

Learn About the 3 C's of Underwriting

What do underwriters look at
when you apply for a mortgage?



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INTRODUCTION

When evaluating your mortgage loan application, what main things do underwriters look at?

Once you locate a home and have applied to obtain a mortgage you may think you are in the final stretch.

However, once your application has been submitted it needs to pass through the hands of the underwriter.

The underwriter is the gatekeeper of the loan process and an underwriter's main goal is to evaluate your risk of paying back the lender's loan.

Underwriters will typically look at the 3 C's:

- **Capacity**
- **Credit**
- **Collateral**

However, it is important to understand everyone has a different financial situation thus the underwriting process varies for each borrower.

CAPACITY

*Do you have the resources
and means to pay it off?*

To determine if you have the ability to pay off the potential loan, the underwriter will look at your income and employment history.

Income

To verify you have a solid income, the underwriter will examine your pay stubs, and all assets you have including any financial reserves.

Evaluating these items allows an underwriter to determine if you have enough money on reserve in case you lose your job and need money to make a loan payment. It also lets the underwriter know how much you can put towards the down payment and closing costs.

Employment History

As for verifying your employment history, the underwriter will look at both your payment history and may order a verification of employment.





CREDIT

Do you have a solid re-payment and credit history?

Pulling your credit report is one of the first things the underwriter will do. They will pull your credit report from the three main credit bureaus:

- Experian
- Equifax
- TransUnion

When the underwriter examines your credit they are evaluating how you have handled paying past bills such as car loans, student loans, credit cards, etc.

If the underwriter finds anything wrong, you may be asked to submit a letter of explanation for the bad credit.

Your previous payment history allows the underwriter to determine if you have the ability to make your mortgage payments on time.

COLLATERAL

What is the value and type of property being financed?

When the underwriter is evaluating collateral they are doing a few things.

First and foremost they are making sure the amount of the loan does not exceed the value of the property. At this point the underwriter will order the appraisal of the home you are seeking to buy.

The appraisal ensures you are not overpaying for the property and it also protects against the lender lending too much money. In addition, when the underwriter determines the value of the property they think about how the property may be affected by natural disasters.

The other thing an underwriter focuses on while examining the collateral is the lien history on the property. They are checking to make sure the transfer of the property will be smooth and accurate.





CONCLUSION

The length of the underwriting process, and ultimately the approval, depends on how great of a risk you are considered to be by the underwriter.

The best thing you can do to ease the approval process is to respond quickly to an underwriter's inquiries and with complete information.

Remember capacity, credit, and collateral. These are the main areas of emphasis for an underwriter but it is important to keep in mind the underwriting process is tailored to each loan and financial situation.



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NMLS# 2334

