How To Qualify For A MORTGAGE

In Less Than 12 Months Even If You Have Bad Credit Today

Daniel Garcia

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This report will show you how you can qualify for a mortgage and buy a home in as little as 12 months even if you have BAD CREDIT TODAY.

First let me tell you a little about myself....

My name is Danny Garcia, I have been helping clients with bad credit obtain home loans for over 15 years. In 1999 I opened my own mortgage company and specialized in providing loans for real estate investors, In addition to providing mortgage loans my company offered my real estate investors the additional service of credit repair. The credit repair wasn't for my mortgage clients directly but for the renters of their properties. I would provide credit repair to their clients and help their clients purchase the investors properties using FHA and other first time home buyer loans. My investors loved this added service because they knew that if their tenant was going to buy the house they were renting that the rents would probably come in on time. They also knew that they made most of their money flipping properties but needed to wait a year before they were able to sell their property at full value. This was because lenders at the time frowned on flips before a one year seasoning period.

In 2008 the investor mortgage market was the first to crash and my mortgage company went along with it. Luckily I was already doing credit repair for several hundred people and decided to dedicate myself to the industry on a full time basis.

I have always specialized in doing credit repair for people who were trying to obtain a home as my unique experience and expertise in both fields allowed me to provide the very fastest solution imaginable.

Today my credit repair business is extremely strong, especially with the introduction of my Pay After Deletion program, the real estate market is starting to climb back up. Clients are still looking to purchase a home and after the recession the need for my unique knowledge and service has increased dramatically.

I am here to tell you today that you CAN qualify for a mortgage in as little as 12 short months if you properly plan and do everything that is needed. I see it each and every month, people who have worked with me for a year are now able to qualify and purchase their own homes. It is my hope that you take the information I am providing you and use it to achieve the American dream of home ownership for yourself and your family.

The following pages will detail exactly what you need to do to obtain your own home within 12 months. I want to thank you in advance for taking the time to read this report and feel free to share it with your friends and family.

Start Today

In order to meet your goal of buying a home in less than 12 months you MUST start planning and making changes TODAY. This guide will use our knowledge of mortgage lending and personal credit to guide you on what steps you need to take IMMEDIATELY. Remember every month you delay in following these steps will be another month you will have to wait before you can reach your goal of owning a home. This goal is not impossible if you start working at it today

Step 1 - Determine where you stand today

"Knowledge is Power" The very first thing you need to know is how a lender approves someone for a home mortgage. Lenders look at what is referred to as the 5 C's. You must be able to meet all the requirements that the lender wants which all have something to do with the 5 C's

Character/Credit Reputation

This area is the information a lender gets from your credit report, lenders look at how you have paid previous debts to help determine if you will honor your agreement to pay your future debts including the mortgage loan they are considering for you.

We all know that credit is an important part of the qualifying process, however there are several items within a credit report a lender is looking for BESIDES the credit score itself. It is very possible to have a 690 credit score and still be denied a loan because of what is and sometimes what isn't on your credit report. Many of our clients come to us thinking that if they reach a magical credit score of "______" they will be able to qualify for a home mortgage loan with no problems. They believe this because some loan officer told them that they won't be able to help until they reach this specific score minimum (Currently 620 - 660 depending on the type of loan). Unfortunately this belief causes many people to lose valuable time as they don't usually hear the rest of the story until they go back to the lender with the needed credit score. It is at this time the lender starts giving them more details of what is actually needed and the client realizes their dream of home ownership is delayed for a minimum of 12 months and many times longer.

There are SEVERAL Credit guidelines a borrower must meet before they will be able to qualify for a loan. There are also several "gotchas" that will prevent you from getting a loan even if you do meet the lenders magical CREDIT SCORE GUIDELINE. You MUST know these guidelines and "gotchas" if you are to properly plan and prepare to get a mortgage loan within the next 12 months.

