MORTGAGE LOAN GUIDANCE FOR SPECIAL CIRCUMSTANCES

MAKING MORTGAGE APPLICATIONS EASIER
FOR THOSE WITH ATYPICAL FINANCES

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WHAT ARE SPECIAL CIRCUMSTANCES?

Buying a home is no easy task. There are piles of paperwork to fill out, finances to get in order, mortgage lenders to call, realtors to wrangle and the actual house itself to find. While it is a difficult process for all, it can be even more difficult for others, especially for those who have to take extra steps to get a home loan.

These home-buying hopefuls usually have to take extra steps due to their financial circumstances. When applying for a mortgage, lenders scrutinize the applicant's financial background. They want to ensure that the money they lend to the borrower will be paid back on time and regularly. There are also circumstances when a borrower's financial circumstance changes while paying a mortgage, and that change can greatly affect how you pay that mortgage.

The purpose of this ebook is to take a look at a few "special circumstances" that affect mortgages and offer guidance on how to more effectively apply for or handle a mortgage when these circumstances occur. Here are the circumstances this book will focus on:

- Self-employed home loan applicants
- Newly employed home loan applicants
- Mortgage owners going through a divorce
- Home loan applicants with a record of foreclosure or bankruptcy

So if you find yourself in one of these circumstances and you are trying to apply or pay off a mortgage, this ebook is just for you. The first thing you should be aware of when applying for a mortgage, lenders might require borrowers you to pay higher interest rates to help mitigate their risk. So you should be prepared to pay higher rates than the typical borrower. Here are some pointers on how to prepare...

SELF-EMPLOYED HOME LOAN APPLICANTS

When applying for a home loan, you have to prove that your money is coming from a viable, reliable source. For workers who are self-employed, this can be more difficult than someone who can produce a paycheck with their employer's signature. Most mortgage lenders will require you to show that you are gainfully employed, and they will also want to know what your net income is compared to business expenses. Self-employed borrowers are required to **show a profit-and-loss statement and documented IRS tax returns from the past two years**.

This demands that a business owner keep accurate records of legitimate business income and expenses and have his or her taxes professionally prepared. Your lender will want to be assured that if your business slows down for a period of time, your business is financially sound enough to make your mortgage payments on time, every time.

NEWLY EMPLOYED HOME LOAN APPLICANTS

A two-year history of steady employment history is typically what lenders look for, along with a steady or increasing income to ensure their applicants are able to pay back the amount of the mortgage loan. Switching jobs right before or after submitting a loan application may make it more difficult for you to qualify. Changing jobs within the same industry for the same or better pay may help. If you are planning to take a new job — particularly in a different field or industry — it's best to wait until after your mortgage has closed.

Your job and salary are important factors because most lenders require that your mortgage payment be **no more than 28-36 percent of your gross monthly income**. The mortgage payment plus other debt should **not total more than 36-45 percent** of your gross monthly income.

For applicants who have recently found a new job following a long period of unemployment, the first step the lender will want to take is to ensure that the applicant has employment stability. To qualify for a mortgage, newly employed applicants usually need to have six months of steady employment. To further increase chances of qualification, it would be wise to have a substantial savings account set up and maintain an average credit score.

MORTGAGE OWNERS GOING THROUGH A DIVORCE

What happens to a mortgage during a divorce? Who has to pay off the mortgage? How does it affect both parties' financial situations? Can both parties still pay off the mortgage together?

The separating spouses have a few options to choose from to help make decisions on what happens with the mortgage. The main option is for one spouse to take the mortgage, but this often means the spouse also gets the house. However, it is important to note that if during the marriage both spouses signed the mortgage documents, they are both held responsible for paying the mortgage. So the mortgage-less spouse is still held liable if the loan is not paid on time. To remove one spouse's liability from the loan, the property needs to be sold or transferred/deeded, or the mortgage can be refinanced under a new name. Here are the details:

- **Quitclaim Deed:** This document transfers any interest in a property from one person to another. This is how a spouse transfers full home ownership to another, however this is just for transferring the rights and deed to the house, not removing of the unwanted liability.
- **Sell the Property:** This is perhaps the easiest way to get both spouses' names off the mortgage. Use the house sale to pay off the mortgage and that way, there is no question over who has to pay it.
- **Refinance:** One spouse can refinance the mortgage under just his or her name, thereby completely removing the other spouse from the mortgage and potentially saving more money through the refinance.
- **Mortgage Assumption:** This tactic is not used very often because not all mortgages are assumable; meaning one person who signed the mortgage documents with someone else takes full responsibility of the mortgage. Whether or not the mortgage is assumable is based on your lender. Lenders are sometimes hesitant about mortgage assumption since it means re-qualifying for the mortgage. If one spouse wishes to assume the mortgage, that spouse must prove he or she is financially stable enough to handle the mortgage entirely.

HOME LOAN APPLICANTS WITH A RECORD OF FORECLOSURE OR BANKRUPTCY

Mortgage foreclosures and Chapter 13 bankruptcy events are recorded in the borrower's credit file and remain there for an extended period of time: seven years for foreclosures and Chapter 13 bankruptcy, 10 years for Chapter 7 bankruptcy.

Qualifying for a home loan can be difficult with one of these events on your record, but possible after a period of time with a good credit history and steady employment record.

A two-year waiting period is usually required for homebuyers who completed a Chapter 13 bankruptcy who now have a squeaky-clean credit history, and want to get a new loan insured by the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs.

A four-year waiting period is the norm for a Chapter 7 bankruptcy, and a three year wait after a foreclosure.

CONCLUSION

Is it more difficult for people with special circumstances to qualify for a home mortgage? You bet it is, but it's not impossible. It means preparation, solid record keeping and tax filing, and taking the time to prepare and show proof of required documents.

Our mortgage lenders will be happy to assist you in figuring out whether you are financially ready to buy a new home. Research is the most important key to helping you figure out your mortgage application. Not only do you need to research your own finances, you need to know about the process inside and out. To help you, we have several free resources to keep you up to date. **We have ebooks on how to start the homebuying process and how to refinance your mortgage**. We also have a blog with consistent and current information, a newsletter to update you on current mortgage rates and an easy, online home loan prequalification process.

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So if you have any questions, feel free to contact the mortgage lender near you and visit our website at **www.blrmortgage.com** to see if you prequalify.

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