



MAY 14, 2020 BY DIVVYHOMES

What Does It Take to Qualify for a Mortgage? And Is It Getting Harder with COVID-19?

In this post, we examine the changes to the mortgage industry that have taken place since the global pandemic began earlier this year and explain what steps you'll need to take to get approved for a mortgage in 2020.

It's always been a bit complicated to get approved for a mortgage. First you have to provide a lot of documents, then you have to meet a lender's strict criteria, and finally you have to show you can afford the home you're trying to purchase.

The COVID-19 pandemic and resulting economic shocks have now made it even harder to get approved for a mortgage. Below, we explain the typical mortgage process and show what it takes to qualify for a mortgage in our new 2020 reality.

Traditional mortgage approval

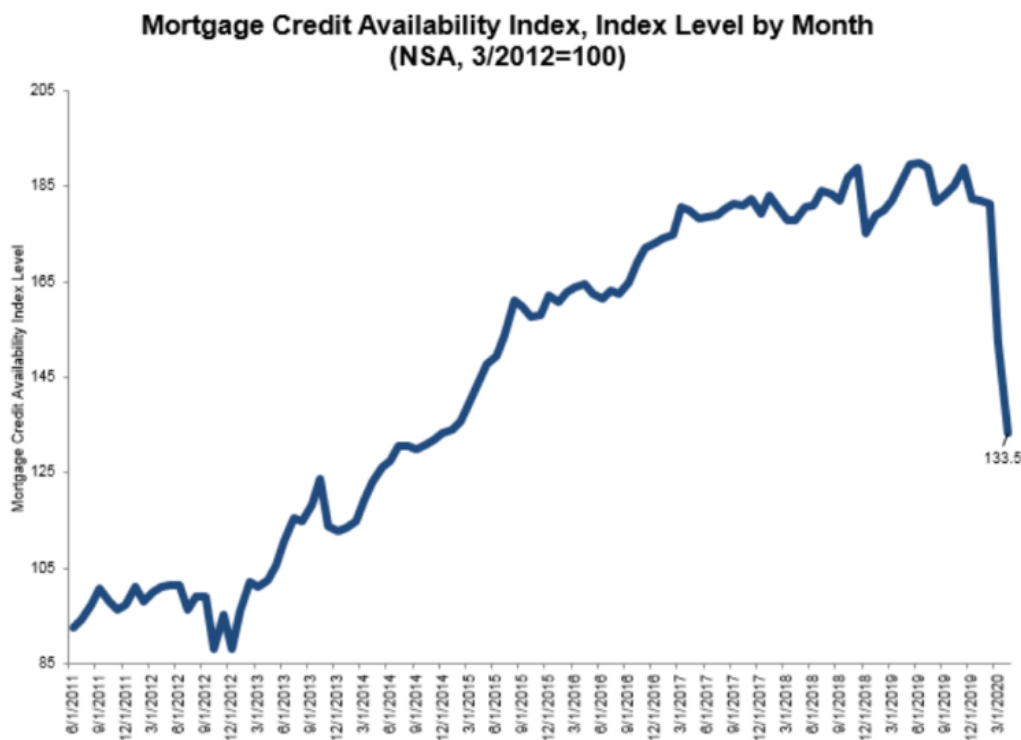
In the pre-pandemic world, a traditional mortgage approval would require you to meet the following criteria:

- **Credit score:** For a conventional mortgage, you would typically need a credit score of at least 620 to get approved by most lenders. For the best interest rates, you would need a credit score in the high 700s or low 800s.
- **Income:** Your income must be high enough to comfortably pay your mortgage every month. Lenders calculate this along with your debt (see below).
- **Debt:** To help determine whether you'll be able to make your mortgage payments, lenders use a simple calculation called debt-to-income (DTI) ratio. It is calculated by dividing your monthly debt payments (such as credit cards or auto loans) by your monthly income. If your DTI is higher than 36% it will be more difficult to get approved.
- **Down Payment:** Finally, you'll need money saved up for the down payment. Some buyers put down 20% but only 5% is typically required to get approved for a conventional mortgage.

We should also note that FHA loans, which are insured by the Federal Housing Administration, have lower requirements for borrowers. To get an FHA loan, you either need a credit score of at least 500 and a down payment of 10% or a credit score of 580 and a down payment of 3.5%.

Mortgage approval in the COVID-19 era

When the COVID-19 virus became a global pandemic in March of this year, it sent shockwaves through the economy and caused upheaval in the mortgage industry. There are a few reasons for this. **First**, people were not able to buy and sell homes because they did not want to be exposed to the virus or because they were ordered by local officials to shelter in place. So home-buying transactions practically ceased. **Second**, in response to the pandemic, the Federal Reserve lowered its benchmark interest rate which made mortgage rates drop lower, at least temporarily. **Third**, as millions of people across the country began losing their jobs, lenders began to worry that mortgages might be defaulted on, which has caused them to re-evaluate, and in many cases, tighten their standards for approval. This has led to an unprecedented drop in mortgage credit availability, as seen in the graph below:



Source: Mortgage Bankers Association via [HousingWire](#)

How lenders are changing their criteria

The changes to mortgage approval may be frustrating for some borrowers, but they don't necessarily mean you can't get approved in 2020. Below, we look at the main ways that approval criteria are changing in the COVID-19 era:

Credit score

Some lenders have publicly announced that they are raising credit score requirements during the pandemic. For example, **Chase** has said they will only approve borrowers with a credit score of at least 700 during this time, according to [Bloomberg News](#). Meanwhile, **Wells Fargo** and **US Bank** have said borrowers will now need a credit score of at least 680 to get approved for their mortgage products, per [Bankrate](#). Another national mortgage lender, **Guaranteed Rate**, told the [Seattle Times](#) that they've raised their minimum credit score to 640.

