MORTGAGE PRE-APPROVAL Guide

A step-by-step guide to preparing your credit, income, and assets for a mortgage.

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Welcome to HOME OWNERSHIP

The fear of the unknown can cause you to procrastinate about buying a home for longer than necessary. How long have you dreamt of purchasing a home? This guide was created to help prepare you for a mortgage. Whether it's your first time purchasing a home or subsequent time, we want to make this process as smooth as possible.

Preparing your credit, income, and assets to be reviewed by the lender will save time and money. Our goal is to make the entire process as effortless and hassle-free as possible, so you can focus on what's important - your home. Get in touch with us to handle your mortgage today.

CLOSING PATHWAY

01

Application Process

The application process consists of collecting all of your credit, income, liabilities and assets on paper to create a loan file and initial profile as a prospective borrower.

02

Pre-Approval

The Pre-Approval process is for reviewing your credit report, calculating income, determining DTI and sometimes calculating assets to determine you meet their lending requirements.

03

Condition Approval

During the condition review process, the documentation requested to create a paper-trail to support loan approval and that everything is factual will be reviewed and signed off on.

04

Final Approval

After condition review there may be some other items required, if not, a final approval will be issued which will give your Loan Originator the greenlight to request closing documents.

05

Clear to Close

During the Clear to Close process, loan documents will be drafted for the borrower to review. Whatever is in the loan system as far as loan terms and loan figures will be drafted into an estimate and finalized by the closer.

06

Closing Day!

On the day of closing you will be able to make it official. At this point all of the estimated fees etc. should've been reviewed. The final closing docs typically will have lessor amounts as the estimates are always higher.

Application Process

The application process for a mortgage loan can be tedious; however, it is one of the most critical steps. When reviewing your loan, the initial approval information is extracted from the loan application and must be supported by documentation.

It's essential to ensure that the information provided on your loan application is correct and correlates with your credit, income, and asset information.

01

COMPLETE ENTIRE APPLICATION

Be sure to complete every loan application section. If you do not have the requested information on hand, retrieve it and then complete those sections correctly. If it doesn't apply, then do not complete it.

02

SUPPORTIVE DOCUMENTATION

You will need documentation to support all of the information in the Personal Information, Current Employment, Self-Employment, Other Income, Assets, Liabilities (credit report), Property You Own, and Other Mortgages will need supporting documentation unless verified with a credit report.

03

ASK YOUR LOAN ORIGINATOR

When you doubt any information on your loan application, please contact your Loan Originator. They will guide you through any questions you may have or if there is any information that could affect your loan.

Credit Review

The Underwriter will review all three credit bureaus. The qualifying score will be your middle score. The Underwriter will confirm that your credit history meets the lender's guidelines during the credit review process. They will look for past due payments, judgments, an additional debt like child support, liens, and overall activity like multiple recent tradelines.

PERSONAL INFORMATION

Your personal information, like Name, DOB and SSN, will be reviewed and cross-referenced with what you listed on your credit report. Sometimes credit bureaus may have some inconsistencies or errors. You will need documentation to confirm the correct information if any are discovered.

CREDIT TRADELINES

Most lenders require at least 3 active tradelines with at least one tradeline having 12 months of activity. Each tradeline will be evaluated for payment history and the type of tradeline it is (mortgage, installment, revolving debt). Any installment loan with less than 10 months remaining can be excluded; however, all leases will stay regardless of the remaining payments.

CREDIT INQUIRIES

All credit inquiries will be evaluated to confirm that no additional debt was obtained. Any inquiries within the last 90 - 120 days will need an explanation as to whether or not they resulted in new credit. If these new accounts are not reporting to your credit yet, you will need documentation confirming the terms and payment amount.

CREDIT TIPS

01
PAYDOWN DEBT

Paying off all of your debt is unnecessary to lower your credit score. In fact, you need some active tradelines to maintain your score. Paying down debt will lower your overall debt percentage, which will ultimately increase your score.

