

Frequently Asked Questions about getting a Home Mortgage

Q: Can I apply for a loan before I find a property to purchase?

A: Yes, applying for a mortgage loan before you find a home may be the best thing you could do. When you find the perfect home, you'll simply call your Loan Officer to complete your application. You'll have an opportunity to lock in your rate then and your lending institution will complete the processing of your request.

Q: Can I really borrow funds to use towards my down payment?

A: Yes, you can borrow funds to use as your down payment. However, any loans that you take out must be secured by an asset that you own. If you own something of value that you could borrow funds against such as a car or another home, it's a perfectly acceptable source of funds. If you are planning on obtaining a loan, make sure to include the details of this loan in the Expenses section of the application.

Q: I'm self-employed. How will you verify my income?

A: Generally, the income of self-employment borrowers is verified by obtaining copies of personal (and business, if applicable) federal tax returns for the most recent two-year period. Your lending institution will generally review and average the net income from self-employment that's reported on your tax returns to determine the income that can be used to qualify. Typically, at least one, and sometimes a full two-year history of self-employment are needed to verify that your self-employment income is stable.

Q: Will my overtime, commission, or bonus income be considered when evaluating my application?

A: In order for bonus, overtime, or commission income to be considered, you must have a history of receiving it and it must be likely to continue. Usually copies of W-2 statements for the previous two years and a recent pay stub are needed to verify this type of income. If a major part of your income is commission earnings, copies of recent tax returns may be needed to verify the amount of business-related expenses, if any. Normally, an average of the amounts you have received over the past two years is used to calculate the amount that can be considered as a regular part of your income. Most lending institutions won't be able to qualify you with this type of income if you haven't been receiving this income for at least one year.

Q: I am retired and my income is from pension or social security. What will I need to provide?

A: Copies of your recent pension check stubs, or bank statement if your pension or retirement income is deposited directly in your bank account. It may be necessary to verify that this income will continue for at least three years since some pension or retirement plans do not provide income for life. This can usually be verified with a copy of your award letter.

Q: If I have income that's not reported on my tax return, can it be considered?

A: Generally, only income that is reported on your tax return can be considered when applying for a mortgage. Unless, of course, the income is legally tax-free and isn't required to be reported.

Q: How will rental income be verified?

A: If you own rental properties, generally you'll be asked for the most recent year's federal tax return to verify your rental income. The Schedule E of the tax return will be reviewed to verify rental income, after all expenses except depreciation. Since depreciation is only a paper loss, it does not get counted against your rental income. If you haven't owned the rental property for a complete tax year, you will need a copy of any leases you've executed and expenses of ownership will be estimated.

Q: I have income from dividends and/or interest. What documents will I need to provide?

A: Generally, two years personal tax returns are required to verify the amount of your dividend and/or interest income so that an average of the amounts you receive can be calculated. In addition, your ownership of the assets that generate the income using copies of statements from your financial institution, brokerage statements, stock certificates or Promissory Notes will need to be verified. Typically, income from dividend and/or interest must be expected to continue for at least three years to be considered for repayment.

Q: Will my second job income be considered?

A: Typically, income from a second job will be considered if a two-year history of secondary employment can be verified.

Q: I was in school before obtaining my current job. How do I complete the application?

A: If you were in school before your current job, enter the name of the school you attended and the length of time you were in school in the "length of employment" fields. You can enter a position of "student" and income of "0".

Q: If my property's appraised value is more than the purchase price, can I use the difference towards my down payment?

A: Unfortunately, if you are purchasing a home, generally the lower of the appraised value or the sales price is used to determine your down payment requirement.

Q: I'm getting a gift from someone else. Is this an acceptable source of my down payment?

A: Gifts are generally an acceptable source of down payment, if the gift giver is related to you or your co-borrower. You'll be asked for the name, address, and phone number of the gift giver as well as the donor's relationship to you. Typically, if your loan request is for more than 80% of the purchase price, verification that you have at least 5% of the property's value in your own assets. Prior to closing, verification that gift funds have been received will be needed. A copy of the check from the gift giver and also the bank receipt showing the funds have been deposited into your account will be needed.

Q: I am selling my current home to purchase this home. What type of documentation will be required?

A: If you're selling your current home to purchase your new home, you will be asked to provide a copy of the settlement or closing statement you'll receive at the closing to verify that your current mortgage has been paid in full and that you'll have sufficient funds for closing on the new home.

Q: I've co-signed a loan for another person. Should I include that debt here?

A: A co-signed debt is considered when determining your qualifications for a mortgage.

Q: I have student loans that aren't in repayment yet. Should I show them as installment debts?

A: Yes, you must include all student loans.

Q: How will a past bankruptcy or foreclosure affect my ability to obtain a new mortgage?

A: If you've had a bankruptcy or foreclosure in the past, it may affect your ability to get a new mortgage. It is important that you've re-established an acceptable credit history with new loans or credit cards. Generally, a minimum of 2 years must have passed on a bankruptcy and 3 years on a foreclosure. However, other guidelines may apply.

Q: What exactly is an installment debt?

A: An installment debt is a loan that you make payments on, such as an auto loan, a student loan, or a debt consolidation loan. Do not include payments of other living expenses, such as insurance costs or medical bill payments.