Part 2: What to Know Before You Are Ready to Buy

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In the first part of the home-buying series, we get into the nuts and bolts of what to do well before you put an earnest deposit down on a home. There are aspects of the overall process that you can control, including early planning – which is one of the critical things to know before you are ready to buy a home.

The impact that preparation, organization, and knowledge of the facts can have on your home purchase goals can be tremendous. This is where knowing what's on your credit report and having the right paperwork can limit the obstacles you face during the home buying process.

Check Your Credit History Early

One of the first steps is checking your credit report because lenders will look at your scores to see how creditworthy you are. Hence, six months to a year before you go house-hunting, check your report. Understanding what's on it gives you a chance to raise your scores so you'll secure a better rate.

More importantly, if there are any discrepancies that you need to clear up, now is the time. Once you apply for a loan, if there continue to be red flags or issues on your report, be prepared to explain and provide documentation to support it. It's also best to disclose problems to underwriters rather than wait for them to discover them; this can delay the closing process.

Maintaining the Status Quo

From this point forth, and above all, continue to pay your creditors on time. Further, don't make any significant purchases, open new credit lines, take out loans, or change jobs. Lenders will check your debt-to-income ratio (DTI) to see if you can afford mortgage payments, and sudden life changes such as these will affect the outcome. You want to keep the status quo with your finances, employment, and income through closing to avoid delays with the loan approval.

Also, if you have any large sums of cash in your accounts that you can't explain—it will delay approval. If you received funds to help with the down payment, your benefactors should write a letter confirming it is a gift as underwriting will ask for it.

Should I Close Without a Real Estate Agent?

It's a good idea to hire a real estate agent, especially if you're a first-time buyer. Their job is to walk you through the complexities of the purchase agreement, any addendums, contingencies, negotiations, the submission of the contract, and to guide you through the steps to closing.

If you've already chosen an agent, great. If not, it's never too late to ask friends and families for referrals. Doing so now means you will have an agent that fits your needs when you're ready to buy. For basic questions to ask when interviewing agents, please see part one of the series on home-buying.

Likewise, consider speaking to several mortgage lenders to see what you qualify for, such as homebuyer programs. Choose a lender that utilizes an online or digital mortgage process because leveraging technology to prepare documents and disclosures speeds up the process. Finally, as with your agent, choose a lender that has experience—a common reason for delays in closing are inexperienced loan officers.

Pre-Approved Loans Mean Less Closing Delays

The number one reason for closing delays is financial. For instance, if you don't have enough funds for a down payment and closing costs. But, most of all, not being able to afford the mortgage based on your DTI. Hence, getting pre-approved is a smart next step in early planning. Keep in mind that it's better to be pre-approved than pre-qualified for a loan.

Excluding the property itself, pre-approval means your lender has cleared all aspects of your home loan upfront. Some sellers also prefer pre-approvals because it ensures the loan approval wouldn't stall the closing process. It also shows that you are serious about buying and confirms how much you can borrow.

Documents Necessary to Speed up a Home Loan Application

A month or so before you're ready to buy, start compiling your financial documents for pre-approval and the home loan application. Necessary documents include the last two years of federal income tax returns and W2 statements, three months' worth of paycheck stubs, bank account statements, 401K retirement and investment account statements, bankruptcy documents, and any student loan deferments (if applicable). Some lenders may require rental history, alimony payments, two forms of official identification, proof of auto insurance, residency status, marriage certificates, and divorce decrees.

Also, keep handy all of your debtors' names, addresses, account numbers, monthly payments, and outstanding balances. Additionally, be sure to gather any short sale, foreclosure paperwork, and previous liens or judgments on any other properties. This includes previous mortgage statements, homeowners' insurance, and property tax documents.

Suppose you're applying for a loan guaranteed by the United States Department of Veterans Affairs (VA) in Texas. In that case, you'll need your VA award letter (if applicable) because veterans with 100 percent disability do not pay property taxes. You'll also need three months of VA retirement account statements, your DD-214 (Certificate of Release or Discharge from Active Duty), and DD Form 1173 (Universal Services Identification Card).

