

MORTGAGE LOAN GUIDANCE FOR SPECIAL CIRCUMSTANCES

MAKING MORTGAGE APPLICATIONS EASIER
FOR THOSE WITH ATYPICAL FINANCES



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WHAT ARE SPECIAL CIRCUMSTANCES?

Self-employed. Newly employed. Going through a divorce. Record of foreclosure or bankruptcy.

Buying a home is no easy task. There's paperwork to complete, finances to get in order, mortgage lenders to call, realtors to meet. To say nothing of finding just the right house. While it can be a challenging process for all, it can be even more difficult for some, especially those who have to take extra steps to qualify for a home loan.

Many home-buying hopefuls are required to take extra steps due to their financial circumstances. When applying for a mortgage, lenders scrutinize the applicant's financial background. They want to ensure that the money they lend to the borrower will be paid back on time and regularly. There are also circumstances when a borrower's financial situation changes, and that change can greatly affect their ability to pay that mortgage.

The purpose of this ebook is to take a look at these "special circumstances" that affect mortgages and offer guidance on how to more effectively apply for or handle a mortgage if you are:

- A self-employed home loan applicant
- A newly employed home loan applicant
- A mortgage owner going through a divorce
- A home loan applicant with a record of foreclosure or bankruptcy

If you find yourself in one of these circumstances and are trying to apply for or pay off a mortgage, this ebook is just for you. The first thing you should be aware of when applying for a mortgage is lenders might require you to pay higher interest rates to help mitigate their risks. Be prepared to pay higher rates than the typical borrower. Here are some pointers on how to prepare.



SELF-EMPLOYED HOME LOAN APPLICANTS

When applying for a home loan, you have to prove that your money is coming from a viable, reliable source. For workers who are self-employed, this can be more difficult than someone who can produce a paycheck with their employer's signature. Most mortgage



lenders will require you to show that you are gainfully employed, and they will also want to know what your net income is compared to business expenses. Self-employed borrowers are required to **show a profit-and-loss statement and documented IRS tax returns from the past two years.**

This demands that a business owner keep accurate records of legitimate business income and expenses and have his or her taxes professionally prepared. Your lender will want to be assured that if your business slows down for a period of time, your business is financially sound enough to make your mortgage payments on time, every time.

NEWLY EMPLOYED HOME LOAN APPLICANTS

A two-year history of steady employment history is typically what lenders look for, along with steady or increasing income to ensure their applicants are able to pay back the amount of the mortgage loan. Switching jobs right before or after submitting a loan application may make it more difficult for you to qualify. Changing jobs within the same industry for the same or better pay may help. If you are planning to take a new job — particularly in a different field or industry — it's best to wait until after you have qualified for the mortgage loan.

Your job and salary are important factors because most lenders require that your mortgage payment be **no more than 28 percent of your gross monthly income**. The mortgage payment plus other debt should **not total more than 36 percent** of your gross monthly income.



For applicants who have recently found a new job following a long period of unemployment, the first step the lender will want to take is to ensure that the applicant has employment stability. To qualify for a mortgage, you usually need to have six months of steady employment. To further increase your chances of qualification, it would be wise to have a substantial savings account set up and maintain an average credit score.

MORTGAGE OWNERS GOING THROUGH A DIVORCE

What happens to a mortgage during a divorce? Who has to pay off the mortgage? How does it affect both parties' financial situations?



The main option is for one spouse to take the mortgage, but this often means the spouse also gets to keep the house. However, it is important to note that if during the marriage both spouses signed the mortgage documents, they are both responsible for paying the mortgage, so the mortgage-less spouse is still liable if the loan is not paid on time. To remove one spouse's liability from the loan, the property needs to be sold or transferred, or the mortgage can be refinanced under a new name. Here are the details:

- **Quitclaim Deed:** This document transfers any interest in a property from one person to another. This is how a spouse transfers full home ownership to another; however, this is just for transferring the rights and deed to the house, not removing the liability.
- **Interspousal Transfer Grant Deed:** This deed will do the same task as a quitclaim deed, but it will change the community-held property into a separate property. This removes a spouse from the liability.
- **Sell the Property:** Use the house sale to pay off the mortgage and that way, there is no question over who has to pay the mortgage.
- **Refinance:** One spouse can refinance the mortgage under just his or her name, thereby completely removing the other spouse from the mortgage and saving money through the refinance.
- **Mortgage Assumption:** This tactic is not used very often because not all mortgages are assumable; meaning one person who signed the mortgage documents with someone else takes full responsibility of the mortgage. Whether the mortgage is assumable is based on your lender. Lenders are sometimes hesitant about mortgage assumption since it means re-qualifying for the mortgage. If one spouse wishes to assume the mortgage, that spouse must prove he or she is financially stable enough to handle the mortgage solely.

HOME LOAN APPLICANTS WITH A RECORD OF FORECLOSURE OR BANKRUPTCY

Mortgage foreclosures and Chapter 13 bankruptcy events are recorded in your credit file and remain there for an extended period of time: seven years for foreclosures and Chapter 13 bankruptcy and 10 years for Chapter 7 bankruptcy.

Qualifying for a home loan can be difficult with one of these events on your record, but it is possible to qualify after a period of time with a good credit history and steady employment record.

A one- to two-year waiting period is usually required for homebuyers who completed a Chapter 13 bankruptcy who now have a squeaky-clean credit history, and want to get a new loan insured by the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs.



A four-year waiting period is the norm for a Chapter 7 bankruptcy, and a five- to seven-year wait after a foreclosure. Borrowers with a foreclosure on their record are usually required to **pay 10 percent down**, have a minimum **credit score of 680**, and must **wait an additional two years** before they become eligible to purchase a second home or an investment property.

CONCLUSION

Is it more difficult for people with special circumstances to qualify for a home mortgage? You bet it is, but it's not impossible. It means preparation, solid record keeping and tax filing, and taking the time to prepare and show proof of required documents.

Our mortgage lenders will be happy to assist you in figuring out whether you are financially ready to buy a new home. Research is the most important key to helping you figure out your mortgage application. Not only do you need to research your own finances, you need to know about the process inside and out. To help you, we have several free resources to keep you up to date.



We have ebooks on how to start the homebuying process and how to refinance your mortgage. We also have a blog with consistent and current information, a newsletter to update you on current mortgage rates and an easy, online home loan prequalification process.

If you have any questions, feel free to contact the mortgage lender near you and visit our website at www.blrmortgage.com to see if you prequalify.

CONTACT US

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WE WOULD LOVE TO HEAR FROM YOU.
JUST GIVE US A CALL OR VISIT US AT ANY OF OUR NEARBY LOCATIONS.

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