

Property Records Industry Association



Lending 101

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Lending 101 – Step 1

- A HOMEOWNER approaches a BANKER for a MORTGAGE.
 - In some states, it is called a Deed of Trust; in Georgia, it's called a Security Deed.
 - In every case, it represents a lien on the subject real estate giving the lender the right to foreclose in the event the underlying debt goes into default.



Lending 101 – Step 2

- The BANKER has the HOMEOWNER COMPLETE a LOAN APPLICATION.
 - The LOAN APPLICATION contains essential financial information about each borrower.
 - It also specifies the intended use of the property: primary residence, vacation home, rental property.
 - BANKER will typically give the HOMEOWNER a Good Faith Estimate of the Closing Costs (GFE).



Lending 101 – Step 3

- The BANKER orders a CREDIT REPORT.



Lending 101 – Step 4

- The BANKER next orders an APPRAISAL
 - This is an independent estimate of the current value of the property.
 - Value is determined as the price a buyer – ready, willing and able (but not compelled) to buy – would pay to a seller, ready willing and able (but not compelled) to sell.
 - Appraisal is as of the date it is conducted and is typically prepared for the exclusive benefit of the lender in making a loan determination.



Lending 101 – Step 5

- The BANKER also orders a FLOOD CERTIFICATION
 - The certification identifies whether the property is in a Flood Zone as determined by FEMA (THE Federal Emergency Management Agency).
 - Most Flood certification providers offer a Life of Loan component so that if a FEMA map changes and impacts a specific property, the lender is notified so Flood insurance can be released or required, as circumstances dictate.



Lending 101 – Step 6

- Finally, the BANKER orders a TITLE COMMITMENT
 - Based on an examination of the record title to the collateral, as well as any existing liens or encumbrances, including property taxes.
 - Provided by a Title Insurance agent, committing a Title Insurance Underwriter to financial risks associated with title defects.
 - Insures an owner and a lender in a purchase transaction; a lender in a refinance transaction.



Lending 101 – Step 7

- (in many cases, the ordering of all the services other than the Credit report are outsourced to a company in the VENDOR MANAGEMENT INDUSTRY).



Lending 101 – Step 8

- Upon receipt of all the above, the file is evaluated by a CREDIT UNDERWRITER.
 - Makes the Approve/Decline decision, based on the relevant information.
 - Identifies conditions necessary to close the loan.



Lending 101 – Step 9

- **BANKER** schedules a **CLOSING**
 - Ceremony at which the loan documents are reviewed and signed.
 - HUD 1 – summary of the source and use of funds necessary to close the loan – is reviewed and approved.
 - Title Company (or closing attorney) will compare the GFE with the HUD-1; any discrepancies may result in reimbursement from the lender to the borrower.
 - Loan proceeds are distributed.



Lending 101 – Step 10

- TITLE COMPANY records the lien instrument (Mortgage, Deed of Trust or Security Deed); and, returns the other loan documents to the BANKER .