



What You Should Know About New Mortgage Rules Frequently Asked Questions (FAQ)

New rules on mortgage lending have been mandated to protect consumers. The new rules have drastically changed the process of applying for, qualifying for, and obtaining a home loan or refinancing an existing mortgage. This FAQ has been prepared to help you understand the new realities of the mortgage process that you may not have experienced before.

Some rules are already in place and other rules are set to go into effect in the near future. Check with your mortgage banker during your pre-qualification as some loans now or in the future may not include features such as extending beyond 30 years or include enticing terms like interest-only payments or negative-amortization payments where the principal amount increases. Some loans may not carry fees and points above 3% of the total mortgage and your total debt-to-income ratio may be limited. Some loan applications may also trigger required credit counseling. Your banker can no longer have direct contact with appraisers. Such features were sometimes used in the past in the spirit of customer service to help people buy homes but times have changed.

We encourage you to review this FAQ with your mortgage banker and real estate broker to better understand today's landscape and have realistic expectations about the process we all hope will result in the successful and affordable financing of your home.

1. What caused these changes and new rules?

- a. Prior to 2008, borrowers took advantage of many creative financing offers that sometimes resulted in their inability to make payments
- b. The Great Recession of 2008 prompted an examination of the mortgage industry
- c. The Consumer Financial Protection Bureau (CFPB) was created and mandated a series of requirements for the lender, the appraiser, and the borrower
- d. As a result, many smaller banks no longer offer home loans and the process requires more time and effort by everyone involved

2. How long will the entire process take from pre-qualification or application to my closing date?

- a. You may expect the process to take up to 90 days
- b. During this time you may be asked to provide several of the following documents
 - Completed application
 - Purchase agreement
 - Divorce decree
 - Tax returns for the past two years
 - W2s for the past two years for each applicant
 - IRS 1099s
 - School transcripts
 - Pay stubs for the past 30 days
 - Bank statements for the past two months
 - Driver's license for each person on the loan application

- Business tax returns and K-1s for the last two years if self-employed
 - Year-to-date profit and loss statement and balance sheet if self-employed
 - Copy of existing hazard insurance if refinancing
 - Copy of your last statement from your mortgage company if refinancing
 - Purchase price and down payment of your lot if building a new home
 - Estimated construction bid called a Sworn Construction Statement if you are seeking a construction loan
 - Blueprints or drawings from your contractor if you are seeking a construction loan
 - A proposed building contract that includes a timeline for completion, contractor's name, license, insurance, and contact information
 - Original certificate of eligibility if applying for a Veterans Administration (VA) loan
- 3. Under the new rules, a lender is prohibited from influencing the appraiser with respect to the property's value. If the rules say my banker cannot work directly with the appraiser how is an appraisal done to provide an accurate valuation of the property?**
- a. Some banks contract with an Appraisal Management Company (AMC) and these outside companies hire local appraisers
 - b. Some banks manage the process internally with personnel working independent of the lending department to order appraisals
 - c. In smaller, rural communities appraisals can be difficult and take more time because the appraiser needs to compare local properties of similar characteristics that have sold within the last six months. A shortage of local appraisers and lack of comparative property information in smaller communities is a challenge.
- 4. Do these new rules and changes just affect Dacotah Bank customers?**
- a. No. The new rules apply to all banks and credit unions providing residential financing
 - b. Buying a home is exciting and charged with emotion and stress so it is important to fully understand what your Realtor is advising you to do and the many competitive offers made by lenders
- 5. What can I do to be better prepared to help the process go smoother?**
- a. Collect and organize the documents and information outlined above
 - b. Complete an application and get pre-qualified *before* you go shopping
- 6. Are there more rules and changes ahead?**
- a. Yes. The CFPB continues to draft new regulations
- 7. How can I learn more?**
- a. Visit with your banker prior to shopping the market
 - b. Ask all the questions you can think of and take good notes when visiting with your banker

If you have not met with a banker at your nearest Dacotah Bank, please call (800) 881-5611 or visit dacotahbank.com. Our website has a mortgage tab describing various options for home buyers, an email path to each mortgage banker, and a CONTACT US feature.

Take your time to be well-prepared and remember – we are *here for you!*

