Why Most People Get Denied For A Home Mortgage Loan

How to get approved for a mortgage

We all know it's tougher to get a home loan these days compared with just a few years ago. Banks tightened their credit standards dramatically during the credit crunch, and lenders now accept only 55% of all mortgage applications, according to the latest annual statistics from the Mortgage Bankers Association.

Overall lending by U.S. banks plunged by 7.4% in 2009, the sharpest decline since 1942, based on FDIC data. And so far in 2013, banks finally started to ease lending standards.

So if you're thinking about buying a house or refinancing your current home, it's time to arm yourself with information that will ensure you get a "Yes" from a lender.

Here are seven reasons people get turned down for a mortgage – along with some advice on how to overcome these obstacles.

1. **Can't properly document your income.** This may come as a shocker to many people – especially those who have worked so hard to get that super-high FICO score or to save a ton of cash. But having good credit isn't the be-all and end-all in the mortgage lending business. Neither does having a pile of greenbacks make you a shoe-in for a mortgage.
   "You can have an 800 FICO score and $1 million sitting in a bank account at some institution, but if you can't prove your income, and back it up with your tax records, we simply cannot do that loan."
   Other income-related issues that can trip up a mortgage application include: frequent job-hopping, gaps in employment, not having two years' consecutive employment in the same industry, or recently going from a salaried position to commission-based work, which makes it difficult to document your track record and true earnings history.
   "Credit still matters, of course, and you do need to have cash reserves." "But in this environment, we're getting back to basics and looking at all the factors – such as how much you're borrowing, the loan-to-value ratio on the loan, how leveraged you are, and whether or not your tax returns show that you can weather the storm if taxes go up or things go wrong with your home. So it's not only about your credit score or reserves."

2. **Lack strong "compensating factors".** If your application has some problem issue or you're on the borderline of qualifying, perhaps because your debt-to-income ratio is a bit high, "one way to strengthen your application is with compensating factors."
   A "compensating factor" is mortgage industry lingo for having some positive aspect in your mortgage application to offset other negatives. Compensating factors may include:

- Big down payment (more than 20%)
- Lower than normal loan-to-value ratio (less than 80%)
- Lots of cash reserves (12 months or more)
- High credit score (above 740)
- For borrowers without a pristine application, a lack of strong compensating factors could mean your application is dead in the water.

3. **Picked the wrong type of property.** There are some kinds of properties many lenders remain skittish about financing. Among them: second homes and investment properties. This doesn't mean funding isn't available for these buildings; only that they carry more stringent terms, like bigger down payments and more cash reserve requirements.
   Condos are another tricky area, especially those in new developments. As a buyer, you may think you're picking up a terrific bargain by getting in early on a condo that's currently under construction or in the early selling phase.
   But be forewarned: most banks won't lend money on condos unless 70% or more of the units have been sold. What's more, lenders won't issue mortgages on condos in complexes that aren't on the FHA's approved list of condos.

4. **Sandbagged by a know-nothing appraiser.** During the heyday of the 2004 to 2007 real estate boom, home values soared. Critics said shoddy, overly-optimistic appraisals were partly to blame. So as of May 1, 2009, a new Home Valuation Code of Conduct went into effect mandating, among other things, that home appraisers be selected at random.
   Industry experts say this new requirement is causing its own headaches for buyers and sellers – even very wealthy purchasers.
   Mortgage experts said homeowners seeking equity lines are also feeling the pain. In many cases for equity loans, all that's done is a "drive-by" appraisal, a passing inspection of the outside of someone's home. In other instances, even a drive-by appraisal isn't done. Instead, an appraisal is generated from someone's desk, based on information available online about local property values and sales.
   Such data can often be misleading because it includes short sales, foreclosures and homes that may not be truly comparable to the home in question.
   The solution here, observers said, is to make sure a physical appraisal of the property gets done – preferably by an experienced, local professional.

5. **Inexperienced loan officer or mortgage broker.** An experienced pro should be able to tell you how to quickly improve your debt-to-income ratio or what kind of loan makes best sense for your situation.
   Equally important: That person should be a whiz at navigating the electronic underwriting tools – such as Desktop Underwriter and Loan Prospector – that are used to spit out mortgage approvals. These automated underwriting services contain all the ever-changing guidelines and requirements imposed by Fannie Mae and Freddie Mac, the two government-sponsored entities to whom banks typically sell loans.

“Too many loan officers and brokers lack these skills. "I'll take 100 loans that Wells Fargo or Bank of America denied, I'll restructure them and then go back to the same banks, and I'll get 80% of them closed," "So it's often all about how a loan is structured and packaged."
As of 2010, mortgage brokers must now get licensed. Industry sources say only a small fraction of brokers have their licenses. Check out the experience and educational background of any mortgage professional, and see whether he or she is licensed.

6. **Picked the wrong bank – or just one bank.** "Another reason people get denied is that they just go to their current bank, which only has one set of loan programs." I have 22 banks on board, and I know everybody's (lending) guidelines. So if one bank won't do a certain loan, chances are another one will."

7. **Bushwhacked by new rules.** Let's say you find a condo project that's approved, and everything else is stellar on your loan application, that doesn't mean your mortgage is assured. "There are a lot of rules that govern conventional and government-backed loans, especially for condos.”
Because condos have historically had higher default rates, one new FHA rule is that the delinquencies on condo dues have to be less than 30%. Often, this information isn't known until after there's a ratified contract, and well into the mortgage process.

For these reasons and more, "purchasing or selling a condo has become very, very difficult and complicated.”