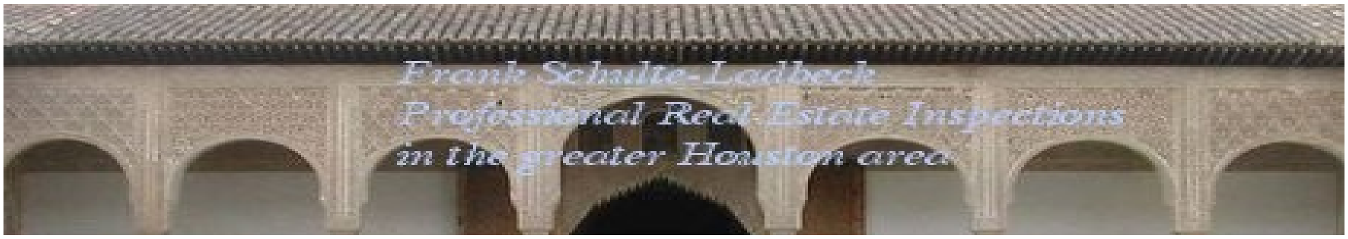

Delving into paperwork

This article is just to introduce the topic, and to remind readers in other states that I will be dealing with generalities (or at least what I believe are generalities) about mortgage paperwork and the paperwork at closing. Each state, lender, and title company will have their own rules in regards to paperwork, but the basics remain the same across the country. I will not be going into terminology or differences in mortgages types, since I already have that on this site. My goal is to prepare you for comparing different mortgage estimates, understanding some papers that you will have to sign in relation to the loan, and what kind of paperwork will come up during the closing. I have found that loan officers are good about answering questions when they arise, but you should not be ashamed to ask. This is the biggest investment that you will make, so you need to understand what it is they are saying. I have also found that your Realtor can be of great assistance to you during closing. They have been through this before, so trust them to guide you.

There are several good sites and blogs that deal with mortgages. I have a links to a blogs on my own blog which you may find useful. I want to give you another perspective on this topic by giving you these links. When doing my research on credit, I found a lot of useful information on the E-loan and Credit.com sites. I had heard of them, but I had no reason to go to their sites, until I was doing my research. I have since signed up for their newsletters, which are interesting. With a little effort in phrasing your search terms, you can find a great deal of information on your own.

Before we start delving into the topic properly , I wanted to mention mortgage fraud. Most lenders that you will encounter are honest people trying to do their job, but there is always someone out there ready to scam you, so you should be aware of these practices. The National Association of Realtors has some brochures on fraud available at their website. There is also a site where professionals in the real estate industry report schemes that they are seeing. Mainly the information here comes from appraisers. The site is called MortgageFraudWatchList.org. Some states have been currently enacting laws to prevent some of these schemes. For example, Texas has a new law which will go into effect in January 2008, that will force people who are trying to unload houses with liens on them to report this fact within seven days of the sale. You can find out about your state's laws by going to the state website and typing in real estate or mortgages in their search engine, but you will have to do some digging. Realtors are usually up to date on many of these laws.

Take these parts as cairns along your way, and take the time to explore what others have written. I can tell you from experience that you can easily be overwhelmed, so the more you know going into this process, the better you will handle it.

Part 2 How to start your wanderings

You may ask where should you go to obtain a loan, or which title company should you go to for your closing? There can be positives and negatives to any place where you can go, and sometimes it is better to let others help you in this decision. Many real estate professionals work with one another, so they may have someone that they prefer. If you are working with a Realtor, they may have an in-house loan department, and a Realtor would have a title company that they are familiar with. You may ask them their opinion.

No matter where you obtain your mortgage, you will want to analyze their offer to see if it is right for you, so I want to go over the steps for a quick analysis of a loan. Internet sites like E-loan and LendingTree can offer you tips as well as presenting you with offers, so this may be a good place to start your search. If you have a relationship with a financial institution, obtain a loan quote from them- often these loans can reduce fees for your other accounts. There are also mortgage service firms, which will look for mortgages matching your requirements. They are not affiliated with certain banks, so they look at different institutions to find you a deal. When looking for a mortgage, make all of your quote requests/applications within a two week period. The credit reporting agencies will see this as one loan request, and that fact will help your credit score. (The more loans that you are applying for will lower your score, so you want your loan hunt to be seen as one request, which will not hurt your score). One warning: sometimes you can find a mortgage that suits your needs, and you will go with it. You may find that the company will sell your loan to another firm, which imposes it own rules that do not match your expectations. Do some research on the company where you will obtain your loan.

