beginning. If you follow all of the steps outlined in our home loan checklist, you will have a better chance of success.

Mortgage Application Checklist

Depending on your situation, you may be able to skip some of the steps in the mortgage checklist below. For example, if you already have enough money for your down payment and other costs, you can skip over step #1. With that being said, this home loan checklist will apply to most lending scenarios. We made it all-inclusive for this very purpose.

1. Start saving your money.

When you buy a home, there are going to be certain costs involved. You'll have to make a down payment, cover your closing costs, and have some cash reserves in the bank to satisfy the lender. The down payment might be anywhere from 3.5% to 20% of the purchase price. Closing costs might be $2,000 to $3,000, depending on where you live. And on top of all that, the lender might require you to have some cash reserves to cover your first two or three payments.

These things can add up to many thousands of dollars. That's why we put this item at the top of our mortgage checklist -- you should start *today*. The more money you can save between now and the time you apply for the loan, the better off you'll be.

2. Review your credit.

This is another time-consuming task, so it belongs at the beginning of the home loan checklist. Technically speaking, checking your credit reports and scores doesn't take much time at all. You can get your reports for free by visiting AnnualCreditReport.com, and you can purchase your scores through MyFICO.com. But if you need to improve your credit score, or have corrections made to your credit reports, you're looking at a much longer process. So start early.

We've put this at the top of our mortgage checklist for a good reason. When you apply for a mortgage loan, the lender will review your credit reports and scores. This shows them how you have borrowed and repaid money in the past, all the way back to your first credit card or loan. A bad credit score can kill your chances of getting approved for a loan. So you need to find out where you stand.

3. Determine your budget.

Here's a common misconception among first-time home buyers: "I don't need to do any budgeting when I buy a home. The lender will tell me what I can or cannot afford. That's their job." This is just plain wrong! Measuring affordability is *your* job -- not the lender's.

The only thing a mortgage lender can tell you is how much they're willing to lend you. But this number might *exceed* the amount you can comfortably afford to pay. This is one of the dirty little secrets of the mortgage industry. Lenders can turn around and sell the loan into the secondary mortgage market. So your long-term financial stability is not their concern. It's your concern. That's why it ranks #3 on our mortgage loan checklist.

Translation: You need to look out for yourself, because no one else is going to do it.

4. Choose the best type of home loan.

What type of loan works best for your situation? The 30-year fixed mortgage? The 5/1 adjustable-rate mortgage? Maybe an FHA home loan? And what about the down payment? Do you have 20% to put down, or do you plan to use an 80-10-10 financing strategy?

If you're not familiar with these terms, you've got some homework to do. In order to choose the best loan for your particular situation, you need to understand how they all work. This is a critical item for any home loan checklist, and for good reason. Choosing the wrong type of loan could cost you a lot of money, or even lead to a foreclosure scenario.

Start by researching the differences between fixed and adjustable mortgages. Make sure you understand how your loan is going to "behave" over the years. Here's a rule of thumb we usually go by. If you plan to stay in the home for a long time, you should consider a fixed-rate loan.

5. Round up your financial documents.

This is where our mortgage checklist splits off into a secondary checklist. Thus far, you've been reading a list of steps in the mortgage application process. Now we're going to talk about the actual documents you'll need to produce.

Disclaimer: Different lenders will require different documents. But most of them require the same sorts of documents. So there's a chance you might not need to produce one of the items listed below -- or that you'll have to produce more. So consider this a checklist of commonly required items during the mortgage application process.

- ***Social security*** number and date of birth, for all signing parties and co-signers.
- ***Income verification*** (usually your two most recent pay stubs, showing year-to-date earnings). This is a common item on mortgage application checklists, because the vast majority of lenders will ask for it.
- ***Employment verification.*** This would be a list of your employers for the last two years, including names, addresses and phone numbers.
- ***Place of Residence.*** You will need to provide the full address for any place you've lived over the last two years. Some lenders will ask for residences going back several years.

