



Home-Buying Process

Loan Approval Process

Home-Buying Process: Loan Approval Process

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Before your loan is reviewed, the loan officer will make sure he or she has gathered all the required documentation needed for the loan. Once this process is complete, your loan officer will package the information and submit it to the company's underwriting department. When the package is received, the approval process begins.

It is natural to be concerned about whether your loan will be approved or rejected. This is probably the most anxious part of the whole process because you have done all you can do. Now it is up to the financial institution's underwriters to make a decision. When the underwriter receives the loan package, he or she will weigh the strengths and risks associated with the loan. If the underwriter decides that the risks outweigh the strengths, he or she will likely reject the loan. If he or she decides that it meets all of the company's requirements, then the loan will be approved.

Most loan officers will update you on the progress of your loan application. There are some situations when the loan officer is not completely sure of the outcome as in the case of credit-to-income concerns. However, this is an infrequent occurrence because most of the time your loan officer will not submit the loan package if he or she thinks it will be refused.

Some financial institutions use a computerized decision-making process. The loan officer enters your personal information into a program. The lender will use the results from the computer

program to make an approval or rejection. The information for the loan is then submitted to the underwriting department for verification purposes only.

If your loan is not approved the loan officer will give you the specific reasons why. Some things may be easy to correct; however, some can take a little longer to correct such as a bankruptcy or late payments that show up on your credit report. Do not get discouraged, but take the time to correct the items in question. Some financial institutions may accept poor credit. Remember that if you do not have good credit, you pose a higher risk to the company for non-payment, meaning you will likely be charged a higher interest rate and higher fees. The best thing to do is to fix the items in question to avoid paying higher fees and interest. Lowering your interest rate because you took time to correct items could save you thousands of dollars.

Example: John went to the bank and applied for a \$100,000 home loan. The loan officer told John he did not qualify for a loan because he had an unpaid \$1,500 medical bill. John explained to the loan officer he did not want to pay this medical bill because it was in dispute. John requested a recommendation to someone who would give him a loan regardless of the unpaid medical bill. The loan officer referred John to their sub-prime lending department where he was approved for a loan at 10 percent APR vs. the 6.5 percent he was originally

quoted. John was happy because he got his home loan. Did John really get a good deal?

Cost comparison:

| | | |
|--|---|---|
| Loan Amount | 100,000 | 100,000 |
| Interest Rate | 6.5% | 10.00% |
| Loan Term | 30 Years | 30 Years |
| Monthly Payment | \$632.00 | \$877.00 |
| Total Cost of the loan after 30 years. | $\$632.00 \times 12 = \$7,584$ $\$7,584 \times 30 = \$227,520$ | $\$877.00 \times 12 = \$10,524$ $\$10,524 \times 30 = \$315,720$ |

The difference in the total loan payoffs is \$88,200. Which is better – paying a medical bill for \$1,500 or getting the loan and paying an additional \$88,200?

When your loan is approved, congratulations! You are one step closer to achieving homeownership. There are just a few more things to do. The underwriter will issue an approval contingent on some items being completed, such as appraisal and title work. If the appraisal does not come back at the sales price, either the seller will have to lower the price or the buyer will have to come up with the difference. If no agreement is reached, then the loan approval will be null and void. If the title work does not reflect a clear title, then the applicant will have to wait until the items in question are resolved.

This resource is one in a series on the Home-Buying Process which include:

Financial Readiness

What Creditors Look For
Finding Mortgage Money
Types of Financial Institutions
Mortgage Options
Down Payment and Closing Costs
Pre-Qualification or Pre-Approval

Factors to Consider in Housing Selection

Personal Needs and Wants
Location
Type and Style of House
Type of Construction
Interior and Exterior Space
Special Needs
Building as an Option

Locating a House

Finding the House
Using Real Estate Professionals
Buying Direct From Owner

The Sales Contract

Components
Acceptance

Home Inspections

Reasons for Home Inspections
Locating an Inspector
What Inspections Include
Limits of Liability

The Mortgage Process

Loan Application Process
Approval or Rejection
The Mortgage Payment

Purchasing Homeowners Insurance

Before You Start Looking for a Home
Stability of the Insurance Company
Costs and Coverage
Customer Service

Warranties

The Closing

Preparation for Closing
Final Walk Through
Closing Day Procedures

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