# HOW DO LENDERS DECIDE IF YOU ARE QUALIFIED FOR A LOAN?

Mortgage lenders will evaluate your credit-worthiness by examining four general areas of your financial life. In years past you had to meet the necessary criteria in one or more of these areas, but not necessarily all, to qualify for a loan. Changes began to be made in mortgage underwriting in 2006 and continued to tighten through 2014. Now you must meet the guidelines in each and every category, no matter how well qualified you are in the other three.

Underwriting for the entire mortgage industry is based on guidelines issued by Fannie Mae and Freddie Mac, whether the loan is Conforming (intended for eventual sale to these two agencies) or Non-Conforming/ Jumbo/Portfolio. Many lenders have additional guideline “overlays” on top of agency requirements. Below is a brief summary of lending guidelines. Please note: there are many exceptions and layered guidelines that cannot be addressed here.

## *1. Credit History:*

Guidelines require that you have established an adequate credit history so that your credit patterns can be evaluated and your credit scores are meaningful.

For most borrowers, quantity of credit history is not an issue. Qualifying in this category comes down to credit scores and derogatory credit history. In general, lenders do not want to see any mortgage late payments in the last two years and want your credit scores to be above 680 (720 is average). However, to get the best interest rates your credit scores will need to be above 740.

The credit scores used by the mortgage industry are based on the FICO model. Credit scores issued directly to consumers by the credit bureaus and related websites are “FICO-facsimiles”. True FICO scores can only be obtained through a lender.

## *2. Expense to Income Ratios*:

Federal regulation require that the sum of your monthly housing expenses (mortgage payment, property taxes, association dues and insurance) plus your monthly debt service (payments for autos or student loans, and minimum monthly payments on credit cards) shall be 43% or less of your gross monthly income (before taxes if you are an employee, or net taxable profit over the last two years if you are self-employed). However, there are exceptions (up to 49% for Agency and 52% for FHA).

Calculating income based on guidelines can be a complicated process, particularly if you are self-employed and/or an investor.

## *3. Employment History:*

Lenders want to see that you have been employed, doing what you are now, for at least two years. If you are self-employed you will have to have been operating your business long enough to be able to provide two years of tax returns for your company.

Many borrowers who have changed their employment status from employee to consultant, even though they are doing the same work, find themselves in a two-year mortgage “purgatory”.

## *4. Equity and Assets:*

Also known as down payment and post-closing reserves, the requirements in this category vary greatly depending on property and ownership type, loan amount and program.

In general, you are good with 20% down and 2 - 6 months of housing expenses in post-closing reserves. However, you may qualify for as little as 3.5% down with no reserves for FHA financing, or be required to bring 25% or more down and have 12 months or more of reserves for some Super Jumbo programs and/or for second homes or rental properties.

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Doing our upmost to serve you.

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