



12/28/2006

Common Reasons Why Your Loan Might Be Denied

Buying a home can be a very exciting process. Yet it can also be very frustrating if your mortgage loan application is denied, especially if you are denied right before the loan was supposed to close. To avoid that annoying scenario, you should understand the reasons why a loan application might be denied, and then do everything you can to make sure your application will not face any of those risks.

One of the most common reasons that a mortgage application is denied is because of a second-rate property appraisal. Lenders want to be sure that the amount of money being loaned is truly an accurate reflection of the value of the home you are buying. If the appraisal was inflated, the truth is that you are being asked to pay too much for the home. While that is a bad situation for you as the buyer, it is disastrous for your lender. If anything should happen during the course of your loan that caused you to go into foreclosure, the bank would have to repossess your home and try to sell it to recover their losses. Because they lent you more money than the home was really worth, they may not be able to recover all of it as it will be unlikely anyone else will want to pay more than the true market value. With mortgage fraud on the rise today, many lenders are very wary of getting an inaccurate appraisal. They will generally compare the value of your potential home to at least three (and often four or five) other homes that sold at the same price. If they find that the selling price is more than the home is truly worth, your loan will probably be denied.

Another reason lenders may decline to fund your loan is if the inspection or title search turn up problems like cracks in the foundation, less square footage, or other structural issues. If anything is discovered that would reduce the appraised value of the home, you might be denied for funding.

You may also find your application being rejected if your lender determines that you do not earn as much money as you indicated. For most loans lenders have to verify your employment and your income. If they ascertain that you overstated your ability to pay for the loan, they will deny your loan request. Another common problem is if you change jobs in the middle of the application process. The lender then has to acquire verification of your employment from the new employer and the loan process may be hindered. Make sure you are completely open and honest with your lender about your job and income; he is going to find out the truth anyway!

Lenders may also deny your application if you have any unexplained credit issues. Your credit score and history are very important to them as they are a measurement of the likelihood that you will repay the loan. Before you apply for a home loan, be sure to obtain a copy of your credit report and have any errors corrected.

There are many possible reasons why your loan may be denied, but learning the pitfalls can help you avoid the heartbreak and get into the home you have been wishing for.