- ***Bank account*** information. Lenders usually request your account numbers and balances for any checking, savings, or money market accounts. They do this to verify your cash reserves.
- ***Tax documents.*** They typically want your W-2 statements and tax returns for the last two years. This is another common item on home loan checklists. There's a 99% chance you'll need to provide these.
- ***Other assets.*** If you have CDs, stocks and bonds, or an IRA account, the lender will request statements to verify those assets.
- ***Credit information.*** They may ask for information regarding any outstanding loans you currently have, such as car loans and student loans.
- ***Real estate contract*** / purchase agreement. You obviously won't have this document during the pre-approval process. But you'll need it for the final loan approval. The lender wants to see a signed / ratified copy of the sales contract between you and the seller. You may also need a receipt for the earnest money you paid when you made the offer.
- ***Gift letters.*** If you received "gift" payments from friends or relatives to help cover your down payment, you will need to provide a gift letter. The lender wants to make sure there is no repayment requirement (i.e., the money was *truly* a gift, and not a loan).
- ***Self-employment documents.*** People who are self-employed may have to provide some additional or alternative documents. This might include a profit-and-loss statement, federal tax statements, and/or balance sheets for the last two years.
- ***Divorce decree.*** If applicable.
- ***Monthly expenses.*** Some mortgage companies will ask for an itemized list of your monthly payments. This list might include your rent, credit cards, student loans, etc.

Again, this mortgage document checklist is not exhaustive. You may have to provide additional items that are not listed above, depending on your financial situation and the type of home loan you're using. Your lender should give you a detailed list of documents they need.

6. Get pre-approved by a mortgage lender.

It's generally a good idea to get pre-approved for a mortgage loan, before you begin the house-hunting process. Sellers will be more inclined to take you seriously if you've been pre-approved already. Many real estate agents will refuse to work with buyers who haven't been through the pre-approval process. Nobody wants to waste time on an unqualified borrower.

Pre-approval is similar to the final application / approval process. Two of the things that make pre-approval *different* are that (A) you won't have a sales contract to provide yet, and (B) the pre-approval itself is non-binding. It doesn't guarantee you anything.

This process can also help you identify any problems that need to be addressed. If you have credit, debt or income problems, the lender will tell you about it during pre-approval. In fact, they might not even pre-approve you based on their findings. But at least you'll know what to work on. This is what makes it all worthwhile.

6a. Submit a mortgage application.

This step piggybacks on the previous one. In order to get pre-approved for a loan, you'll need to fill out a mortgage application. But before we talk about the application, let's review the steps we've covered in our mortgage checklist thus far:

You've started saving money, because you'll need it for the down payment, closing costs and cash reserves. You've checked your credit reports for accuracy, and you made sure your credit score was good enough to qualify for a home loan. You've established your budget and chosen a type of mortgage loan to use. Lastly, you've gathered all of the documents needed for the pre-approval process.

Once you've completed steps 1 - 5 of the home loan checklist, you're ready to submit a mortgage application. This is a fairly straightforward process. You simply fill out all of the required information, and then submit your application with all of your other paperwork. Gathering the documentation is the hardest part, which is why we listed it *earlier* in the checklist. Depending on the type of loan you're applying for, the application form might be three to five pages long.

7. Review the Good Faith Estimate.

Within three days of submitting your loan application, you should receive a Good Faith Estimate (GFE) from the mortgage lender. This is a legal requirement set forth by the Real Estate Settlement Procedures Act, or RESPA. The Good Faith Estimate gives you an itemized list of fees and costs associated with your loan. It also tells you whether or not the interest rate will change, and how it might affect the cost of your loan.

Just remember that it's called an estimate for a reason. You're actual closing costs may be higher than the number shown on the GFE form. So be prepared and save extra money. Refer to step #1 of the mortgage checklist, regarding your savings.

In 2010, a standardized GFE form went into use. Mortgage lenders are now required to use the same form for the Good Faith Estimate. It's designed to give you a more accurate idea of your final costs. You can see a sample form through the links below.

8. Lock in your mortgage rate.

This is one of the final steps in the mortgage application process, but it's an important step. When you apply for the loan, the lender will offer you a certain interest rate. This is a timed offer, which means it is only valid for a certain period of time. If you don't "lock in" the rate and move forward with the process, the rate might change.

It might take your lender anywhere from two to five weeks to review your application and finalize your loan. If you don't lock in the rate during that timeframe, it could fluctuate along with economic changes. Average rates could rise between the time you apply for the loan, and the time you get your final approval. That's why it is generally wise to lock it in.

This table shows a snapshot of costs associated with a $250,000 mortgage loan, at varying levels of interest.

Rate	Monthly Payment	Total Interest Paid Over 30 Years
5.7%	$1,451	$272,360
6.1%	$1,514	$295,395
6.5%	$1,580	$318,861
6.7%	$1,613	$330,750

This is what can happen when rates are rising and the borrower fails to lock in. You can see the difference that only 1% interest makes, between the low end and the high end.

Where to Learn More

If you have additional questions that were not addressed in our mortgage checklist, be sure to do a search on our main website. See links provided below. You can also ask questions through our website, by using our online Q&A tool.

Main website:
http://www.homebuyinginstitute.com

Q&A page:
http://www.homebuyinginstitute.com/ask.php