Looking at the offers from different firms will cause you to quickly realize that you may be comparing the old VW Beetle to the Porsche. They were both designed and developed by the same man, so there are similarities, but they are vastly different machines. The easy way to compare different quotes comes from a requirement by the federal government: listing the APR. APR stands for annual percentage rate, and it is the interest rate that you will pay expressed as an yearly rate. Comparing the APR from one firm to the next gives you a quick look at how much each will be charging you to borrow money from them. The APR is also useful in determining if you are being stuck with a lot of fees. The lender will provide you with an interest rate and an APR. The interest rate is just the amount of interest that you will be paying on the loan, but the APR will include all charges (think fees) related to that loan. If these numbers do not match, the lender is hitting you with fees. All loans will have forms called HUD-1 and a Good Faith Estimate. These forms contain a schedule of fees associated with the loan, and you need to be aware that you can discuss and negotiate these fees with your lender. Go through this list to check if any of the fees duplicate each other. For example, you may see an application fee and a processing fee which could be the same thing- handling your paperwork. After looking through your fees for questionable ones, you will need to look at costs. This is a bit harder, since some costs depend on what the going rate in your area is. For example, how much are appraisers charging? This amount could depend on the appraiser, who may be charging $100 or $500. This is not a fraud; it is just their standard service fee. I would do a quick search to find out what an average fee for that service may be in your location, either by internet or phone. Some fees like obtaining your credit information should be around $25 to $35, but lenders will tag on a $100 fee for this service claiming that they have to cover their expenses. The expenses should have already been covered in any fee for the paperwork. Typical fees include courier fees, notary fees, points, credit check, overnight delivery, appraisal, origination, escrow and title insurance fees. The origination fee should be the only fee related to creating the loan; there should be no other document preparation fees.

The one part of the loan which can fluctuate in any loan type is the escrow account. This is the account set up by the lender to cover expenses with the house. Each lender will consider different items as being paid from this account. Usually your homeowner's insurance and your taxes are paid from this account. Currently federal law dictates how much a lender can keep in this account after payments have been made for the year. During the year, the lender can require you to pay more or less into the escrow account based on what they feel will be the costs to them will be at the end of the year. You should know exactly what will be paid out of this account by your lender, so that you will not have to scramble to make a payment. You should also know how much your expenses are for the items in the account, so you can discuss this with the lender. For example, if your property taxes are $2000 a year, and that is the only item to be paid out of your escrow account, then the lender should not be collecting $8000 a year. Sounds unreasonable of them to collect so much? One lender insisted on doing this with me for my loan. At the time the law about returning funds was not in place, so my lender informed me that they were keeping the additional $6000, and by the way, they were going to increase the amount that I paid into escrow for the next year. When they refused to change this fact, I refinanced my loan with another lender. The message is to look at what your lender is doing and understand it.

When closing at a title company, you are tying up all of the paperwork involved with transferring the house from the previous owner to you and with ensuring that everyone gets paid. Most title companies are doing the same work for the same rates. You can call to find out which one you would like to use, but if you are using a Realtor, they would know of a title company that handles everything to their satisfaction. On occasion, the lender will have a title company that they frequently use. Thinking about the amount of work involved with the documentation from different sources, your best move will be to work with the suggested firm. Closing comes quickly, and you will have so much else going on in your life at that moment, you should make it easy on yourself.

Everything here sounds simple; however, many of us fail to take these steps. Take your time one evening, away from distractions, and look at the offers. You can write down the numbers in a spreadsheet format to give a better picture of each loan. Be forewarned, these offers are estimates, and some figures can change once you have accepted. Your best weapon in dealing with a loan is your willingness to question the terms presented.

Part 3 – A description of mortgage paperwork

I mentioned that each loan is different. This is due to the lender having his own papers that he needs signed, but states also develop forms that they want you to have. Currently many states are reviewing what you should be informed of when accepting a loan, and the federal government has their say too. This makes it hard for me to write here it is, this is what is in all of your mortgage forms. I do want to give you a clue, since I know from experience, you will not have enough time to go over all of these documents.

