

Overview: Consumer Guide: Understanding & Overcoming a Loan Denial



CREDIT.ORG

Overcoming Loan Denial:

Around 14.4% of FHA mortgage loan applications are denied. Nearly 25% of mortgage refinance loans are declined. Understanding and overcoming a loan denial is important for anyone who wants to be a homeowner or who already has a mortgage and my need to refinance.

Our free guide breaks down the top 10 reasons loans get denied and how to overcome denial in each of those situations:

- **1. Credit Score**
 - Often the first thing a creditor looks at
 - Higher FICO scores get better terms & conditions, low scores lead to a denial
- Overcoming credit score denial
 - Fixing the underlying data is the top priority
 - Many credit reports have errors that need to be corrected
 - Pay off accounts, remove outdated debts, bring accounts current
- **2. Recent Credit History/Bankruptcy**
 - Recent bankruptcy, unpaid liens & collections, court judgments
 - These things will cause a lender to deny a borrower even with a good score
- Overcoming denial due to credit history
 - Update your credit report properly
 - Lean to do a bankruptcy realist from our Consumer Guide to Good Credit
 - Add 100-word statements to a credit report
- **3. Debt-to-Income Ratio**
 - Calculating “front-end” vs. “back-end” ratios
 - This is the most common reason for denial
- Overcoming denial due to DTI:
 - Pay down debt and increase mortgage payment
 - Changing your mortgage payment changes the DTI
- **4. Employment History**
 - Job security is an important factor, as important than income
 - Even a new position at the same employer can be reason for concern
- Overcoming denial
 - Don't change anything after the loan gets pre-approved
 - New employment conditions will force the lender to reevaluate
- **5. Income**
 - Credit scores don't include income, but lenders will verify it
 - Only “qualifying income” is included
- Avoid denial due to income
 - Avoid large deposits or transfers that will lead to questions
 - Be able to document all sources of income fully


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- **6. Debts**
 - Large obligations or new debts will impact loan applications
 - Private debts will be a factor, even if they aren't on your credit report
 - Lenders are thorough and will find out about all of your debts
- Avoid denial due to debt:
 - Don't take on any new debts during the loan process
 - Don't leave any debts out of the application
- **7. Down Payment, Collateral, Cash Reserves**
 - The home itself is collateral in a mortgage
 - Any problems with the property could jeopardize the loan
 - Cash reserves are important; you need funds left over after the down payment
- Avoid denial
 - Save up as large a down payment as possible
 - Set aside cash reserves for after you take over the home
- **8. Your Application**
 - Any mistakes or errors will lead rejection
 - Inadequate documentation is a problem
- Avoid denial due to your application
 - Don't exaggerate—be able to document everything on the application
 - Don't leave out losses or issues like bankruptcies or foreclosures
- **9. Bad Timing**
 - Recent issues like divorce, health issues or legal battles can mean the time isn't right
 - After a cash-out refinance, lenders may have a required waiting period
 - Sometimes the issue is with the seller or property, not you
- Avoid denial
 - Do advance work to make sure the time is right; pull your own credit early
 - Gather all documents well in advance
- **10. Subjective Rejection**
 - Even after a preliminary approval, a mortgage officer can pull the plug
 - Self-employed or new buyers might get rejected due to "layered risk"
- Avoid subjective rejection
 - Pick the right property—any problems with the title might trigger rejection
 - Don't borrow every cent you can, leave some capacity for debt

General Strategies for overcoming loan denial

Improving your Debt-to-Income Ratio

Download the full guide to overcoming loan denial, and call Credit.org if you've been denied for a loan and need to prepare to make your next application successful.



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