What Happens After I Am Pre-Approved?

Once your request is processed, the lender will issue you a pre-approval letter as proof that your loan can be approved. As long as you continue to meet lender guidelines, the pre-approval is good for up to 90 days.

Once your offer on a home is accepted, you should complete the official loan application. To do so, lenders require your name, Social Security number, income, property address, estimated value, and the loan amount you're requesting. Within three business days, you'll receive loan disclosures and a loan estimate outlining the interest rate and other loan details.

Most lenders will request your consent to send documents electronically through a portal via a secure link or with an e-signature service. This saves time and eliminates the need for printing, faxing, and shipping documents. It's also more reliable and creates an electronic audit that's sometimes easier to manage than paper files.

The process of pre-approval and final approval—of requesting documents, gathering, sending, reviewing, and authorizing may go back and forth several times between lender and buyer. Be flexible and patient with the process—it will go a long way in managing your stress level, especially when there are issues.

Once approved—and this can't be stressed enough)—changes to your marital status, credit, income, and employment, will mean the loan needs to be underwritten and approved again. Worse yet, your loan approval could be revoked. Only when the loan is funded and money has been deposited can the loan be considered complete.

Your Loan Type Can Impact the Process

There are three basic types of loans. Conventional loans usually take 44-47 days, Federal Housing Administration (FHA) loans take 45-47 days, and VA loans can take 49 days from application to closing. Therefore, most loans take 30-75 days to close, with an overall average of 47 days, depending on your circumstances. If you have financial issues, it can take 60-90 days or longer. Even if you choose to close escrow in 30 days and remain diligent, it may not close on time.

First-time buyer programs that assist with down-payments may take closer to 35-45 days to close as they usually require more than one underwriting approval. Also, VA and FHA loans typically involve specialized underwriting, appraisal, and approval requirements—beyond Fannie Mae and Freddie Mac guidelines, which delays underwriting.

For example, not all lenders know how to process VA loans effectively, and those that do, don't always underwrite them in-house. Lenders must have a direct endorsement from the VA. Some must submit loan files to the Department of Veterans Affairs for review and approval. As for FHA loans, an FHA-approved appraiser must perform appraisals, and safety issues must be fixed before the loan can proceed.

The down payment on an FHA loan is 3.5 percent, a conventional loan is typically 5 percent, and on a VA loan, no down payment is required. All loans types, however, are governed by mandatory waiting periods, which adds additional wait times.

NOTE: Some sellers also don't like or accept VA offers. Apart from the red tape, the VA wouldn't allow buyers to pay specific fees associated with the loan process.

On the other hand, veterans are subjected to predetermined loan caps that are based on county. The maximum VA loan limit for 2019 is $484,350—the same as the Federal Finance Agency limits. Unless buyers can come up with a down payment to make up the difference between the VA loan max and the price of the home, the price range is set by the VA (and their DTI, of course).

Locking in the Best Interest Rate

When you finance a home, your mortgage rate is only locked in at that interest rate for a specific period. That's because rates change in 15-day increments, so for each new 15-day period, your mortgage fees increase by 0.125 percent of the loan amount. Hence, the longer your rate lock period extends, the higher your mortgage rate will be. Since rate locks are measured in days, the two most common rate lock periods are 30 and 60 days.

Consequently, your final interest rate is based on the day you close. Even so, your lender cannot execute a rate lock after the end of the business day. If you lock in a rate after-hours, next-day mortgage rates will be applied, and they fluctuate, sometimes daily.

There are other options, however, such as float-downs, re-locks, and extensions. They come with associated costs, such as lender fees and origination charges. So, speak to your lender about the best option before deciding; it can save you money over the long haul.

Rate locks are also loan-specific, so if you switch from an FHA to a conventional loan, your rate may change and need to be relocked. Further, the lender isn't required to honor rates after the lock expires.