SAMPLE #4

How Employment Affects Your Mortgage

Medium: Blog
Audience: First Time Home Buyers

Strong credit score? *Check*.
Ample down payment? *Chec*k.
Employed? *Check. Or is it?*

When a lender is evaluating your application, many people think that merely having a job automatically gives you the green light toward approval. However, certain jobs have unique challenges that may have an impact on your ability to qualify for a loan.

First, why is employment so important in the mortgage process?
When a company is lending money, they want to make sure they are placing a borrower in the best position possible to repay the loan. Because if a buyer is stretched too thin due to a mortgage payment, both the buyer and the lender are set up for failure – and no one wants that! Good lenders complete their due diligence checks, checking several aspects specific to employment, including the employment type, length of service, and pay structure, among other items.

Employment Type
If you're a full-time, salaried employee, you're probably going to look great to lenders. It shows that you have a predictable pay schedule and will likely be in your role for the foreseeable future. But does this mean that anyone who is not full-time is automatically denied? Of course not! But, any employment type other than a full-time, salaried employee may warrant additional scrutiny from an underwriter.

+ Part Time – If you are a part time employee, lenders may be concerned that the number of hours you work may not be sufficient to cover the costs associated with home ownership.
+ Contract – If you are a contractor whose work continues to be extended, you may be in good shape. However, if your role is a temporary one with an end date in the near future (with no plans to extend it), it may indicate to a lender that you will have trouble paying making mortgage payments down the road.
+ Self-Employed – In many instances, self-employed individuals do not use the traditional tax forms or have unique deductions. In these circumstances, additional documentation would be requested in order to review a self-employed applicant's financial situation.

Length of Service
Lenders will also review your length of service – both at your company and in your role – when evaluating your application. While the trend of spending your entire career at one company has shifted, it is still important that you aren't unpredictable if you want to get approved for a mortgage.

+ Gaps in employment – Some gaps in employment, like taking maternity leave or pursuing additional educational credentials, aren't detrimental, but if you are consistently unemployed for extended periods of time, it could prove difficult to get qualified for a mortgage.
+ Job hopping – Stability is key, so if you are frequently changing jobs, it could be interpreted as unpredictability, which can be a turn off to lenders.
+ Promotion – A promotion is generally a good sign for you, but if the jump is too significant, it may raise a red flag and prompt follow up questions from an underwriter.
+ New job in same field – Lateral moves within the same industry are typically fine, however, if you take a pay cut within the same industry, you will likely need to provide additional context and explanations to a lender.

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(CONT'D)

+ New job in new field – If you get a new job in a new field, you will likely have trouble getting qualified until you have had a chance to prove yourself in your new role and ensure future stability.

Pay Structure

During your application process, you'll want to reveal all of your sources of income; that is, your salary, any bonuses, and your commissions, if applicable. Be aware that not all funds are created equally! Depending on amounts and frequency, income from bonuses and commissions may not calculated in your overall income, which could affect the total amount you're approved for. If you receive a large portion of these types of payments, you will likely be asked to submit additional documentation.

If you foresee your employment situation shifting during the application process, it may be best to hold off on your purchase until you're stable so that it doesn't raise any red flags. If the change is inevitable, chat with your loan officer to see what can be done to minimize the impact of the change.

+ Larger down payment – If you can put more money down, it will reduce the amount of money that you need to borrow, which could prove more favorable for you.
+ Additional documentation – Be thorough when asked for documentation related to your employment. If you receive commissions, start early and request several years' worth of paystubs and statements. If you will be moving into a new role, obtain your offer letter and any supplementary documentation from your HR department.
+ Relocation from job – If you are moving for work, check to see if your relocation package will assist with home rental (to allow you to get settled before buying a home) or contribute towards purchasing a home when you arrive.

Every situation is unique, and as long as you are honest and open with your Loan Officer up front, they can work with you to figure out the best solution for your financial goals.