THE 22 Do's and DONT'S of HOME FINANCING

By

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To help my clients have as **stress-free experience** as possible when buying or refinancing their home, I have compiled this list of **do's** and **dont's** to help them keep from making common oversights and errors which can potentially delay their closings.

01. **Don't** apply for two mortgage at the same time for the same transaction.

Popular wisdom states that it is always best to **"shop around"** for the best terms for your mortgage. While this is true, once you have decided upon an acceptable lender with acceptable terms, this is where your shopping should end. If you have two mortgage brokers working on your loan simultaneously it can adversely affect your credit and the underwriting process. If a particular lender learns that you are trying to obtain financing for a transaction they are working on you run the risk of the lender canceling your loan application.

02. **Do** let your agent or mortgage professional know if you are planning to travel while applying for a loan.

Going out of town during the process of securing home financing can create havoc with the closing of your loan. If you are planning to be out of town let both your real estate agent and mortgage professional know early enough so they can plan accordingly. Planning the closing of your loan transaction around your trip can be easily done if your agent and mortgage professional are aware of your travel plans.

A good rule of thumb is to let them know three weeks in advance. Emergency trips do happen, and if you need to be out of town on an emergency basis please let your agent and mortgage professional know as soon as possible so appropriate planning can take place.

Please also provide a way that you can be contacted so if you are required to provide paperwork, or if paperwork needs to be sent to you, it can easily be done while you are out of town.

03. **Do** continue making your payments on your mortgages or other loans during the underwriting process.

This one may seem quite obvious but, some borrowers wrongly assume that if they are selling a home, refinancing a home mortgage, or paying off debt with a debt consolidation mortgage, those loans will soon be eliminated so the necessity to keep those payments going is also eliminated. Not keeping up on all of your payment could result in a late-payment penalty on your existing mortgage and/or a 30-day late on your credit.

It is very important to keep up on all payments during the loan process to keep any negative information from being reported to the credit agencies and potentially damaging your credit score.

04. **Don't** apply for any new credit during the underwriting process.

Some borrowers can get caught up in a buying fervor when purchasing a house. They want to furnish their new home and get appliances for their new kitchen. Some are temped to apply for new credit. Everytime someone applies for credit, the new creditor will obtain a copy of your credit report to establish credit worthiness.

These inquires can adversely affect a borrower's credit score, which in turn may adversely affect the underwriting of your loan, and possibly the final rate of your mortgage.

05. **Don't** get multiple inquiries during the underwriting process.

Similar to the Don't mentioned above is to avoid having multiple mortgage companies obtain multiple copies of your credit while researching the best mortgage company to do your loan for you. While I generally encourage shopping for the best rate and fee structure for your purchase or refinance, it is generally a bad idea to allow multiple mortgage companies to obtain copies of your credit as this can adversely affect your credit score.

When in doubt it is always best to ask the advice of your mortgage professional.

06. **Don't** incur any new debt during the underwriting process.

This don't is a continuation of the last one. When you apply for and obtain new credit you create an underwriting double-whammy. Not only have you incurred an unnecessary credit inquiry on your credit report, you have increased your debt load, which can adversely affect your debt-to-income ratio.

If your loan is at the edge of the lender's allowable debt-to-income ratio and you apply for and obtain new credit, that new debt may be just enough to result in a loan denial. The best rule of thumb is to resist the urge to buy new furniture or appliances until after your mortgage transaction has closed.

07. **Don't** co-sign for any auto loans or other debt during the underwriting process.

Some borrowers are under the mistaken assumption that co-signing or endorsing a note will not affect their debt load, and that type of new debt will not affect their credit or their ability to obtain a mortgage. Any debt for which a borrower co-signs will affect their credit and their ability to obtain a mortgage.

Although someone else may have promised to make the payments on the new debt, you are ultimately responsible for the other party's payments if they cannot make them. In the eyes of the lender and the underwriter you and the borrower are equally responsible for the payments.

Also, when you co-sign for another person and they obtain new credit, it's another underwriting double-whammy. Not only have you incurred an unnecessary credit inquiry on your credit report, you have increased your debt load which can in some cases adversely affect your debt-to-income ratio.

08. **Don't** list your property for sale while in the process of refinancing.

When a lender provides funds for a refinance, the lender expects that the new loan will remain in place for a reasonable period of time. While there is no exact length that defines this **"reasonable period of time,"** most lenders like their loans to remain active for at least three months and some up to six months.