For those home-buyers looking for an FHA loan, credit score requirements have also become more stringent. The real estate news site [HousingWire](#) conducted an investigation and found that many lenders across the country have raised their minimum FICO scores as high as 660 for FHA loans, making it a lot harder to qualify.

Down payment

Saving up for a down payment can be the longest, hardest part of buying a home. That is not expected to change, as many lenders are now requiring even more money for the down payment. **Chase** announced they are asking all new mortgage applicants to put down 20% of the home's value. Before the pandemic they were offering mortgages to those with just a 3.5% down payment.

Other lenders are expected to follow suit, although details on their exact policy changes have been scarce so far.

Income verification documents

A recent [report from CNBC](#) indicates that both Fannie Mae and Freddie Mac (the government-sponsored enterprises that back many consumer mortgages) have changed their requirements for income verification. Previously, the documents proving a borrower's income would need to be dated no more than 120 days prior to the application date. Now, the window is just 60 days.

For self-employed people, the window has shrunk even more drastically. The documents verifying the existence and finances of your business must be dated no more than 10-15 days prior to the application date, depending on your lender.

Employment verification

Because so many people have lost their jobs since the onset of the pandemic (33 million to be exact), lenders are taking extraordinary steps to ensure their borrowers are still employed whenever the loan closes. For example, United Wholesale Mortgage, one of the largest mortgage lenders in the U.S., has added a new requirement that every borrower's employment status needs to be verified ***on the scheduled closing date***. This is highly unusual in normal times but it is proof that these lenders are now in a very risk-averse mindset.

Regarding these new employment verifications, the CEO of United Wholesale Mortgage told HousingWire, "We're doing them again right before closing to make sure that people still have jobs, because people are losing jobs at such an alarming rate right now." He predicts other lenders will institute similar policies in the near future.

Self-employed borrowers

Some lenders are instituting brand new requirements for self-employed borrowers designed to help them identify risk in cases where the borrower's business has been closed or compromised due to the pandemic. For example, Caliber Home Loans, a national mortgage lender, is now asking their self-employed borrowers to provide a written statement that their business is open and operational and that COVID-19 will not have a material impact on their finances.

Non-QM or unorthodox buyers

Non-QM refers to borrowers who don't fit into the typical mortgage approval box. In other words, their credit score, down payment, income, or employment situation is atypical in some way. These mortgages have been significantly affected by the pandemic, as some journalists are reporting that non-QM lending all but stopped for a brief period in April.

"There was a reduction in the availability of loans with lower credit scores and higher LTV ratios, and the largest pullback came from the jumbo and non-QM space," Joel Kan of the Mortgage Bankers Association told HousingWire. MBA associate vice president of economic

and industry forecasting. Thankfully, HousingWire is reporting that the non-QM lenders are beginning to approve borrowers again in early May.

Documents needed for mortgage approval

If you are preparing to apply for a mortgage and buy a home in 2020, things might be a little harder. But you can definitely still be successful — especially if you are prepared. Below is a list of documents you should have on hand whenever you apply for a mortgage, given the new criteria from lenders:

- Your two most recent pay stubs
- W-2s for the last two years
- Bank statements (showing the last 60 days of activity)
- Federal tax returns for the last two years
- Proof of additional income (such as alimony or rental properties)
- Investment and retirement account statements (stocks, mutual funds, pensions, etc.)
- Social Security or disability income award letters, if applicable
- Gift letter (if any portion of your down payment is coming from a donor gift)

Also, keep in mind that your lender will look closely at your account history to see where any deposits have come from. If you've received a large amount of money unexpectedly, your lender will need to find out who sent it to you and why. Some borrowers are surprised to learn that there are strict rules around "gift money" — extra cash that someone has given you to buy a home. So be prepared to disclose and account for any such gifts from family or friends.

Self-employed mortgage documents

If you are self-employed, there are a few extra documents that you will need to provide your lender. See below:

- 1099 forms (if you're self-employed or commissioned)
- Two years of business tax returns (including schedules K-1, 1120, 1120S)
- Business license.

- Year-to-date profit and loss statement.
- Balance sheet.
- Signed CPA letter stating you are still in business.

As mentioned above, this is a difficult time for self-employed borrowers to buy a home, so you'll want to be extra prepared when you apply for a mortgage. By providing the right documentation, you will have a better chance of getting your loan and moving into your new home.

If you don't think you're quite ready for a mortgage at this time, you should consider [Divvy](#), which is a bridge to homeownership for people who are not ready to buy a home. With Divvy's program, you choose the home, and Divvy buys it for you (yes, really!). Then, you live in the home while you rent for up to 3 years, with a portion of every payment going towards your future down payment. You can buy the home at any time and use your savings for your down payment. Divvy keeps things flexible for your changing life.

If that sounds interesting, reach out to us at [DivvyHomes.com](https://divvyhomes.com).

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