



PREPARING FOR A HOME LOAN

HOW TO MEET LENDER'S EXPECTATIONS

RICHMOND, Va. (Feb. 13, 2003) – Sometimes it's enough to send you over the edge. Banks rifling through your income statements. Lenders scrutinizing your credit history. Since when did qualifying for a home loan start feeling like an interrogation?

Relax, housing industry experts advise, it's all part of the normal process.

"The loan approval process can be daunting, especially considering all the information lenders require, so it's important to know what to expect so you can provide all the necessary information," says Anne Gwaltney, manager of VHDA's Homeownership Education Program. "Gathering all that information is just part of the process."

The main reason lenders analyze applicants' financial information is to help homebuyers determine what price home they can afford and their ability to handle the financial responsibility of homeownership. Being prepared for this process can ease the stress of a financial history review.

"If people are educated about what lenders expect and why, it makes the process not so intrusive, and the relationship between the lender and the applicant can be cooperative instead of adversarial," says Gwaltney.

Gwaltney tells potential borrowers to expect lenders to review at least these primary aspects of their personal finances:

Income. Lenders figure income as a central component of the approval process as they must determine whether applicants receive sufficient income to make regular mortgage payments. To ensure the stability of your income, the lender will verify that you have maintained stable employment for two years as well as the likelihood that you will continue receiving income regularly.

Credit history. Just as importantly, lenders will review your credit report – usually the most recent 12-month history – to determine your record of repaying debt. Lenders view this history as an indicator of the way you may handle future financial obligations. If you have paid past debt on time, it is likely he or she will be able to handle the financial responsibility of a mortgage.

Even applicants with prior credit difficulties are often still eligible for a loan.

“Lenders consider the circumstances surrounding the problems, how long ago the credit difficulties occurred and if you have paid your obligations on time since the credit problems,” Gwaltney says.

Gwaltney advises homebuyers to request a copy of their credit report from their local credit bureau in advance of the application. If they find credit information reported in error, homebuyers can file a dispute form with the credit bureau to initiate an investigation.

Checking and savings accounts. Lenders review checking and savings accounts for savings patterns and indicators of how a homebuyer has handled his or her accounts. Checking account overdrafts, for example, may indicate a difficulty in handling current expenses.

Lenders also need to know if sufficient funds are available to pay the required closing costs. If the lender finds that you have saved enough money for closing costs,

he will consider this an indication of your ability to afford the house, as well as your commitment to homeownership.

Property. Because the property will serve as a security for the loan, the lender will consider the value of the home being purchased in order to ensure the property is worth at least as much or more than the loan. At your expense, the lender will arrange an appraisal to assess the property's value.

"It's important to get educated about all of these things before going to see a lender so that you can talk confidently about any issues that might come up during the approval process," Gwaltney says.

To learn more about the loan approval process or VHDA's free statewide Homeownership Education Program, call 1-888-643-2696 or visit www.vhda.com/edu.

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