What Factors Affect Mortgage Approval?

Before you look at homes, it's always a good idea to get pre-approved for a mortgage. This way you know how much you can afford and what your mortgage payment will be. Before you get pre-approved, though, it's important to know what factors affect mortgage approval.

Here are the top factors.

Credit Scores

Your credit score is the first thing lenders look at when deciding if you qualify for a loan. It doesn't need to be perfect, but the higher your credit score is, the higher your chances of approval become.

Ideally, you should have a credit score of 700 or higher, but if it's not, aim for at least a 660-credit score.

Credit History

Your credit history is just as important as your credit score. It shows lenders how you handle your finances. To increase your chances of mortgage approval, make sure your credit report doesn't show any:

- Payments over 30 days past due
- Collections
- Judgments
- Credit cards with over 30% of the credit line outstanding
- Too many inquiries

Debt-to-Income Ratio

Your debt-to-income ratio shows lenders how much of your income is spoken for already. This includes the new mortgage you applied for too.

The higher your DTI is, the lower your chances of approval become. Ideally, your debt-to-income ratio should be 43% or less. You can calculate your DTI by totaling up your monthly debts (car loans, personal loans, student loans, minimum credit card payments, and new mortgage PITI) and divide it by your gross monthly income (income before taxes).

If it's higher than 43%, see what debts you can pay off to lower your DTI.

Employment History

Most lenders want to see a 2-year employment history. This means two years at the same job with a stable income. If you changed jobs within the last 2 years, but it was within the same industry and it was to make more money or take a better position, you may still be in good standing.

Try avoiding changing jobs and/or industries leading up to a mortgage application to improve your chances of mortgage approval.

Money for a Down Payment

Most loan programs require a down payment. It doesn't have to be 20% or even 10%, you can get by with 3% - 3.5% down today, but you'll need to prove you have the funds. Lenders look at your bank statements to ensure the money belongs to you and that it's yours to spend.

You'll also need money for closing costs which can be 2% - 5% of the loan amount depending on your lender and the qualifying factors.

Final Thoughts

It's not as hard as it seems to get a mortgage approval, but you should take the time to prepare yourself for the application. The better your qualifying factors are when you apply, the higher your chances of approval become. Also, with higher credit scores, lower debt ratios, and enough money saved for a down payment, you could get more attractive terms and interest rates on your mortgage.