

# STEP EIGHT

## MORTGAGE APPLICATION & PROCESSING

If you have followed NACA's comprehensive program, by the time you submit your Purchase and Sale Agreement and inspection report you will have completed almost everything necessary to apply for a mortgage. Since NACA has engineered state-of-the-art software that provides for a paperless mortgage process, your mortgage application and process should be streamlined and done in a short time period. The Housing Consultant will electronically submit your application to a Participating Lender, and you should receive approval within days. Loans can close in another one to two weeks. This short approval process will be a strong selling point to sellers and their real estate brokers/agents. The intensive preparation you completed with your Housing Consultant can give you leverage to negotiate a lower price and a better agreement.

If you have additional savings, you will have to decide whether to utilize the interest rate buy-down before you start your mortgage application. Buying the rate down will allow you to save a considerable amount on each monthly payment. For each one percent of the mortgage you pay up front, you will receive a 0.25% reduction in the interest rate, which would reduce your monthly mortgage payment, but not change the amount of your equity. On a \$100,000 mortgage, if you invest \$4,000 in funds to buy-down the rate, you will save approximately \$720 a year on your mortgage payments. After approximately five years you will have recouped your money and will be saving \$720 a year for as long as you have your mortgage.

When you receive your mortgage application, you should verify all the information to make sure that it is accurate before signing. Check your address, your phone numbers, your income, asset and liability information, property address, price and other information. If there is inaccurate or outdated information, your Housing Consultant can correct it.

After NACA submits your application to a Participating Lender, the lender will send you several documents, including the Good Faith Estimate (which shows you an estimate of how much money, if any, will be due at the closing) and the Truth In Lending statement (which shows you the lifetime cost of the loan). The lender may also request additional information and explanations for adverse items on your credit report.

It is important that you notify your Housing Consultant of all such correspondence, since the lender may request documents that are unnecessary in the NACA program. The Housing Consultant can also help you resolve any problems that arise.

The mortgage approval will be subject to an appraisal and may contain other conditions, such as the requirement that repairs be completed prior to closing or funds escrowed for repairs to be completed after closing. You will also need to find homeowner's insurance, since you need to buy a one-year policy before you close. You should shop around since NACA does not guarantee the service or prices of any insurers on its vendor list. If you have concerns, you

can check with your Housing Consultant to see if NACA has any vendor-approved insurance agents.

## **TYPES OF INSURANCE ON MORTGAGE LOANS**

The following types of insurance are available for mortgage loans. You should decide whether or not they are appropriate for you. The only required insurance is hazard/homeowner's insurance and flood insurance (if your home is in a flood plain).

### **Homeowner's or Hazard Insurance**

This protects your property against loss due to fire and other hazards. The lender requires that coverage be maintained for the loan amount. It is advisable, however, that you obtain enough coverage to replace your property and its contents as well. Except for the first year, which you pay for prior to closing, your homeowner's insurance will be paid from an escrow account maintained by the lender. Although the insurance costs are included in your monthly mortgage payments, you are responsible for obtaining the insurance and making sure that the coverage is adequate. You can change your insurance company and coverage as long as you are insured, at minimum, for the loan amount. Most participating lenders require that your deductible not exceed 1%. If you have questions, you should speak with your housing consultant.

### **Flood Insurance**

This protects your property against floods (rising water), but is only required in flood plains. However, you may want it if you are purchasing in a community with a history of flooding.

### **Warranty Insurance**

This protects you against defects in the property that may arise after the closing. If the property is a new construction, the builder will usually carry a one-year policy that would fully insure you against defects. You can purchase policies that extend this warranty for up to ten years. This insurance usually applies to new constructions only. There are Home Protection Plans available when purchasing pre-owned property. The protection period is generally for one year and warrants items like water heaters, air conditioning and heating systems, appliances and other miscellaneous items that can be costly to repair and/or replace. You may want to ask your Housing Consultant if the insurance is available in your area. It is often a good policy to have and in some cases can be negotiated into the contract as a seller concession.

### **Mortgage Life Insurance**

This will pay off the remaining debt or a portion of the remaining debt on the property in the event of your death. You would likely get a better deal through standard life insurance.

### **Disability Insurance**

This will cover scheduled mortgage payments in the event of your inability to make payments due to illness or injury. You should fully understand the terms of these policies before purchasing them. Many policies last only for a limited time period.

**Accidental Death and Dismemberment**

This will pay your mortgage if your death is the result of an accident, or you lose a limb or your sight as a result of an accident.

**Title Insurance**

Title insurance protects against claims made by people who think they have an ownership right to the property. While these claims are usually discovered by the lender's attorney during the title search, there is no guarantee that all claims were uncovered. The lender will purchase this insurance to protect its interest in the property. You would have to purchase separate insurance to cover your interest.