8 Tips To Help You Navigate the Mortgage Process

#1

Pay Less Mortgage Insurance. Many homebuyers don't have enough cash on hand to make a 20 percent down payment, which means that they generally are required to pay for mortgage insurance as part of their monthly mortgage payment. This insurance protects lenders when a borrower defaults on the loan.

Until late 2014, Fannie Mae and Freddie Mac required down payments of at least 10 percent. The requirement pushed many homebuyers into Federal Housing Administration-insured loans, which have a minimum down payment of 3.5 %. The problem is that FHA premiums are costlier than private mortgage insurance.

But now, qualified borrowers now are able to get Fannie- and Freddie-backed mortgages with down payments as little as 3 %. Mortgage insurance premiums vary according to credit score and size of down payment, but private mortgage insurance premiums generally are more affordable than FHA premiums.

#2

Get a Thorough Pre-Approval. Not only do sellers often prefer buyers who come preapproved by a lender, making their offers more attractive, but a preapproved mortgage also can help you avoid any hiccups down the line.

With a real preapproval, a mortgage broker or bank loan officer will pull your credit report and submit supporting documentation to their automated underwriting system. This allows the bank to give you more accurate terms based on your actual credit score, debt obligations and income, instead of relying on your estimates. It also puts you ahead of the process when you finally go into contract and could help you close faster.

#3

Maintain Your Credit Profile. In the months leading to your home purchase, avoid changing your credit obligations, especially between a preapproval and the closing of your mortgage. The reason? It could hurt your credit score in a way that would raise the rate and fees related to your loan or, at worst, keep you from qualifying altogether.

Don't close or open any credit cards. Keep balances on your credit cards within normal range so it won't mess with your debt-to-income ratio, a key factor in determining mortgage rates. And don't buy a new car. The car company doesn't care if you have a house, but your mortgage lender cares if you have a big car payment.

#4

Get Organized. Gather and keep every piece of financial paper in the two months leading up to buying a house. That means pay stubs, bank statements for savings, checking and investment accounts, W-2s, tax returns for the previous two years, canceled rent checks and any mortgage or property tax statements for other property you own. Put these in PDF format to make it easier to send to your mortgage broker or bank.

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#5

Don't Move Money Around. In the months leading up to your home purchase, keep your hands off your finances. That includes moving money from a savings account into a certificate of deposit, or CD. It also means no cashing in investments from stocks, retirement accounts or CDs. Otherwise, you will create a huge headache for yourself as you try to show the bank the paper trail of where that money came from. In a similar vein, avoid paying off debts with savings because that could cause your lender to worry about how you will pay for closing costs.

#6

Prepare to Write Letters. Lenders these days scrutinize every corner of your financial life, and if something looks funny, even just a little bit, they will want to know why. That means you will have to write letters explaining the oddity.

For example, they may want a letter explaining why a credit card issuer pulled your credit three months ago when you applied for a store credit card. Or, why Grandpa gave you a check for $500 around Christmas. Lenders also may want you to explain why you changed jobs a few months ago or why you moved around several times in the past year. Don't fight it. Write 'em, send 'em and move on.

#7

Get Your Gift Early. If a family member is gifting some or all of your down payment, make sure it's deposited in your bank account more than two months before you apply for a mortgage. That way, the bank won't need to source the large deposit.

Otherwise, the gift-giver will need to sign a gift letter, stating that the money is indeed a gift and not a loan. The giver also will have to provide the bank with a copy of the check before closing and verification that they have the funds to give by supplying either bank statements or a letter from the giver's bank.

If you don't get the gift early the best alternative is a wire directly from the donor of the gift to the closing attorney's account a minimum of 72 hours before your closing. Please discuss with your Loan Officer prior.

#8

Self-Employed? Plan Ahead Even More. Self-employed borrowers have a higher hurdle to overcome after stricter mortgage requirements went into effect in 2014. The rules require documentation of income that includes two years' worth of tax returns, a typically unreliable record of a self-employed person's take-home pay.

To get around it, self-employed borrowers should plan to take fewer deductions the years before buying a house to boost their overall income. If they can't, they may consider a co-signer on the loan whose income is documented by W-2 statements. Otherwise, they may need to search out an unconventional loan that can qualify them based on bank statements alone.

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