If a lender notices that the property they are refinancing is listed for sale during the underwriting process, they will decline the loan because the likelihood of the loan remaining active for three to six months is unlikely.

09. **Do** provide all requested paperwork in a timely manner.

Not all borrowers are well organized and some have trouble finding all the required paperwork. While there is no exact definition for **"timely,"** it is in everyone's best interest to act responsibly when gathering the necessary paperwork in order to quickly complete the underwriting of a loan, especially when other buyers and sellers are depending upon a timely closing.

The longer it takes to gather paperwork to satisfy the lender's conditions, the longer it takes to successfully close your loan. If you have any difficulty gathering paperwork or documentation, please inform your mortgage professional quickly so an alternate strategy can be devised to ensure a successful closing.

10. **Do** keep track of all bank statements and pay-stubs that come in during the underwriting process.

The underwriting process is not always predictable or logical. It is not always a smooth progression from loan submission to closing. More often than not, an underwriter may ask for additional pay stubs or bank statements, even though you have provided similar paperwork earlier in the underwriting process.

As a rule, avoid discarding any paperwork that is pertinent to the processing of your loan, especially pay-stubs and bank statements, until your transaction is closed. If you have a question whether a certain piece of paperwork is pertinent to your transaction, simply ask your mortgage professional.

11. **Do** remember to cancel all automatic payments or auto drafts for mortgages and other debts while completing a refinance transaction.

One of the most overlooked tasks a borrower forgets is to cancel their automatic payments or auto drafts for mortgages and other debts that they have paid off as a part of their refinance transaction.
If a borrower forgets to cancel the automatic payments with former creditors it is likely that the former creditor will continue to debit the borrowers accounts, even thought the accounts have been paid off.

Depending on the former creditor, it can be a struggle to get those erroneous payments refunded. To keep all of your accounts straight, it is best to remember to cancel your auto-payments two weeks before the refinance is scheduled to close.

To be on the safe side, if you are paying off mortgages or debts as part of a refinance with auto-payments, you should contact your creditors and ask them what they recommend as the best method to cancel those auto-payments so your accounts are not debited incorrectly.

12. **Don't** spend funds you would have normally used for a down-payment or closing costs.

Emergencies do come up and in some rare cases money that was earmarked for a down-payment or for closing costs must be used for an emergency. If an emergency does happen, let your mortgage professional know immediately so alternate strategies can be devised to keep your transaction on track.

Loan approvals are based upon a specific set of circumstances, and if any of those circumstances change then the loan has to be re-underwritten and your loan could be delayed or worse, denied. When in doubt, it is best to err on the side of communication with your mortgage professional.

13. **Don't** move large sums of money into different accounts or move money unnecessarily.

When processing a loan, underwriters like to see clearly which accounts the funds for the down-payment and closing costs are coming from. If a borrower is in the habit of moving funds from one account to another, the accounting of the funds used to close the loan become more difficult to track and document.

This leads to more underwriting time and more work on your part, as you may be asked to provide further explanation and documentation of your banking transactions in order to close the loan. While it is unlikely that your loan will be denied for this reason, it does slow down the underwriting process and leads to more time-consuming work for both the mortgage professional and the borrower.

When in doubt, simply avoid moving funds unnecessarily. If you absolutely need to move funds from one account to another, consult your mortgage professional on how best to approach this problem so a documentation strategy can be devised before you move your funds.

14. **Don't** make any large or unusual deposits into any of your accounts during the underwriting process especially cash deposits.

As with moving funds into different accounts mentioned above, it is a general lending rule that all large deposits into your account must be **"sourced"** or documented. This can slow down the underwriting process significantly and create more work for you and your mortgage professional. As mentioned above if you absolutely have to move funds or make large deposits please consult with your mortgage professional before proceeding so a plan can be devised to help minimize the possible underwriting delays.

15. **Do** thoroughly document any gifts.

On most transactions you are allowed to receive gift funds from family members for the purchase of a new home. However, those gift funds do need to be documented thoroughly to avoid delays in underwriting.
If you are planning to receive gift funds for the purchase of your house, please contact your mortgage professional for advice, as it is much easier to properly document the movement of funds from the donor to the borrower before the funds have been transferred than to document the movement of the funds after the fact.

16. **Do** remain employed during the loan process.