Capacity

This area reviews your ability to actually repay the loan, The lender gets this information from your income documents like paystubs and tax returns. In most cases you must be able to fully document your income for a minimum of 2 years

You can have the best credit history but if you don't have a proven income track record and enough income to pay your new mortgage payment as well as your other obligations the lender will not approve you for a loan. Of course your new mortgage payment is going to be based on your loan amount, interest rate, plus the mortgage insurance, taxes and insurance on the house you are buying. The more expensive the house, taxes, and insurance the more income is needed to adequately cover the payment.

Most lenders will only allow you to spend up to a certain amount of your pretax income towards a house payment, they will also cap the amount you can spend on your house plus any other credit obligations you may have. This "qualifying" calculation is known as your "Debt To Income Ratio"

In the following example lets say you earn $4,000 per month in fully documented income before taxes and we are using debt ratio guidelines of 31%/43% (current standard for FHA loans)

The lender would determine that your maximum "Housing" payment would be $1,240 (This means they will not approve your loan if the payment on your mortgage plus insurance plus taxes will be over over $1,240, even if it is $1.00 over) If the payment is over $1,240 you will be denied and will need to find a cheaper house, have lower property taxes, lower insurance premium, lower interest rate or a combination of all the above.

Once you clear this hurdle the lender will now determine your overall debt to limit ratio. This overall ratio includes your house payment PLUS other "Debt Obligations" such as credit card minimum payments, car payments, student loans ect. The lender will use your credit report to determine the minimum payments on all your loans.

Using the same $4,000 per month income this maximum "Debt Obligation"allowed would be $1,720. If you exceed this number you will be denied and will need to find a cheaper house, have lower property taxes, lower insurance premium, lower interest rate, reduce your debt obligation or a combination of all the above.

In the scenario above you would be able to have a maximum mortgage payment of $1,240 and other debt of about $480 so you need to be aware of high balance and high payment loans like cars and student loans.

Capital

This area covers how much skin you have in the game "money out of pocket" as well as how much money you have left after closing to handle emergencies.

Basically a lender feels better about giving a loan when the borrower has something to risk as well. If you are putting a down payment of 3.5% that would not be as good as someone putting down 20%. Lenders know it is easier for a borrower to default when they put down 3.5% versus a borrower who put down 20%. They also know that if you put down more money they have a better chance of recouping their loan amount as they can sell the house at a discount of 20% and still break even. Lenders will do a lot of due diligence to verify and source where the down payment came from, it will do them no good if you borrowed the 20% from another source. This is why they usually will want to see a full paper trail as to where the money came from.

The lender will also have some minimum "reserve" amount that you will need to have available AFTER your loan closes. Basically they want to know that you have a couple of months emergency funds just in case you happen to lose your job. This reserve amount will have to be sourced and seasoned as well so they know that the funds weren't borrowed.

Collateral

This area covers the property itself. The lender wants to know that if you default on the loan that they will be able to foreclose and sell the property quickly so they can recoup as much money as possible.

The appraisal is the main tool used by lenders to determine the value of the property, some loan programs will also require a full inspection to make sure that the property is up to code and there are no pending issues that can put you in financial stress. (eg roof needs replacing, electrical or plumbing outdated, etc)

Most lenders will lend you a percentage of the homes value or sales price whichever is LOWER, you generally will NOT be able to benefit if buying the house at a discounted rate (eg 25% below market value does not mean you have a 25% down payment)

Conditions

These are other circumstances that can affect the lenders desire to finance you. When a lender underwrites a loan they are trying to determine that they are lending the money to someone who will pay the loan back, since the lenders do not know you they must look at other indicators such as the ones listed in this report in

an attempt to determine the likelihood of payment. Their ultimate goal is to reduce their overall risk. Prior to 2008 lenders were so confident that property values would just keep going up that they eventually started to ignore the risks as they knew the property value would eventually bail them out. Ultimately it was us who wound up bailing them out.

