Staying Approved

Surviving the last minute credit check

Your actions after receiving lender approval for a mortgage loan can disqualify you for the loan. A mortgage loan is conditionally approved, with the lender reserving the right to re-verify credit, income, assets and employment at any time. The lender may cancel the loan if there are any adverse changes to your qualification status. Here are some tips to ensure that the last minute credit check goes smoothly.

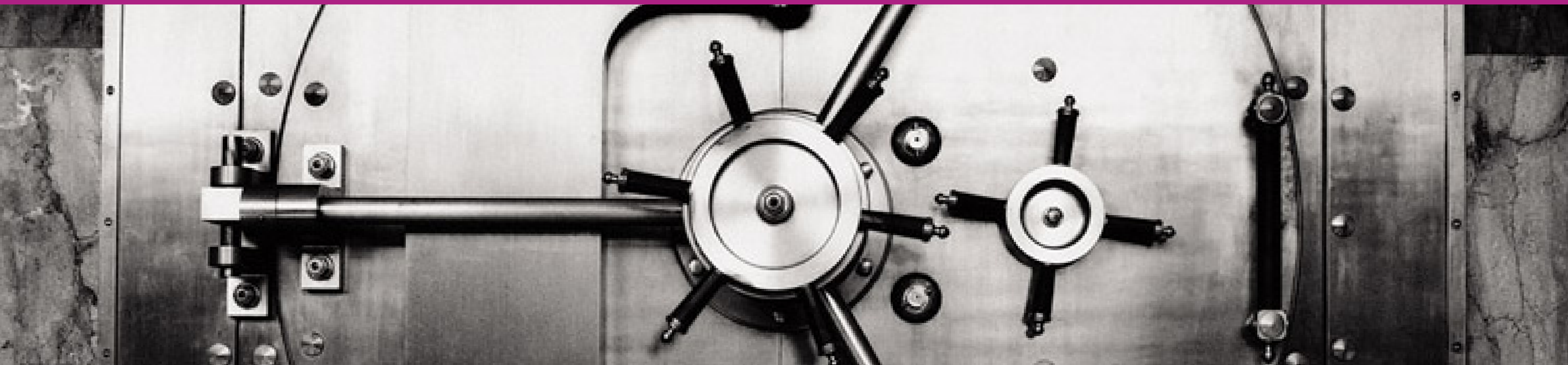
Debt-to-income ratio

Your debt-to-income ratio is your gross monthly income divided by the amount you spend on debt. Debt items include mortgage payments (including principal, interest, insurance, and tax), car payments, credit card payments, student loans, child support payments, etc.

The lender considers debt-to-income ratio when approving you for a mortgage loan. Only 28 percent of your income can be used for your mortgage payment, which includes taxes and insurance; and 36 percent for the mortgage payment plus the rest of your debt. Anything you do to negatively affect your debt-to-income ratio may change an “approval” to a “disqualification.”

A red flag is any inquiry made regarding your credit worthiness. If you decide to purchase a big ticket item - like a car, boat or furniture - prior to closing, you're at risk of having a red flag show up on your credit report.

Keep your money where it is



The balances of your liquid assets are considered when approving you for a mortgage loan. These liquid assets may include checking accounts, savings accounts, certificates of deposit, money market accounts, retirement accounts, stock and mutual funds.

Avoid changes to the balances of these accounts. Do not close accounts. Do not change banks. A large withdrawal or deposit to any of these accounts will trigger a red flag for your mortgage lender. If a red flag is triggered, you may be asked to produce a paper trail tracking large withdrawals and/or deposits.

For most employees a change of jobs to one of equal or higher pay will not trigger a red flag. However, sales people should not change jobs prior to closing on their mortgage loan. Remember to talk to your loan originator first if any changes in employment might occur.

Employment status

Salaried employees—If your income is strictly salary than you should not have a problem changing to another job of equal or greater income. If, however, your income includes salary and bonuses, commissions and/or overtime, you should not change jobs prior to closing.

Hourly employees—If your income is based solely on a 40-hour work week without overtime, than changing to a job with equal or greater hourly pay should not be a problem. However, if your income is dependent upon overtime pay, do not change jobs prior to closing.

Commissioned employees—If your income is from commission or a substantial portion of your income is from commission, then you should not change jobs prior to closing. Typically, mortgage lenders average your commissions over the last two year period to determine income. Changing employers eliminates the two-year commission history and places uncertainty on your income status.