The first step in obtaining a loan is to decide how much money you can borrow. In case of buying a home, you should figure out how much home you can afford even before you begin looking. By answering a few simple questions, I will calculate your buying power based on standard lender guidelines.

You may also choose to get pre-approved for a loan which requires verification of your income, credit, assets, and liabilities. It is recommended that you get pre-approved before you start looking for your new house so you:

1. Look for properties within your range
2. Be in a better position when negotiating with the seller (this allows the seller to know your loan is already approved)
3. Close your loan quicker (helpful position to be in when realtor negotiates with the seller's agent)

More on Pre – Qualification

LTV and Debt–to–Income Ratios

LTV or Loan-To-Value ratio is the maximum amount of exposure that a lender is willing to accept in financing your purchase. Lenders are usually prepared to lend a higher percentage of the value, even up to 100% to creditworthy borrowers. Another consideration in approving the maximum amount of loan for a particular borrower is the ratio of monthly debt payments (such as auto and personal loans) to income. Rule of thumb states that your monthly mortgage payments should not exceed 1/3 of your gross monthly income. Therefore, borrowers with high debt-to-income ratio need to pay a higher down payment in order to qualify for a lower LTV ratio

FICO™ Credit Score

FICO™ Credit Score are widely used by all types of lenders in their credit decision. It is a quantified measure of creditworthiness of an individual, which is derived from mathematical models developed by Fair Isaac and Company in San Rafael, California, Fico™ scores reflect credit risk of the individual in comparison with that of general population. It is based on several factors including past payment history, total amount of borrowing, length of credit history, search for new credit and type of credit established. When you begin shopping around for a new credit card or a loan, every time a lender runs your credit report it adversely effects your credit score. It is, therefore, advisable that you authorize the lender/broker to run your credit report only after you have chosen to apply for a loan through them.

Self Employed Borrowers

Self- employed individuals often find that there are greater hurdles to borrowing for them than an employed person. For many conventional lenders the problem with lending to the self-employed person is documenting an applicant's income. Applicants with jobs can provide lenders with pay stubs, and lenders can verify the information through their employer. In the absence of such verifiable employment records, lenders rely on income tax returns, which they typically require for 2 years.

Source of Down Payment

Lenders expect borrowers to have the sufficient cash for the down payment and other fees payable by the borrower at the time of funding the loan. Generally, the down payment is from with borrower's funds that the borrower has saved. If a borrower does not have the required down payment, they may receive "gifts funds" from an acceptable donor with a signed letter stating that the gifted funds do not have to be paid back.