



Gunnison Bank & Trust

5 Things To Know Before Applying For A Home Loan

Applying for a home loan is a big step. Being well-prepared can reduce surprises, speed up approval, and give you confidence. Here are five key things to know before applying.

1. Understand Your Credit (Score & History)

- Your credit score is one of the most important factors lenders use to assess your risk.
- Review your credit reports from all three bureaus and correct errors before applying. (Helpful hint about this below).
- Pay down revolving balances and keep accounts in good standing to help raise your score.
- A higher score often leads to a lower interest rate, saving thousands over the life of the loan.

2. Know & Manage Your Debt-to-Income Ratio (DTI)

- DTI is the percentage of your gross monthly income that goes toward debt payments.
- Lenders typically like to see your total DTI (including your mortgage) at or below 45% (this varies by loan product).
- If your DTI is too high, consider paying down debt or raising income before applying.
- Avoid taking on new loans or credit cards until your financing has been obtained.

3. Be Document-Ready: Income, Assets & Paperwork

- Lenders require documentation such as 2–3 years of tax returns, pay stubs, W-2s or 1099s, and recent bank statements.
- If self-employed, you may need business statements, profit and loss reports, or third-party verification.
- Organized and consistent paperwork speeds up underwriting and reduces delays.



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4. Plan for Down Payment, Closing Costs & Reserves

- Down payments can range from 3% to 30% depending on loan type.
- Be prepared for closing costs in addition to down payment between 3-5% of the home purchase price.
- Some programs may require cash reserves to cover several months of payments.
- Leave room in your budget for property taxes, insurance, and maintenance.

5. Shop Smart: Preapproval, Rates & Lender Comparison

- Compare Loan Estimates from multiple lenders, looking beyond interest rate to fees and terms.
- Understand if your rate is locked, when the lock expires, and what happens if market rates change.
- Always review the Loan Estimate (3 days after applying) and the Closing Disclosure (3 days before closing).

Tips & Warnings

- Avoid opening new credit accounts shortly before applying.
- Be cautious with large deposits or sudden financial changes - lenders may request explanations.
- Review the Loan Estimate and Closing Disclosure carefully.
- Ask about PMI, escrow, and prepayment penalties before signing.

Checklist

- ☐ Review your free credit report at annualcreditreport.com and correct any errors.
- ☐ Pay down debts and improve credit utilization.
- ☐ Save for down payment, closing costs, and reserves.
- ☐ Gather tax returns, pay stubs, and bank statements.
- ☐ Get preapproved before house shopping.
- ☐ Request Loan Estimates from multiple lenders.
- ☐ Ask questions and compare costs and features.