Nowadays lenders are very cautious and will look at anything that could give them a clue. If they think you are hiding something, if you have signs of instability, or your loans is just too different from the norm (eg. Self employed, mobile home, etc) they will lean more towards declining you. However, if you can show them great stability, extra assets, strong income they will be more willing to approve the loan

These types of items all change the loans risk profile and are many times accounted for when underwriting your loan.

2 - How To Prepare

Now that we know the depth of what a lender is actually looking for we can start doing some initial planning. The sooner you begin to work on these plans the better chance you will be able to qualify for a mortgage loan within 12 months

Capacity Planning

When you walk into a bank or a mortgage company the first thing they will want to look at is your credit. Unfortunately your credit will not matter if you cannot qualify for a mortgage because your verifiable income is too low.

That being the case we want to discuss your income first and more importantly we need to determine if you are doing this loan with one or two people. We want to make this determination because it will be a waste of time to do all this planning for one person if you will ultimately need two people to qualify for the loan you are seeking.

When you have two borrowers the lenders will not only combine the income but they will underwrite both individuals. The lender will verify both incomes and employment, they will review both credit reports and use the debt of both individuals. Both borrowers will have their own set of qualifications which will be determined based on who is the "breadwinner" (the person who shows more documented income)

The "Breadwinner's" middle credit score will be the one used to determine loan qualification and the rate for both borrowers, this happens even if the coborrower has a better credit score. Unfortunately, the lender will use all the "bad" stuff of the both borrowers as a reason to deny the loan. This means that the first thing you

will want to do is determine if you need two borrowers and then determine which borrower would be the breadwinner. If there is a need for a second borrower then you will need to apply the rest of this plan to both parties in order to qualify for a loan within 12 months.

NOTE: If you need help determining if you would need two borrowers to qualify for the home you are looking for please let us know as we will run some numbers for you for free. We will need the following;

1 - Income for Borrower
2 - Income for CoBorrower
3 - Minimum payments on ALL credit accounts

Credit Planning

Once you determine that you need one or two borrowers to qualify for the property you will need to start looking at each borrowers credit reports to determine what needs to be done in order for each of them to qualify for a loan. Lenders will review several items on your credit report.

Credit Score - The first thing the lender will look at is the score of the primary borrower (breadwinner) this score will be used to determine if you have the minimum score needed to qualify and then it will be used to determine your mortgage rate. The co-borrower will also need to meet a lender imposed minimum score (this score is usually much lower than the primary borrowers credit score requirements)

Qualifying Tradelines - Once you meet the credit score requirements then the lender will do a "count" to determine how many "qualifying tradelines" (*a tradeline is a credit account showing on your credit report*) you have. A "qualifying tradeline" is a open and active tradeline that has been in good standing and reporting on your credit report for at least a year. (student loans, old accounts, authorized user accounts and derogatory accounts do not typically count) One benefit of having two borrowers, besides the ability to use two incomes, is that the lender will combine the "qualifying tradelines" of both borrowers and use that number. Typically the lender is seeking a minimum of three qualifying tradelines, some lenders will also allow you to use "alternative tradelines"

Gotcha's - Gotcha's are items that will automatically cause a denial irregardless of other items on your report, if you have a 700+ score a gotcha can easily kill the deal. Items on a credit report that can be considered gotchas are unpaid tax liens, unpaid judgments, recent bankruptcies, unpaid collections, unpaid chargeoffs, and/or recent lates. Lenders may give you a "conditional approval" which will many times require that you "take care" (aka "Pay off) these items and once the item is

paid off they will reconsider the loan, Of course a "conditional approval" with a requirement to pay off a $30,000 collection is not really an approval at all. Even if you had the funds to pay off some of these conditions many times paying off an old collection would be cause what I call self sabotage

Self Sabotage - Lenders will many times tell you that you should pay off certain collections in order to qualify for a loan, what they fail to tell you is that the fact of paying off a collection can negatively affect the credit score itself which, if it falls below the lenders minimum score, will disqualify you due to not meeting the minimum score requirement. (this is the ultimate catch 22) Other forms of self sabotage... Some people make decisions for what appears to be a good thing like saving money for a down payment on a house by living with relatives rent free, they usually find out too late find out that the act of living rent free actually hurt their ability to qualify for a mortgage as almost all lenders want to see proof of a 12 month rental history.

