The Five Factors of Mortgage Lending

A Worksheet for Home Buyers

For some looking to purchase a home obtaining a mortgage may seem like a complex task. While there is a lot of work that goes on in the approval process most of that is behind the scenes. Fortuanately there are only five major factors in getting approved for your mortgage. Once your lender as much of the data supporting your application a pre-approval can be issued so you can begin the Home Buying process.

Let's look at the Five Factors:

1. Credit History/Credit Scores. You are no doubt familiar with the 3 digit credit rating scores. 720 and above is excellent, down to mid 600s which is average and below 600 which is poor credit rating. Even with low scores it doesn't mean you can't get approved, just that rates and terms will not be as favorable to you.

   Also, your payment history. On time payments and with a sensible use of credit. Actually, some people think zero credit is good. Its not. Its probably worse than NO credit. So the optimum credit history is . . . some credit, sensibly used.

   Estimated Credit Scores ___________ ________

2. Employment History. Most lenders want to see a 2 year work history in the same line of work. Its pretty usual especially in the High Tech Industry for people to change jobs frequently, much more so than in the past and with other Industries. Changing jobs is usually not a big deal.

   Work History OK______________ Not OK_________

3. Debt to Income Ratio. Typically, most lenders will use a 43-45% Debt to Income ratio in determining the amount of your loan. Take 43% of you monthly Gross Income and that amount is how much Lenders will allow you to spend on all your Debt servicing including your Housing Payment. Some Lenders will go as high as 50% for some loan products.

Monthly Debt Load	Monthly Gross Income
______________________________	________________________
______________________________	@ 43% =_______________

Subtract your monthly debt servicing from 43% of your Monthly Gross income and you can use this amount for your housing payment. Any online mortgage calculator can give you the rough amount you could qualify for. Or just send me the info, I can crunch the numbers for you and let you know.

4. Down Payment/Closing Costs. Most Conventional lenders require 20% down payment. However, as the Real Estate crash has eased Lenders are now moving back to approving loans with smaller down payments. FHA loans (which are backed by the government) will actually allow you to go as low as 3.5% down payment! However, the *size* of the loan amount is restricted and rare is the property that will sell in an FHA price range in Silicon Valley. These require a bit more paperwork but are a great way to go for those with limited resources. There are other loan programs where 10% and even 5% down payment programs are available.

   Funds Available for Down Payment and Closing Costs _______________

5. Documentation. A crucial point. Talk all you want but Lenders want to see it in writing. Paystubs, bank statements, 401Ks and tax returns (especially for those self-employed) all support your case in getting the best loan for you.

Here is one more crucial point. To the degree you depart from perfection on all of these five factors is the degree that your rate and terms increases. Sorry, no free lunch!

There you go. Those are the major points that a Lender will look at when reviewing your loan application. Note: This is NOT a commitment to lend and is being done for Informational purposes only. Only Licensed Lenders are eligible to issue Pre-Approval Letters or Commitments to Lend.

If you need *any* assistance in getting pre-approved for a loan, please let me know and I can refer you to some great people who can make magic happen for you. Here's to successful Home Ownership!

Wishing you Success!

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