02
ALWAYS PAY ON TIME

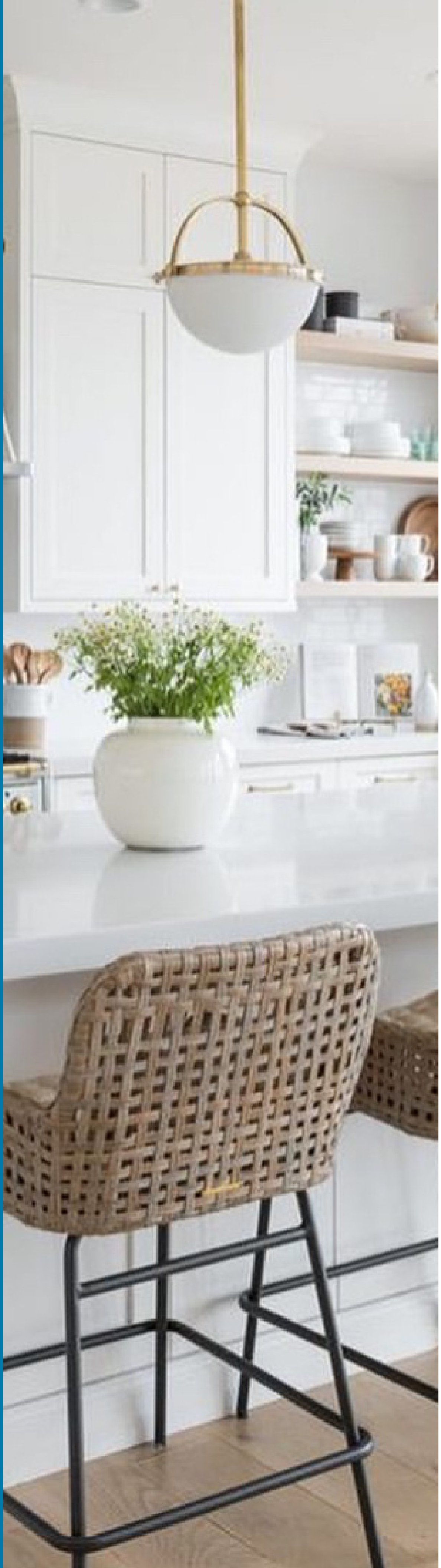
Always pay your bills on time, and never assume that being 30 days past due will be ok. If you are running into a cash-flow dilemma, always ask for an extension, deferment, or waiver. Even being 31 days past due can affect your credit score.

03
MODERATION

Always acquire credit in moderation. If you have several credit cards that offer the same perks, such as points, cashback, rewards, etc., there is no need to collect additional credit cards, which equates to more monthly payments. Try to use the cards with the lowest rate and the most perks.

04
DON'T BE AFRAID TO ASK

Don't be afraid to call your creditor and ask for a higher limit which may instantly raise your credit score because it will reduce the ratio between available credit and balance. Also, feel free to ask for a lower interest rate. Some creditors will offer you a rate reduction to keep your business.



Employment

When applying for a traditional loan, your employment is significant. It determines whether or not you can afford your loan payment in addition to all your existing financial obligations. Before applying for a loan, you need to make sure you have the following:

STABLE EMPLOYMENT

A 2-year work history is a must. Even if you have not been with your current employer for two years, you will still need a 2-year work history.

Although seasonal employment is acceptable, it is still evaluated to determine if it has been reoccurring for the last two years.

CONSISTENT INCOME

It's possible to have stable employment but inconsistent income. Your paystubs must reflect full-time earnings and overtime if you are employed full-time. The lender will need to be able to calculate predictive income.

- Paid Weekly - 40 hours per week
- Bi-Weekly - 80 hours every two weeks
- Semi-monthly - 86 hours twice a month
- Monthly - Monthly income is typically salary, so there will need to be a history of receipt.

Other Income

OVER-TIME INCOME

Your base income is calculated first, but if you need overtime income to qualify, there needs to be a 2-year history of receipt and proof that overtime is stable and or increasing.

BONUS INCOME

Bonus income is evaluated similarly to overtime income. The difference is that most bonus income is not per pay period. However, whatever the frequency, there still needs to be a two-year history showing that the income is stable and increasing.

COMMISSION INCOME

You are self-employed if your commission income exceeds 50% of your monthly income. All self-employment income requires two years of tax returns. You will still need regular paystubs and W2s, but the overage reflecting on tax returns determines the receipt of commission income.

