9 Key Things to Avoid after Applying for a Mortgage, Part II

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The final article in this two-part series will look at the last four key things to avoid after applying for a mortgage. We've seen how simple things like not paying off all debt, and opening new accounts or closing old credit cards, can hurt your loan application. Here are the next key things to look out for.

6. Pay off All Outstanding Debt and Balances

One of the few times not paying off all your debt works against you, is while you're buying a home. Doing so after submitting a loan application reduces your cash reserves. If that's not the case, lenders will still want to know where the money is coming from and request proof.

Remember, you should have already disclosed all your financial dealings with the application, from bank accounts, 401(K) and investment accounts, to alimony payments, income, and other properties. If you now use funds from undisclosed sources, it would not go over well with lenders.

7. Quit Your Job or Change Careers

Quitting a job now will severely alter the trajectory of your home purchase. Lenders want to see employment stability and a steady income to confirm your ability to afford the loan. Even if you're about to change jobs for a better-paying one, talk to your lender first. They will also ask for a couple of current paycheck stubs to close on the loan, and changing jobs will slow things down considerably.

8. Suddenly File for Divorce or Get Hitched

One issue with changing your marital status is the affordability factor. In a divorce, your purchasing power decreases to a one-income family, which increases your DTI. Typically, lenders prefer your total monthly debt, including the new mortgage, be no more than 43 percent of your monthly gross (it can be slightly higher in certain circumstances). However, if you must now pay alimony or child support, it may put you past this ratio.

If you are the one receiving such payments and are using it as an income source, lenders want to see who is financially responsible and how long payments will continue. They are looking for history and consistency when it comes to revenue streams.

If you are now just getting married, your spouse's credit score and debts may hurt your loan chances, especially since lenders choose the lowest middle score between you to determine eligibility. You may apply for a mortgage without your new spouse if your income and DTI meet lending criteria.

9. Stray from a Good Budget or Financial Plan

If you don't already have one, consider creating a budget and stick to it, at least until your new home closes. A sound budget shows where and how you spend and is a great tool for tracking expenses. Even the financial strategy you used while saving for a down payment will help. Being frugal now is essential for multiple reasons.

Lenders request your banking statements and will question excessive spending habits. You may also need funds to make necessary repairs or upgrades after purchase, or to buy appliances and home furnishings. More importantly, you may need additional revenue to cover closing costs.

Closing Costs and How Much to Expect When Saving for Them

As with most states, mortgage closing costs depends on several factors. Closing costs fees are the sum you owe for the home purchase and is due on the final day. It's generally between 2 and 5 percent of the purchase price. Fees include application and credit reports, the loan origination fee of 1 percent of your mortgage, insurance, escrow payments, and administrative costs.

Buyer and seller may agree to split expenses and sometimes as an incentive, the seller will concede to paying a percentage of the closing costs. In many instances, the seller will pay real estate commissions, the one-year home warranty, and the title insurance policy. They also usually pay pro-rated property taxes, any applicable homeowner's fees, and outstanding utilities.

Lenders are required to provide you with a list of expenses at least three days before closing. Still, you may not know the total until closing day. Also, be prepared to cover last-minute costs not included in the settlement. It's best to speak with your lender about how much to expect when saving for closing costs, as it can make all the difference.

Preventing Mortgage Blunders Now Made Easy

We have seen how large purchases, new loans, and job changes can impact the overall process. Buying a home can have drawbacks, but it is something that can last a lifetime and worth the hiccups that comes with buying. The good news is, you're now able to identify nine common blunders buyers make after applying for a mortgage and know how to avoid them.