



## **What you need to know about applying for a mortgage**

### **What Is a Mortgage Application?**

A mortgage application is a document submitted by one or more individuals applying for a mortgage to purchase real estate. The mortgage application is extensive and contains information including the property being considered for purchase, the borrower's financial situation, as well as employment history. Lenders and banks use the information contained in the mortgage application to determine whether or not to approve the loan.

### **Before the Mortgage Application**

The mortgage application is just one step in the loan application process. However, borrowers need to first assess their finances. Most financial planners recommend a family's housing expenses not exceed 35 percent of their pretax income. So for example, if you and your spouse earn a combined \$85,000 a year, your housing expenses should not exceed \$2,480 a month. Housing expenses include not just the potential mortgage payment but also the home insurance, property taxes, and condo fees if applicable.

The bank will also charge for private mortgage insurance (PMI) if the borrower puts a downpayment for less than 20% of the purchase price of the home. PMI protects the lender in case the borrower can't pay off the loan.

As a result, it's important to consider the size of your down payment. A smaller down payment will lead to a larger monthly mortgage payment. Conversely, if the borrower puts a 20% downpayment, the monthly payment is less, plus there would be no monthly PMI payment. Conventional mortgages generally require a minimum of 5 percent while FHA mortgages ask for 3.5 percent; VA mortgages often require nothing down.

The next step is to approach a lender for pre-qualification, which includes a credit check that helps the lender assess how much to lend you. Once you have your pre-qualification letter, it allows you to start shopping for homes.

### **The Mortgage Application Details**

Once you are under contract to buy a specific property, your lender will initiate the mortgage application. The mortgage application asks for a significant amount of information, so it's best to gather all of your financial details prior to applying.

Although there are several versions of mortgage applications that are used by lenders, one of the most common is the 1003 mortgage application form, which is a standardized form used by the majority of lenders in the U.S. The 1003 loan application is a form from Fannie Mae or the Federal National Mortgage Association. Fannie Mae, along with Freddie Mac, the Federal Home Loan Mortgage Corp., are lending enterprises created by Congress that purchase and guarantee mortgages.

The organizations help to reduce the risk to lenders when making mortgage loans. Also, Fannie Mae buys mortgages from banks and resells them as investments. Since banks have limits as to how much of their total deposits they can lend out, the process of Fannie Mae buying mortgages helps banks by freeing up their balance sheets—allowing them to make additional loans.

The information required on a typical mortgage application includes the following:

#### **Borrower's Information**

- Borrower's address, marital status, dependents
- The type of credit being applied for, meaning whether it's a joint or individual application
- Social security number and date of birth
- Current employer and address as well as employment income
- Supporting documents, such as bank statements and pay stubs, are often submitted along with the application. If you're self-employed, you may need to produce two years of tax returns to demonstrate proof of income.

#### **Financial Information**

This section asks for your assets or anything that you own that has financial value as well as your debts and liabilities.

- Assets such as bank accounts, retirement accounts, certificates of deposits, savings accounts, brokerage accounts for stocks or bonds
- Liabilities include revolving credit such as credit cards, or store charge cards, installment loans such as student, car, and personal loans
- Any real estate owned and its estimated value or rental income, if applicable
- Mortgage Loan and Property
- This section is about the home you're looking to purchase and all of its details.

#### **Address of the property**

The loan amount, the type of loan such as a purchase or refinance

List any rental income from the property, if you were buying the home as an investment with the goal of renting it out.

#### **Declarations**

This section involves a series of questions to determine your intent or how you want to use the property as well as your chance to disclose any other legal or financial matters not included in the application.

- Will the home be your primary residence or second home
- Are there any judgements, lawsuits, or liens against you
- Any past foreclosures or whether you are a guarantor for another loan

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