

How Mortgages are Approved



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When applying for a mortgage, your Loan Specialist will forward your application and the supporting documentation to an underwriter. The underwriter reviews your loan scenario and the supporting documentation to ensure that it meets the loan program guidelines and to determine whether or not you qualify for the loan.

The underwriter looks at your information with these basic criteria in mind:

- **Your ability to repay the loan.** This requirement basically asks, “Is your income enough to cover the new mortgage payment and all your other monthly expenses?” To figure this out, lenders use your debt-to-income ratio (DTI). Most lenders want your debt-to-income ratio to be 36% or less, but the ratio that works best for you is the one that you can comfortably afford.
- **Your likelihood to repay the loan.** Your payment history and credit score are indicators to lenders of your likelihood to make payments in the future.
- **The home's value.** The underwriter carefully looks at the value of the home you're purchasing (based on a professional appraisal ordered by your lender) to verify that it meets or exceeds the purchase price. This will also help them understand whether the loan-to-value ratio (LTV) fits within the loan program guidelines. To qualify for a conventional loan, most lenders require you to have a loan-to-value ratio of no more than 80-95%. The higher your home's value and the less you owe on it, the lower your LTV.
- **The source and amount of funds for your down payment.** If you have a down payment of less than 20%, you will typically be required to pay private mortgage insurance (PMI), which increases your monthly mortgage payment. The underwriter will review your documentation to estimate whether you have enough money to cover closing costs. You may also be required to have set aside 2 or more monthly mortgage payments as reserves, depending on the loan program and/or loan amount. Lenders typically require reserves to cover your mortgage payment in case of emergencies or unforeseen events.

As you move forward, keep in mind that your income, debt, credit history, down payment, savings, home value and loan program guidelines will all play a role in whether your loan application is approved.