Again, this one may seem incredibly obvious, but borrowers have been known to quit their jobs during the loan process without considering that that their lack of employment would adversely affect the closing of their loan. They wrongly assume that, since they were already **"in underwriting"** or that their loan was already **"approved,"** they were in no danger of a loan denial.

All mortgages are only conditionally approved until the day of closing, and part of the final approval process is a verbal verification of employment. On the day of closing the underwriter will call the borrower's employer to confirm that the borrower is still employed. If the underwriter calls your employer and they cannot confirm your employment status, your loan will be put on hold until your employment status can be determined.

17. **Don't** take a voluntary leave of absence, a cut in salary or go on maternity leave while going through the underwriting process.

Sometimes borrowers mistakenly assume that a leave of absence or other unpaid leave is still acceptable to a lender during underwriting because their job is still intact during the leave.

If the borrower is not earning income on the day of funding then the loan will not be closed for the same reasons mentioned above.

18. **Do** inform your mortgage professional of any real estate that you own either solely or jointly that is not mortgaged.

It's very important that your mortgage professional know about any properties that you own, either solely or jointly, even if those properties are not mortgaged. These properties may be second homes, vacation homes, co-ops or time sharing properties.

Even though you may not have mortgages on a property, you may still have obligations for property taxes, hazard insurance and/or homeowner's association dues. These payment will have to be calculated into your debt-to-income ratio.

As mentioned previously, if your loan is at the edge of the lender's allowable debt-to-income ratio, the extra monthly funds required to service property taxes, hazard insurance and or homeowners dues could adversely affect your debt-to-income ratio just enough to result in a loan denial. It is better to disclose all owned properties up front in order to ensure that your mortgage professional is able to properly structure your loan.

19. **Do** inform your mortgage professional of any private notes, loans, or debts that do not appear on your credit report.

As with the previous **"do,"** if your loan approval is at the edge of the lenders allowable debt-to-income ratio, the extra monthly payments on the undisclosed debt could affect your debt-to-income ratio in a similar manner to the previous example, resulting in a loan denial.

20. **Don't** change your name legally with the courts or file for divorce during the un-derwriting process.

It is not often that someone takes the time to change their name or file for divorce during the underwriting process but, it has been known to happen. Any changes to a borrower's legal name or marriage status during the underwriting process will delay closing. When in doubt contact your realtor or mortgage professional before making any changes to your name, marriage status or residency during the underwriting process.

21. **Don't** close any bank accounts during the underwriting process.

If you have consolidated funds for your down-payment, closing costs and prepaid items from multiple bank accounts into one single account for convenience, please do not close the accounts those funds came out of even if this leaves any account with a zero balance. The lender will want to see what accounts the consolidated accounts came from and if you close an account those funds can't be traced back to the closed account.

22. **Don't** put a credit freeze on your social security number during the underwriting process.

In an age where hackers can gain access even to the IRS' database of social security numbers there is a temptation to freeze access to your credit data at the bureau or repository level as a precaution. A credit refresh may be required by either your mortgage broker or the final lender prior to closing your loan. If you have placed a credit freeze on your social security number no credit refresh can be done as Equifax, Experian and Transition will reject any request for new credit data.

While this will not prevent your loan from closing it will belay the processing of your loan unnecessarily.

About **Mike** the Money Man

Here's all what you need to know about the mortgage industry today: One large lender is promoting a tool that doesn't require you to interact with a human to make one of the biggest financial decisions of your life.

I believe you deserve better. And I've spent nearly 20 years providing my clients with the guidance they need so they don't just get a loan - they get the right loan.

You see, the mortgage process isn't quite as simple as the ads make it seem. It takes knowledge and experience to navigate, particularly in a competitive real-estate market, where the right combination of speed and expertise can make the difference between a successful offer and losing out on your dream home.

My clients, many of whom are first-time homebuyers or have run into resistance from other lenders, always know where they stand in that complex process. That's because I take the time to explain their options, so they can make an informed, confident decision. And most of them, like the clients below, would even say that I'm an advisor and advocate first, and a mortgage professional second.

I 'm still in contact continue to be a resource with a number for many of those my past clients, often years after they purchased or refinanced their homes. They come to me because they know I provide a level of personal service uncommon in this industry. They come to me because they know I care. And they come to me because they know I have the willingness, and the knowledge, to help.

I'd love to help you - whether you're buying, refinancing or just weighing your options. Email me or give me a call today.

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