The vast majority of the papers that have been set in front of you are disclosures. These disclosures will be explaining how the lender will handle your loan, who may be helping them administer the loan, what are different features in the loan, and what will happen in case of certain events in the loan (like prepayment or foreclosure). These documents are written by lawyers or legislators who want you to know your rights as well as the lender's rights, so there is a balance between legal terminology and plain English. Since these disclosures are required by a state government, the lender has to verify that you obtained a copy, so there will be a lot of signing of disclosure acceptance verification forms. Many of these disclosures relate to items you may have already discussed with your lender or you may realize is a consequence of some other aspect of the loan that you are aware of. For example, the lender will have to check your credit history for a loan, so one disclosure will be about how this was done. The lender may have spoken to you about an appraisal or survey, so you will find one disclosure informing you of these services. There will be a disclosure explaining a feature of the loan like the borrower's insurance. Do you need to read all of these disclosures? If you feel that your lender has been giving you forthright explanations of the terms of your loan, you can read these disclosures after you close on the house. However, if you are feeling lost, and your lender has not guided you enough, then you should read these before you sign.

All documents associated with a loan have to be signed, but not necessarily by everyone involved with accepting the loan for the house. Different states have their own rules, but usually only one person has to sign. Some documents will have to have both signatures. If the loan is only in the name of one person, but there is another involved, the lender may require a document to be signed by this person stating that they are aware of what is occurring.

The next large set of documents will probably be from the lender going into details of the loan, or even details of other types of loans that they offer. Since this comes from the lender, there will be no signature requirements. Since the disclosures above were mandated by a government entity, these documents will deliver the lender's view of the loan, and how they will handle it. This package is general information, so it could be that much of it is irrelevant to you at this time, so I would say that you can hold off reading this till later.

There are four documents that you should understand, and that you should study. I mentioned in the section above about how to evaluate loans by using two of these forms: HUD-1A and the Good Faith Estimate. The Good Faith Estimate is a two page form going over the likely charges that you will incur when you accept and use the loan to purchase a home. On the top of this estimate will be a section describing what type of loan you have, the interest rate, how much you are borrowing, the dates of the estimate and closing, and the percentages for the fees associated with originating the loan. The sections below this go into items which need to be paid to make the loan happen. An example of one of these items would be an appraisal or an inspection of the property. The next section will have items that need to be paid in advance of the loan, such as insurance or some interest. This is followed by a description of money that the lender will hold in reserve. This can be for property taxes and possibly insurance. The next section will deal with charges connected with the title of your home. The fees here can be a search to see that the title will be your's alone, or they could be for those people who worked on the title like an attorney or notary. The next part will state the charge involved with transferring the title to you. You will then be informed of additional charges that may come with the loan, like a pest inspection. The final segment of this form gives an estimate of all these costs combined, so you can settle (obtain) the mortgage.

The HUD-1 or HUD-1A is similar to the Good Faith Estimate. Much of the information given is the same on both forms, but there are two key difference: 1) presentation of the data; and 2) the detail provided. The Good Faith Estimate is easier to read, but neither document is difficult. You need to take the time to learn the terminology, and then these forms can make sense. The HUD form uses the government's general ledger codes for an item; it then describes what the code is ; then there is a column stating the charge that you will have for that item. You will find that there could be a lot of blank spaces where a charge should be listed. That means you will have no expense for that item. When I purchased my home, the lender decided not to have a survey done, since there had been a survey made two years earlier of the property, so consequently I had no charge in that space.

All of these fees can be questioned. Go over each line in these two forms, and see if the fee looks reasonable. Lenders may pad the numbers to make a little more money. Sometimes you may find that lenders you will charge you for the high end of possible fees. Individual inspectors, lawyers, notaries or appraisers can charge vastly different amounts for the same service. The charge depends upon our costs added to our desired profit. You could try to negotiate with your lender on these costs. Ask family or friends how much they paid, or do a search for providers in your area to find out what they charge.

