Debt Management

Understanding The Underwriting Process

Qualifying For A Mortgage

Whether you're looking for a first mortgage on a new home or a refinance on an existing loan, the interest rate you are offered will be based on the same factors: your income compared to your mortgage payment, the value of your property compared to the liabilities placed on it, and your credit report. The "Processing" of your loan is the preparation of all relative documents to verify, prove and package all information pertinent to these factors.

There are strict requirements in qualifying for "Conforming A" loans, loans with the best rates currently available. Those who do not meet these requirements have a great many options available to them in qualifying for "Non-Conforming A" mortgages or Sub-Prime mortgages, at rates somewhat higher than Conforming rates.

"A" vs. Sub-Prime First Mortgages

The best rates are available to low risk borrowers -- the Conforming A loan borrowers. Generally speaking, requirements for Conforming A loans include credit scores in excess of 620 points, income ratios between 28% and 40%, and loan to value ratios below 95% on new home purchases and no-cash-out refinances and below 80% on cash-out refinances.

The next bracket of borrowers are the Non-Conforming A loans. These are borrowers with good credit and loan to value ratios but whose income is either insufficient to accommodate a Conforming loan or is not easily verified. These loans are ideal for self employed individuals whose income is variable or difficult to verify.

For those who have credit difficulties there are dozens of levels of credit rated from A- down to C-, known as Sub-Prime mortgages. Rates on Sub-Prime mortgages vary widely based on the borrower's individual credit scores, number of late payments in the last two years, loan to value ratio, etc.

When Is A Second Mortgage Appropriate

A Second Mortgage is a loan made to you in exchange for a lien against your property. This lien is subordinate to whomever holds your first mortgage -- in the event of a default, the first lien holder must be repaid in full before subsequent lien holders are repaid. This makes the Second Mortgage a significantly more risky investment for the lending institution, and this risk is reflected in a higher interest rate.

Second Mortgages are not associated with the purchase of a new home, but rather are often taken out simultaneously with a refinanced first mortgage or independently of any other mortgages. The main reason for taking out a second mortgage is to take equity from your home and turn it into cash in pocket. This cash is often used to consolidate higher interest rate loans, pay late bills, pay taxes, etc.

Mortgage Insurance

Mortgage Insurance (MI) is a monthly payment added to your mortgage used to establish a pool of funds to indemnify lenders against default on first mortgages with "high" loan-to-value ratios. Generally speaking, any first mortgage with a loan-to-value ratio in excess of 80% requires mortgage insurance. When refinancing a first mortgage the same 80% ratio applies, unless cash is being taken out as well -- in such cases mortgage insurance is required for first mortgages with loan to-value ratios in excess of 75%. The cost of mortgage insurance increases as loan-to-value increases, the less equity one holds in their home the greater the mortgage insurance payment.