5 Things That May Keep You From Getting a Mortgage

Are you gearing up to refinance or buy a home this year? These five things may stop your mortgage dead in its tracks. Here's what you need to know to prevent your loan application from being denied.

1. Your Credit Score Is Not What You Think It Is

This scenario is all too common. A consumer will get one credit score from a credit monitoring company and think that 720 score is exactly what the mortgage lender will use in conjunction with the loan application. But that's not how it works – instead, a mortgage lender pulls three credit scores, one from each credit bureau. The lender will use the middle credit score as a measure of risk.

Another credit issue is a disparity between scores from lender to lender. For example, you might have your credit score pulled the 20th of the month and it might be 720, you might have it pulled again on the 25th while reviewing another mortgage company and it might be 698. Why the discrepancy? Your credit card balances, for example, could definitely influence the difference in credit score in terms of when those balances on those accounts report to the bureaus and when the lender checks the score. To get a mortgage you'll need at least a 620 credit score — bar none, across the board.

So while it's important to keep on top of your credit scores, especially when you're preparing to buy a home, know that they can and do fluctuate, and that what a lender sees may differ somewhat from the scores you see.

If your credit score is in the 620 range, and you're looking for a conventional loan, be prepared to make at least a 20% down payment, as Fannie Mae and Freddie Mac heavily discriminate against low credit scores with low down payment loan options. The FHA is a much lower cost and more favorable choice in that type of scenario.

2. You Have a Job Gap Longer Than Six Months

Mortgage companies want to originate loans that perform over time. As such, proving continuous employment shows the lender you're a better credit risk. When you apply for a mortgage, a two-year employment history is required. If in the past two years you had a job gap longer than six months, that's a red flag unless you have a reasonable and logical explanation for the events that led to the gap. Your situation is trickier if, for example, you are working in one field, have a job gap for eight months and then return to work but enter into a different field.

If you have do not have a history of working in the same field and/or in the same role within your occupation, you could face roadblocks. If the job gap was due to an unforeseen, yet explainable — and documentable — circumstance, or a family-related event such as maternity leave or an illness, those types of instances hold more water. The key here is to have an explanation about the job gap. Give the facts, pure and simple, so your loan officer can go to bat for your loan approval.

3. Your Income Is Not Straightforward

This is especially true if you are an hourly employee and changed jobs in the past 24 months. The lender will have to average your hourly wages into a monthly income figure and this averaging might give you less money *on paper* to qualify than what you otherwise actually earned. A history of earning an hourly wage will become a critical component of how your hourly income will be averaged. Do you have overtime? You'll need at least a 24-month history of earning that overtime income if you need or want the income to qualify. Do you work more than one job? You'll need a 24-month history of working two jobs together simultaneously for both incomes to count. Do you work for your family's business? Your income will be derived from the most recent two years of tax returns. Pay stubs and W-2s will be requested, but in this scenario tax returns will be what the lender uses to qualify you.

Be forthcoming with your lender about your income, what your compensation structure is like, how it works, how frequently you are paid, and what annual bonuses and/or additional compensation you receive. This helps your loan professional pragmatically put together a loan scenario for you that will have the underwriter clamoring for more borrowers like you.

4. You Don't Have Enough Cash to Close

Gone are the days of asking the seller to pay your closing costs. Want to buy a house today? Be prepared to spend the full down payment plus closing costs. Don't have it? Gift money is always a possibility.

Most mortgage loan programs want at least a blood relative donating the funds, although exceptions can be made depending on the lender and the program. Proof of gift funds availability are required. A bank statement from giftor will usually suffice.

Other cash-to-close issues arise when there is no way to document deposits going into a bank account and unfortunately the lender must ignore those monies. If the money cannot be paper trailed, you could have trouble wrapping up your transaction. Remember: If you can't document it, you can't use it.

To buy a house these days, you'll need a down payment of at least 3.5% plus closing costs, which typically run about 3% of the purchase up to $500,000 of the purchase price (if more than $500,000, it's about 2%, and anything below $300,000 costs upwards of 4%). There are several down payment assistance programs offered by local and federal agencies, which your lender may participate in. These assistance programs will nearly eliminate the need for out-of-pocket down payment, however most require a minimum buyer contribution of $1,000.

5. You're Living Beyond Your Means

The old saying "Robbing Peter to Pay Paul" applies here. Living your life on credit, spending beyond your means and carrying big debt substantially reduces your mortgage and home buying chances. It is unfortunately that black and white, unless your debt payments are very low in relationship to your monthly income — about 5%. Anything bigger than this will drag down how much you can ultimately borrow. Payments on car loans, lease payments, student loans, credit cards — all of these things count against your borrowing strength for a mortgage.

Know this: When a mortgage company grants you a loan, it's not a loan against the house, it's a loan against your income. The more loans you have against your income before a mortgage is counted against how much mortgage you're able to take on. If your income is a free and clear of debt, your borrowing strength increases, and your ability to manage a mortgage payment greatly increases — not only from a qualifying standpoint, but as good measure of personal finance.

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