Self- Employment

If you own 25% of your business, you are considered self-employed. This income is evaluated differently and requires a 2-year history and, at the very minimum, a 12-month history on a case-by-case basis. Each form of self-employment is different. The lender must determine that your business has a history of stable income. If there is a decline in profit, you will need to have an acceptable explanation like expansion, restructure, etc. Below are the types of Self-Employment:

01

SOLE PROPRIETORSHIPS

A sole proprietorship is an unincorporated business that is individually owned and managed. The individual owner has unlimited personal liability for all debts of the company.
Schedule C is required and must reflect positive Net Profit on Line 31

02

PARTNERSHIP

A partnership is between two or more individuals who share profits and losses according to the percentages on the partnership agreement. There are 2 types of partnerships. (1) General Partnership (2) Limited Partnership.
Form 1065 and K-1s are required. The income is typically calculated from Ordinary income or Distribution reflected on the K-1, which also shows the percentage of ownership. Depreciation and Depletion can be added back.

03

S-CORPORATIONS

An S corporation is a legal entity with a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders.
Form 1120S and K-1s are required. Income is typically calculated from the K-1 with add-backs for depreciation and depletion on the 1120S.

04

CORPORATIONS

A corporation is a state-chartered legal entity that exists separately and distinctly from its owners (who are called stockholders or shareholders).
Form 1120 reports Corporation income, the Taxable Income on line 30 is typically the owner's income. But typically, the owners be on the payroll and have paystubs and W2s like wage earners.

Assets

Your finances are the last adjustment you must make when preparing for a mortgage. Some lenders will give you a mortgage on just assets alone, so that's an example of just how vital the management of assets is. Your funds will be evaluated for the following:

DOWN PAYMENT

Your down payment is not to be confused with your closing cost. Lenders typically cannot lend 100% of the purchase price or value of the home for a refinance except VA and USDA.

For example, if your LTV (Loan to Value is 90% and the purchase price is $100,000, that means the lender gave you $90,000, and you will need to put $10,000 down to cover the difference of the purchase.

CLOSING COSTS

Your closing costs consists of the costs and fees associated with preparing the loan. The following are typical closing costs. Most of these costs individually range from $50 to $1,000.00 (other than taxes and insurance)

- Appraisal Fee
- Processing (3rd party)
- Home Inspections
- Credit Reports
- Underwriting Fee (wholesale lender)
- Lender's Title Policy
- Escrow Fee
- Closing Attorney (some states)
- Courier and/or Notary
- Recording/Deed Fees
- Impounds for Taxes and Insurance
- HOA Transfer

A budget is telling your money where to go instead of wondering where it went. – John C. Maxwell

RESERVES

Reserves are not necessary in every loan program. It's typically required when you already have multiple financed properties or acquiring a Non-QM loan that uses reserves as compensating factors to obtain the loan. Some lenders want to see 1-6 months payments.

Reserves are calculated using a set amount of months times your PITIA (Principal, interest, taxes, insurance, and HOA) of the subject property.

For example, if the lender requests six months of reserves and the subject property PITIA is $2,500.00 per month, then your reserves would be $15,000 in addition to your closing cost and down payment. While closing costs and down payments need to be sourced using liquid funds, reserves can be verified with stocks and other non-liquid assets.

OTHER FUNDS

Other funds you will need to show proof of from your bank account include Gift Funds and Earnest Deposits. If Earnest Deposits are included in the loan amount transaction, this amount has been deducted from the funds required; therefore, you will need to show older proof of assets confirming that the earnest money was paid from your funds.

GIFT FUNDS

Any gift funds received from a relative will need to be sourced with your bank account unless otherwise approved by the lender to be transferred directly to escrow to be applied to closing. Your gift donor will need to deposit the funds into your account, provide a signed and dated letter confirming the amount, a disclaimer saying funds will not need to be paid back, and the relationship between you two will need to be approved. Most lenders require the gift donor to be a close relative or spouse.

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We have two versions of our Cash to Win program

1. Purchasing a home in cash for our client, in order to compete with other offers.
2. Purchasing the client's trailing property in cash, in order to eliminate any home debt contingencies.

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If you'd like to achieve "Ultimate Financial Freedom", I can show you a strategy to get there faster and with less money than you think!
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