Even if you currently meet the lenders minimum credit score requirements you must be aware that it will be in your best interests to not just settle at meeting just the minimums, remember your loan will probably be one of the largest you ever have in your life and an interest rate difference of just 1/8th of a percent can change you payment monthly and cause you to pay 10's of thousands of dollars extra throughout the life of the loan. Since your credit score is DIRECTLY tied to the interest rate you will pay you should be doing everything that is in your power to increase your credit score, even if it is just 1 point as one point can affect your rate enough to cause you to pay a higher monthly payment for 30 years. In addition if you can qualify for a lower rate you can use that rate to ultimately qualify for a higher priced home due to debt to income ratios we discussed earlier

Our credit repair service will help you with the removal of all types of negative items including Gotcha's like collections, chargeoffs, late payments, bankruptcies, tax liens, and judgments. We will also show you how to add and develop "qualifying tradelines". We will also teach you how you can tweak you credit score so that you can have the highest possible score when it comes time to qualify for your loan. We will also provide you with some strategic ways to meet lenders requirements such as strategically paying off a collection so you are not penalized with a lower score but can still meet their requirement to pay off the collection.

As we help remove negative items, help you develop "qualifying tradelines", and you tweak your score you should be able to meet this goal within 12 months

NOTE: You must understand and be aware that credit repair is a slow and tedious process and although we see deletions on a consistent basis it still takes around a year to see results good enough to qualify for a loan, sometimes it takes longer if our client slows the process. Same goes with the development of "qualifying

tradelines" as the clock doesn't start on them until they begin posting on your credit report. This means that if you want to meet your goal of qualifying for a mortgage within 12 months you and your coborrower (if applicable) will need to start working on this process ASAP

NOTE: As a special bonus if you enroll in our credit repair service we will review your credit report and create a mortgage gameplan for you. This gameplan will highlight what we think may be issues with a lender and provide you with a list of questions you can ask your lender to verify all that is needed to qualify for your loan from a credit perspective.

Capital Planning

Some sort of down payment and reserves are required for most mortgage loans, the down payment can be as low as 3.5%, you may also qualify for some special programs that offer a zero down payment loan. The reserves required on mortgage loans can be as little as 2 months of mortgage payments to as much as 6 months of payments. Whatever the down payment or reserves are the lender will require you to "source and season" those funds, what this means is that the lender will want to see some sort of paper trail that will show them that you had the funds in your account ("sourced") for at least 60 days ("seasoned), if the funds came from another source (eg. Gift from parents) they will want to see that the gift is legitimate and not a personal loan with a promise to pay back later.

NOTE: Be sure not to use down payment and reserve money to pay off any debts within 60 days of loan your closing. Although this action may help you qualify because the lender said you need to payoff a specific debt. You may disqualify yourself (Self Sabotage) if you wind up not having an adequate amount of reserves available to close your loan.

Collateral Planning

There is not a whole lot you can do to regarding collateral planning except to make sure you are getting a property that is in good condition, although there are loans for fixer upper properties they have much more stringent guidelines and are very specialized. To better understand collateral you will need to know that the lender will determine the value of the property as the lower of the appraisal or contract price. Lenders will not generally give you credit for any equity the seller is willing to give you as part of the deal. Another common issue is if the property you are buying is being flipped by the seller, most lenders won't give you the appraised value if a property just sold at a much lower price (common with flips)

Condition Planning

The more unique your situation the more risk is involved for the lender. For example if you are buying a unique property such as a log cabin or mobile home the lender guidelines will usually be a little tougher. If you are self employed lenders will be more cautious. On the flip side if you can show additional assets or put down more money the underwriting guidelines can get easier on you.

