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

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Buying a home is one of the biggest and most important purchase you will ever make, and along with it comes the largest voluntary debt you'll probably incur in your lifetime. So how do you know what to avoid after applying for a mortgage?

What You Should Know about Mortgages in General

First, congratulations on finding your dream home and taking the first step toward homeownership. Your situation determines what happens after your application is submitted. Issues that affect how quickly loans process include the time of year, the lender's workload, lack of experienced underwriters and staff, not having the right paperwork, financing, and the loan type.

There are, however, aspects of the process that you can control and things to avoid after applying for a mortgage. The impact that preparation, organization, and knowledge can have on your home purchasing goals are tremendous – beginning with selecting the right type of loan, terms, and rates.

What Are the Main Benefits of a Mortgage?

As with most buyers, mortgage benefits allow homeowners like you to spread out repayments, making it a more affordable option than paying cash. You may pay back more than you originally applied for, but it's a more cost-effective way to borrow.

Interest rates are also lower on mortgages because loans are secured against your property. Additionally, home improvements increase the value of your investment, even as mortgage payment remains the same, notably with fixed-rate loans. You're also building equity, and if you itemize on taxes, you may deduct the mortgage interest you paid during the tax year.

Practical Tips to Know after Applying for a Home Loan

At this point, you are probably wondering what comes next and what you should not be doing, even how much to expect when saving for closing costs. Well, worry no more. Here are nine practical tips you should know about after submitting a mortgage application.

1. Don't Be Late Paying Current Debt

From this point on, continue to pay all your creditors on time. Late payments mean late fees, which may lower your FICO score, and that's the last thing you want.

The factors that build your credit profile include hard inquiries, the number of accounts you have, their age, usage, payment history, and any derogatory comments, such as late payments and delinquencies. Underwriting looks at all of this when assessing your application, and not keeping up with payments can put a damper on securing a loan.

2. Hide Red Flags and Discrepancies from Underwriters

Hopefully, you've already checked your credit report and took the necessary steps to raise your scores, which secures a better rate. However, if there continues to be discrepancies on your report, it's best to disclose it upfront rather than wait for underwriting to discover it.

3. Make Large Unexplained Deposits or Withdrawals

Any large sums of cash in your account(s) that you can't explain will delay the loan's approval. If you received funds to help with the down payment, your benefactor(s) should write a letter confirming it is a gift because lenders will ask for it. Significant unexplained deposits outside of your regular income or overtime will put a wrench in the process.

The same goes for making large withdrawals. Underwriters will question what it's for because it signifies a decrease in the cash reserves that your loan approval is based on.

4. Do Think Twice about Opening Any New Accounts

Lenders use your credit scores and debt-to-income ratio (DTI) to see if you can afford loan repayments. In fact, the number one reason for closing setbacks is financial, especially not being able to afford the mortgage based on your DTI.

Any new changes such as opening a new line of credit, taking out a personal loan, buying a car or making significant purchases, even co-signing for your child's student loans, will adversely impact your application.

5. Close Any Accounts in Good Standing

If you have accounts in good standing now is not the time to close them, particularly if it's an older account. As previously mentioned, the age of your accounts affects your score, and you don't want it lowered before the home sale is final.

In the next article, the last four practical tips and what to expect when saving for closing costs will highlight how to continue navigating the home-buying process once your loan application is submitted.