

JOB LOSS AND YOUR MORTGAGE APPROVAL



HOW SUDDEN LOSS OF EMPLOYMENT CAN AFFECT YOUR MORTGAGE APPROVAL.

If you've been thinking about buying a house, you've probably considered how much you can afford in mortgage payments. Have you also thought about what would happen if you lost your source of income?

While the sudden loss of employment is always a possibility, the current uncertainty of our economy has made more people think about the stability of their income. Whether you've already made an offer on a home or you've just started looking, here is how job loss could affect your mortgage approval.

WHAT ROLE DOES EMPLOYMENT PLAY IN MORTGAGE APPROVAL?

In addition to ensuring you earn enough to afford a mortgage payment; mortgage lenders want to see that you have a history of consistent income and are likely to in the future. Consistent employment is the best way to demonstrate that.

To qualify for any mortgage, you'll need proof of sufficient, reliable income. Your mortgage broker will walk you through the income documents your lender will need to verify you're employed and earning enough income. So, if your employment situation is questionable, you may want to reconsider a home purchase until your employment is more secure.

SHOULD YOU CONTINUE WITH YOUR HOME PURCHASE AFTER YOU'VE LOST YOUR JOB?

What if you've already qualified for a mortgage, and your employment circumstances change? Simply put, you must tell your lender. Hiding that information might be considered fraud, and your lender will find out when they verify your information prior to closing.

If you've already gone through the approval process, then you know that your lender is looking for steady income and employment.

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Here are some possible scenarios where you may be able to continue with your purchase:

- If you secure another job right away and the job is in the same field as your previous employment. You will still have to requalify, and it may end up being for less than the original loan, but you may be able to continue with your home purchase. Be aware, if your new employer has a probationary period (usually three months), you might not be approved. Consult your broker.
- If you have a co-signer on your mortgage, and that person earns enough to qualify on their own, you may be able to move forward. Be sure your co-signer is aware of your employment situation.
- If you have other sources of income that do not come from employment, they may be considered. The key factors are the amount and consistency of the income. Income from retirement plans, rentals, investments, and even spousal or child support payments may be considered under the right circumstances.

CAN YOU USE YOUR UNEMPLOYMENT INCOME WHEN APPLYING FOR A MORTGAGE?

Generally, Employment Insurance income can't be used to qualify for a mortgage. The exceptions for most financial institutions are seasonal workers or people with cyclical employment in industries such as fishing or construction. In this situation, you'll be asked to show at least a two-year cycle of employment followed by Employment Insurance benefits. However, it's not the ideal situation and most lenders won't be willing to approve your mortgage under those conditions.

WHAT HAPPENS IF YOU'RE FURLOUGHED (TEMPORARY LEAVE OF ABSENCE)?

Not all job losses are permanent. As we've seen during the COVID-19 pandemic, many workers were put on temporary leave. If you've already been approved for a mortgage and are closing on a house, your lender might take a "wait-and-see" approach and delay the closing if you can demonstrate you've only been furloughed. In these cases, you'll need a letter from your employer that has a return-to-work date on it. Keep in mind, if you don't return to work before your closing date, your lender will likely cancel the approval and ask for a resubmission later.

If you haven't started the application process, it would be wise to wait until you are back to work for at least three months to demonstrate consistent employment.

Your credit score and debt servicing ratios may change because of lost income, which means you may no longer meet your lender's qualifications for a mortgage. While it may not be possible, try to avoid accumulating debt or missing any payments while unemployed.

TALK TO YOUR MORTGAGE BROKER.

You don't want to get locked into a mortgage you can't afford. You also don't want to lose a deposit on a home because you lost your financing. When trying to assess if it's better to move forward or walk away, your mortgage broker should always be your first call. They are in the best position to provide independent advice about your mortgage options.