The overall understanding you must have is that the lender is underwriting and making a decision based on the overall risk of giving you a loan for a particular property. All lenders have a list of underwriting guidelines which they are required to follow 100%, the reason they don't usually have any flexibility is that if they vary from the underwriting guidelines they will risk their ability to sell the loan they approved.

Do everything you can do to put your best foot forward when dealing with the lender, make the paperwork clear, check for items that could cause questions, make it easy for them to verify everything they need

ADDITIONAL NOTES:

Compensating Factors

Although underwriting guidelines are fairly strict underwriters are allowed to make exceptions if there are compensating factors, for example someone who has TWO years of reserves in the bank may be able to go over the debt to income ratio requirements, someone who has a great debt to income ratio may get away with a property issue. To improve your odds of qualifying for a loan you should do you best to put your best foot forward and maybe develop some compensating factors of your own.

FHA Manual Underwriting

If you are looking to get exceptions you should seek out a company that does FHA Manual Underwriting, companies who do manual underwriting will have more opportunities for people who just miss approval using the standard guidelines and they may get you an approval when no one else can.

Rental History Required

Earlier we talked a little about self sabotage, I want to mention here that a common form of self sabotage is living with family members either rent free or at very reduced rents. This plan is a mistake. If you get the opportunity to live rent free or at a reduced rent I would recommend that you pay your "landlord" full

market rate on the rent (with a paper trail eg. Checks) and have the "landlord" rebate your funds later throughout the month or put the funds into a gift account that you can use for your down payment when the time comes.

Hide debt? Dispute good items

When lenders determine your debt to income ratios they will usually look for all the items listed on your credit report, if an item is not on your credit report many times they will leave not count it against you. Eg. We had a client that had a car on their credit report but the clients sister was making the payments, the client asked us to remove the good account from her credit and the payment was no longer listed in her debt to income calculations

Undisputes Needed

If you have items on your credit report that are listed as "under dispute" the lender will most likely kick your loan out of underwriting and ask you to get the "under dispute" remarks removed from your credit report. They do this because when items are under dispute your credit score is artificially higher as the item under dispute is not being counted against your credit score. To "Undispute" items you will need approximately two months to get all your credit reports updated.

Public Records

Although public record items such as bankruptcies, judgments, and tax liens can be removed from your credit report using our credit repair service mortgage lenders will usually instruct the title/closing agent to do a public records search on the borrowers just a day or two before closing. This means that even though these items are no longer on the credit report the lender can still find them as they typically can't remove them from the public records. (except some tax liens)

Medical Bills

Most mortgage lenders will ignore unpaid medical bills, however medical bills are still considered in your score calculation. Remember the better score you have, the lower rate, the lower rate you have the easier it is to qualify and the more purchasing power you will have

Tweak As Many Points As Possible

Most people I speak to don't realize that 1 point can not only make a difference in whether you qualify for a loan or not but it can also affect the rate you pay, as a matter of fact rates are affected for every 10 points of score, some mortgage rate sheets have a difference of up to .25 difference in rate for every 10 points,

meaning that a 40 point score change can cost you 1% in your rate.

How rates affect purchasing power.....

Lets assume the following

Your budget says you can afford $1,500 in your payment, Your Taxes and Insurance equal $250 per month and you are putting $5000 down

Low score 620-639 - As of the date of this article this score would get you a rate of about 5.671 which would allow you to afford a home valued at $217,485

Mid score 660-679 - As of the date of this article this score would get you a rate of about 4.695 which would allow you to afford a home valued at $243,167

High Score - 760-850 - As of the date of this article this score would get you a rate of about 4.082 which would allow you to afford a home valued at $259,973

This means a score difference of 120 points can affect your purchasing power by over $40,000.

How Rates Affect Your Monthly Payment....