The third document that you should review is the Federal Truth In Lending Disclosure Statement. This is a two page form. Page one has the quick breakdown of your loan, while page two contains an explanation. The top section of this form has the APR, the finance charge, the amount, and the total payments of your mortgage. Compare the APR to the interest rate from the lender. Differences here mean you have extra fees on your mortgage. These fees are detailed on the HUD-1 form. If you cannot discover why there is a difference, then you should ask your lender for an explanation. You can get a great rate from your lender, but it is the APR that you will pay. The remainder of this form goes over your loan basics: payment schedule; security and property insurance; late payments; prepayments; assumption policy; variable rates; required deposit; and some notes about interest charges and what to look for when you do not pay. Most of this should be easily comprehended, but I want to write a bit about three of the items. The assumption policy details if someone can take over your loan from you. Basically, if you decide that you cannot pay anymore, the lender will say if another person can take up where you left off, transferring everything to this new borrower. If the interest rate can change, the lender needs to explain this to you in a disclosure. If the variable rate box has been checked, then you should have this disclosure. If your lender is requiring you to make some type of deposit for the loan, then you will have this box checked.

The last document is one that you may or may not receive, but I would request it if you have not obtained a copy. It is the amortization table. This breaks down your loan payments between what you are paying towards the principle and what you are paying in interest. I suggest you look at it,because it is a good wake up call. When you start paying your mortgage, you will find that most of your payment is going towards the interest. Eventually the balance changes, to where you are paying more towards the principle in the end. Here is the secret to paying off your loan early and for less money: you want to pay more towards the principle each month than the interest. The lender will not let you pick the split between interest and principle, so each month you need to pay something extra towards the principle. The quicker the principle goes down; the less total money that you will pay in the end.

None of these documents are truly hard to understand. Even with some legal jargon and unfamiliar terms, you can take some time to master them. My experience was that so much was going on in my life outside of the loan itself that when presented with so much, I did not know what was important to review.

Part 4- A description of the closing paperwork

Closing is the tieing up of all the loose ends of the contract negotiations which have taken place between all of the parties. The paperwork included at this step will be any papers that need to be completed to have the transaction go through. For this reason, the paperwork can be different from closing to closing. Another difference in the documents will be due to the regulations of the state in which the contract is taking place. The participating parties at this event will (or could) be the buyer, the seller, the Realtor, the lawyers, the title company representatives, anyone holding the power of attorney for someone else involved, the lender, and possibly any contractors who are expecting to be paid at this point.

There are five common sets of papers to be dealt with at this stage: mortgage documents; the sales contract; the tax certificate; the title insurance forms; and the earnest money agreement. I dealt with the mortgage paperwork in the last post of this series, so let us go over the basics of the other forms that you will be initialing and signing on this day.

When negotiating for the purchase of high dollar value goods like a home, the seller, as well as other parties to the deal, will want to know that you are serious about the purchase. To show your willingness to proceed with the negotiations, you will be asked to set up an escrow account with a third independent party to hold money in earnest. This escrow account is not the same as the one that the lender will establish for paying the taxes or (maybe) the insurance. It is just for this good faith money. The idea is that you could loose this money if you do not behave honestly in the negotiations. The independent party holding this account will be a title company. The document which states how much money is being held in earnest, and what could cause you to loose it, is called the "Earnest Money Agreement". This money can either be returned to you or applied to an expense at closing. The only way that you could loose this money is if you act in a rash manner by not negotiating in good faith when pulling out of the contract.

The Tax Certificate is a simple form by the governmental authority overseeing the property taxes for that home. In most cases, taxes are paid to the county, who distributes it to the different agencies who will receive tax money from a property. This form will show the tax identification number for the property, who will be obtaining money from the tax, how much tax was paid in the last tax period, and if the tax was paid. There will also be a technical description of where the property is located. This will be a lot number, block number, subdivision name, and maybe some other code used to distinguish the property on a map.

The Title Insurance Form or maybe a Title Search Form will be presented to you. A title company oversees the transferring of the title from one owner to the the new owner. To accomplish this task without problems, they need to make sure that there is no one else laying claim to the home involved in the sale. They will also check that no firm has a lien placed against the property. A lien is a means for a lender to collect a debt when a house is sold. A title search goes through official records of the home to see what might be out there. Title insurance takes the protection a step further. Once the search has been done, and it has been found to be clear, title insurance will protect you from anyone showing up at a later time claiming that they own the land. In cases of divorce or inheritance, there may be records that are not filed with the county that may give another person claim to your home. With title insurance, your legal costs are covered. Title Insurance documents go over everything that was discovered during the search, and they will deal with information about the company that is providing the insurance.

