Tip the Scales in Your Favor: To Ensure Loan Approval

Your lender will eventually sell the loan they advance to you – it’s pretty much a given. They will do everything they can to “check the boxes” prior to approving your loan in order to make sure that either Fannie Mae will buy your loan, or that FHA will insure against the loss of principal.

Let’s say you just squeaked by with a Debt-To-Income Ratio of 43% (maximum percentage allowed under a Qualified Mortgage). Or, maybe your credit score just barely meets the lender’s minimum 620 requirement. Perhaps your income reduced over last year, and you know that the average earnings to support your loan will be tight.

If the decision is too close to call, your loan will be declined – that’s just the way it is today. So here are some discretionary “Compensating Factors” that can help to persuade the underwriter to stamp “approved” on your loan application:

- Avoid “payment shock” – i.e., when your proposed monthly mortgage payments are more than the current rent you pay (make sure you can verify the last 12 cancelled rent checks)
- Maintain 2-3 credit cards paid “as agreed”, at balances that are well below your total authorized amount (and don’t cancel your unused credit cards – the older they are the better)
- Come up with more than the minimum down payment (and demonstrate how you have been able to comfortably save your money – evidencing that you are prudent with your finances)
- Don’t change jobs too much – unless your income improves (especially with commission earnings)

Here’s the Point: *Sometimes only one “Compensating Factor” will persuade the underwriter that you are a good credit risk – thereby improving your chances of getting loan approval.*

But I Want To Stay Debt Free!

Fine – but the big picture is important, so here are a few thoughts to consider:

1. Long-term fixed interest rates are not likely to be as attractive into your retirement (and if you are nearing retirement, your employment income goes away – potentially causing difficulties for you to obtain financing if needed in the future);
2. Mortgaging your to-be-acquired property allows you to maintain additional “just-in-case” liquidity (and can improve your credit score);
3. Over time your investment advisor should be able to comfortably achieve annual returns on your invested capital/retirement funds in excess of the annual interest charges on your mortgage (not to mention the tax benefit of the mortgage interest deduction);
4. With enhanced dividend/interest earnings from investing your liquidity now (as opposed to using it for purchasing a property), your debt-to-income ratios would better support borrowings in the future; and
5. Through a mortgage, you will continue to build real estate equity through principal amortization, and you can always select a lower LTV or faster amortization period (i.e., fixed monthly payments over 10 years instead of 30 years, at an even more attractive interest rate).

Here’s the Point: Given today’s favorable interest rates, taking out a prudent mortgage that suitably meets your needs (instead of paying cash) is a sound economic decision, at any socio-economic level. I have seen all too often people regretting after the fact that they did not put a low-cost mortgage in place – and then it was too late.