If you were to purchase a $220,000 home using the same rates from above you would pay the following

4.082% Rate = $1,036.63
4.695% Rate = $1,140.64
5.671% Rate = $1,272.84

This is a payment difference of $236.21 PER MONTH

The rate differences above are shown for large ranges but many rate sheets have a .25 difference for every 10 points of score. Look below to see what 10-40 points of score difference can make

4.082 - 1,036.63
4.332 - 1,068.74
4.582 - 1,093.47
4.832 - 1,132.19

This is a $95.56 difference for just 40 points.

How can ONE point affect you?

If you are at 639, you could save $32.11 per month. This means you can save over $11,000 over a 30 year mortgage buy improving your credit score just 1 point

EVERY POINT MATTERS!!!

Large Purchases

Many times when I did mortgages for a customer they would put in a contract for a home and then go out and start purchasing some furniture, appliances, etc. The problem was that they made these purchases on their credit card and the balance went up. When the balance went up their score dropped and negatively affected their rate. One time we had a client but a new car before closing and it messed up both their debt to limit ratio and dropped their score to a point where they no longer qualified.

DO NOT MAKE ANY PURCHASES USING CREDIT - REMEMBER EVERY POINT COUNTS AND MANY LENDERS WILL PULL A NEW REPORT THE DAY BEFORE CLOSING

You are not closed until you are closed

Preapprovals, approvals, and other approval letters even if written in blood mean nothing until you are 100% closed and FUNDED. When I was younger I was trying to purchase my first home and a week before closing I was laid off of work, the lender found out and canceled the loan. I had already given notice to my landlord who had already leased my apartment to a new tenant. I now had no home and no job. When I was doing mortgages we had a client at the closing table with all the docs signed but the funds weren't wired yet. The lender never wired the funds as they, that same day, stopped doing that type of loan. I had to find a new lender and we closed a week later.

You don't see your real score

Consumers almost NEVER know their real score. Every consumer available credit score from credit monitoring services and even direct from the credit bureaus are all considered to be FAKO scores. Your real scores, the scores used by lenders use a "base" calculation and an "overlay" calculation. The base score is issued by FICO and is not available through any other source other than FICO.com, the overlay is an industry specific calculation that is combined with your "base" calculation. The overlay gives more weight in the calculations to the industries primary concern. Eg. The mortgage industry will have a mortgage overlay, while the credit card industry will have a credit card overlay. This means as a consumer we will never know what

our score is unless the specific company tells us. We recommend that you use the credit scores you receive online as a guide only, if they go up chances are your real score has gone up as well. Just in case you are thinking it, there is no place where you can get your real score, you can get a FICO base score from fico.com but it will not include any overlay's and will still be inaccurate.

What is the "Middle" score

Mortgage lenders determine your qualification and rate based on your middle score, your middle score is NOT the average of all three score but the score that falls in the middle of the three. Basically the lenders will remove the highest score and the lowest score of the three and use the remaining score for underwriting. The middle score can

Payment Shock

If your mortgage payment exceed your current mortgage payment by too much the lender might consider this "payment shock" and could deny your loan. The typical guideline for payment shock is somewhere between 150% - 200%, this means if your rent is currently $1,000 the lender might start getting worried once you have a mortgage payment of $1,500 - $2,000 per month

Student Loans In Deferment

Lenders will usually count a deferred student loan against you when they calculate your debt to income ratios, we recommend that you think about consolidating your student loans to get the lowest payments possible before you attempt to qualify for a loan.

NOTE: We have a division that will help you obtain the very lowest payments on your student loans

NSF Fees

When lenders review your bank statements they are not only looking at the amount of funds you have available they are also looking for any red flags such as regular payments to hidden creditors, large un-sourced deposits, and NSF fees, If the see you are overdrafting your account before you take on the mortgage obligation they will have no choice but to wonder what will happen after you get a mortgage.

I hope you enjoyed this report, please feel free to contact me for any further assistance. Thank you and may God bless you and your family.
Danny Garcia.