

Applying for a mortgage? Prepare for the third degree!

Beat your lender to the punch by preparing exhaustive verification of your income and identity before applying for a mortgage. Documentation you will need to provide includes:

- **proof of income:** Your two most recent computer-generated payroll check stubs or electronic deposit receipts showing year-to-date earnings. Also provide copies of the three most recent months' bank statements for your checking and savings accounts;
- **tax returns:** Copies of your W-2 (or 1099) and tax returns for the past two years;
- **payment history:** Copies — front and back — of cancelled checks for the past 12 monthly mortgage payment you made (if you currently own a home);
- **bankruptcy history:** Copies of all bankruptcy discharge documentation, including a list of creditors and a written explanation for petitioning for bankruptcy protection; and
- **relationship history:** Copies of all pages from any divorce decrees.

Common triggers that increase lender scrutiny are:

- **large bank deposits:** Lenders must confirm the funds in your bank account come from *bona fide* sources, such as wages or an inheritance. If the deposit is substantially larger than a regular paycheck, lenders will consider it a red flag. Be prepared to verify how you obtained any irregular or oversized deposits;
- **the location and type of home being purchased:** Lenders want to ensure you will be occupying — not leasing or flipping — the home you wish to finance. Your commute to work and the size of your family should be reasonably accommodated by the location and size of the property. If you plan on working from home, lenders will want verification from your employer;
- **undisclosed debts:** Avoid making large purchases in the three months prior to making your loan application, and also while your loan application is in process. A new car payment or new furniture may change your credit and affect mortgage closing; and
- **income inconsistency:** Any changes to income, such as transition from 1099 to W-2 employment, must be documented and verified. Earning more than the average person in your occupation will also raise a red flag. Lenders regularly check with the IRS to verify income.