The last set of papers that I want to discuss are the forms for the sales contract. These contracts will be worded and presented in such a way that they comply with the regulations of the state. You or your Realtor or your lawyer will have been negotiating with the seller or his representatives to what will be involved in the sale of the home. In theory and practice, you should already be aware of all of the terms of the contract when it comes to the day of closing. If negotiations are still taking place at the time that you are signing these papers, something is terribly wrong. I mention this fact because closings can be contentious, and arguments can erupt at this point, but this is not the standard, and it is not the way to do business. When I am closing on a deal, any deal, and I find myself facing this situation, I walk away, for I know that something can come up later. The sales contract will list of the points dealing with the sale. There will be forms stating the terms that you have agreed upon, and about the price and financing of the home. If there are any special considerations to the deal, there will be a form covering what those considerations are. They could be that the refrigerator stays in the house, or the seller agrees to purchase a home warranty plan. There will be statements about the lawyers or Realtors role in these negotiations. The property being sold will be detailed. There should be no surprises in this contract.

What forms should you take the time to read during this process? Under normal circumstances, you will not be doing a complete reading of any of the documents at this time, and you probably do not need to read them. I would suggest taking the time to glance over them to check that this is what you thought you were agreeing to buy. Whoever is handing you the forms, and whoever is assisting you, will be giving an explanation of the paper that you are being asked to sign. No one should be rushing you through forms. If they are, then you should stop to see what it is they do not want you to examine. You can expect closing to take as much as four hours. They will be making copies of everything that you have signed, as well as any cashier checks that you provided to make payments.

Part 5- Insurance Matters

I think that once a week I will am asked a question about insurance. There is no topic more important to us during this period of buying a home, which is harder to comprehend. The reason for this is that it is easy to compare apples to oranges with insurance. Before going into what forms you may encounter, I want to explain a little about how insurance works. Basics principles of insurance are not always fully understood.

In a way, insurance is an organized wager. You place a bet with a company that if something bad happens to your house that they will pay for it. The company tries to mitigate their possible loss with some rules. The firm will say what they will wager on, and how the wager will be handled. If nothing happens, the company gets to keep the money, but if something goes wrong they pay for the repair. Into this bet steps the government with rules of their own, so that a company will not take unfair advantage of you. Each state will dictate the rules of the game to insurance companies, and these rules deal with things that can typically happen in their area. In Texas, floods and hurricanes effect much of the state, so the rules focus on those disasters. Colorado would not have exactly the same concern. There will be some state agency, usually called a department of insurance, that will tell insurers how to behave, and this agency will also be a source of information for you. (Check their website).

One question that I had this week was about deductibles. Each firm will have their own specifics, but I have found that there are two basic types. One type deals with each claim. Let us say that you have a $500 deductible, and you have a claim for roof repair which is covered by your insurance. The repairs cost $6000. You will pay $500, and the insurer will pay $5500. Another type of deductible can deal with the entire year's claims, instead of individually. For example, you have a $2000 deductible for the year. Your first claim is for $500 for a water heater repair. Your next claim is for some minor roof repair for $1500, and your last claim is for foundation repair for $3000. You would pay for the water heater and the roof ($500+$1500=$2000, the amount of your deductible), and the insurer pays the $3000 for the foundation. The deductible is the amount you pay. If you are willing to pay more, your insurance will be less. From my knowledge, homeowner insurance policies deal with a deductible in the first manner.

Alright, what does your policy cover. Simple answer: beats me. Each insurer may be told how to behave by the state you are in, but they can cover more or just to the bare minimum of the state's requirements. One of the most common problems faced by homeowners that cause concern over if it is covered or not is water leaks. Since water leaks can cause so much damage outside of the busted pipe itself, many insurers do not cover this on a standard policy. You need to ask if a water leak is covered, if this is a worry to you. Let us move onto the forms, so you can see what your policy covers.

Delving into the Paperwork

Like the other paperwork involved with your home, you will find many disclosure forms. Some will be state required, while others are from the insurer. Although insurers are not loaning you money, they are working like any other financial institution. This means that part of their process in deciding what to offer you and wether to deal with you has some relation to your credit and financial history. Insurers use their own version of a FICO score to make this assessment. All of this leads me to the point that part of the disclosure forms will look very much like forms that you get for credit cards or loans. Privacy statements, credit information disclosure, consumer bill of rights, consumer remediation form are all disclosures in this category. I take a dim view of these documents, since they seem to simply be informing you of how they company will protect itself if you have a grievance. A cynical view I know, but all financial institutions behave in a similar fashion in this regard. The main disclosure that you should review will be about homeowner's insurance in your state. This form will provide with the guidelines that the state requires the insurer to abide by. Outside of the disclosures, the first document that you will see will be a Premium Statement. This is the invoice for the policy. Like any credit card statement, it will give you what you owe, what the total amount due is, when it is due, and some type of identification number for the policy.

Now we get into the meat of your policy, the Homeowner Policy Form. This page or two will actually be sparse. You need to look at it in conjunction with the disclosure about the insurance policy guidelines for your state. The form frequently has three columns: what is being covered; what amount will be paid out for that item (this column is called the limits of liability); and how much it will cost you for that item (the premium). Each line item is negotiable, but your lender may have certain requirements about what coverage they want, and your state may be in on requirements here too. Basically you will have coverage for your home, other structures on the property (a shed or detached garage), your personal possessions either on or off the property, your personal liability to others injured on your property and their medical payments for said injuries, a payment to you if you are injured, and a list of other items which are not normally covered in the insurance, but that you want. The Policy Form tells you how much, and the guide will explain the details of the coverage. By fudging the numbers on the Policy Form, you can effect how much you have to pay. As with the deductible, you have to find an amount you are able to pay. I am a bargain hunter, and some of my furnishings where gifts or salvaged items from companies. I did not pay for them, so I do not know what it would cost to replace them. I might have to pay $80,000 to replace these items if they are lost due to a fire, but I could decide that I will just keep to my ways, and try to find free items again. For personal property, I could say that I only need $50,000 in coverage to replace my goods. I am willing to take a $30,000 hit, because I know that I will find a way to cover it. This would lower my premium. Never zero out these coverages. If you did have a fire, can you replace your clothes quickly and cheaply? You need to determine what risk you will take when playing with these numbers.

You have gone through the Policy Form with your guide in hand, and you have made your adjustments balancing your acceptable risk with the requirements of the lender. The next form to look over will be the Exclusion Statements. Each insurer will determine items that they will not deal with in their policy. This could be a swimming pool, a trampoline, or if you own a certain breed of dog. Whatever it is that they are not including in the policy will be clearly mentioned, so check if you have a concern. The agent will inform you of a way to deal with an item that you do not want excluded.

You may have heard about Home Warranty Insurance. This is not a homeowner's policy, but it can be a good policy for new homeowners. This type of warranty insurance is becoming popular in home sales. The scope of coverage changes from firm to firm, and I have found that they are increasing what they will cover rapidly, in order to get you to purchase a policy. Deductibles are usually $50 per incident. The policies cover appliances and mechanical systems not dealt with in the homeowner's insurance. Say that your air conditioning gives up, a technician will come out to repair it, and all you have to pay is the $50. The policies run around $400 per year. If you are worried about the equipment in your home, this may give you peace of mind.

Well that completes the whirlwind tour of the paperwork.

Part 6- The End of the Papers

You have finally closed on your home, and you take the paperwork that has built up to put in the bottom of the desk drawer, because you will not need them again. You have made a mistake. If you are like me, you will find that in the first year or so after moving into your house that you will need to go back to these documents a few times to deal with something that has surfaced. At times, I felt like I had a second job dealing with insurers and lenders.

Your first step should be to take some time to review the papers to see if there is anything that you missed. You do not have to review them immediately, or all at once, but you should become familiar with them. When reading them, place a note pad nearby to write down important information. Type this up to be a cover sheet for those documents. This is a good way for you to understand what you have read. You may also want to create a contact sheet for the different firms involved with the papers. List the firm, a contact person's name, account number, phone number, address, and what the firm does. Keep this in a safe, but accessible place. Find a location for all of the papers dealing with the house. This would include the documents that I have been discussing, but also such things as manuals for the alarm system or invoices for products or work done on the house. By keeping this all together, you will have one file to go to concerning your home, so information will be easy to locate. You will never know which document will become the most important one to have, until you have the need for it, and unlike renting, you are now responsible for everything.

I think you should now have a starting point. Stay calm, none of these documents are that intimidating, and you can get through them.