Bank Statements: 3 Things Mortgage Lenders Don't Want to See

What do mortgage lenders look for on bank statements?

When you apply for a mortgage, lenders look at your bank statements to verify that you can afford the down payment, closing costs, and future mortgage payments. And the more straightforward your application file, the more likely you are to be approved. Even if unintentionally, you certainly don't want to raise any red flags.

Read on to learn how you can avoid common underwriting pitfalls and optimize your chances of mortgage approval.

How far back do lenders look at bank statements?

Mortgage lenders typically seek two months of recent bank statements during your home loan application process.

You need to provide bank statements for any accounts holding funds you'll use to qualify for the loan, including money market, checking, and savings accounts.

Loan officers use bank statements to assess a borrower's financial health and credibility when considering a loan application.

Here are a few key reasons why they analyze bank statements:

- **Income Verification:** Loan officers check for regular deposits, paychecks, or other sources of income to ensure that the borrower has a steady income to repay the loan.
- **Expense Analysis:** They examine the borrower's spending habits and recurring expenses to gauge their ability to manage money responsibly. This includes looking for consistent bill payments, existing debts, and overall financial commitments.

- **Account Stability:** Loan officers want to see a stable financial history. Frequent overdrafts, large unexplained transfers, or erratic account behavior could raise concerns about the borrower's financial stability.
- **Risk Assessment:** By reviewing bank statements, loan officers evaluate the risk associated with lending money to the individual. They assess if the borrower's financial situation aligns with the loan amount and terms requested.
- **Fraud Detection:** Bank statements help in detecting potentially fraudulent activity or inconsistencies in financial records. This is crucial for ensuring the borrower's credibility.

Two months' worth of bank statements is the norm because any credit or deposit accounts older than that should have appeared on your credit report.

One uncommon exception is for self-employed borrowers who hope to **qualify based on bank statements** instead of tax returns. In this case, you must provide the past 12-24 months of bank statements.

However, even in this case, loan officers may still regard large deposits differently.

What do underwriters look for on your bank statements?

The underwriter — the person who evaluates and approves mortgage applications — will look for four key things on your bank statements:

1. Enough cash saved up for the down payment and closing costs
2. The source of your down payment, which must be acceptable under the lender's guidelines
3. Enough cash flow or savings to make monthly mortgage payments

4. Cash reserves, which are extra funds available in case of an emergency

An underwriter generally wants to see that the funds in your bank accounts are yours, and not borrowed from someone else (unless via a properly documented down payment gift).

In other words, any funds used to qualify for the mortgage need to be "sourced and seasoned."

- '**Sourced'** means it's clear where the money came from, and any unusual deposits are explained in writing. Again, large deposits still may require an explanation
- '**Seasoned'** typically means the money has been in your account for at least 60 days. The funds should show up on the two months' bank statements you're required to provide

Bank statements also prove to underwriters that you haven't opened any credit accounts or created new debt before securing the mortgage.

Do mortgage lenders look at bank statements before closing?

Your loan officer will typically **not** re-check your bank statements right before closing. Mortgage lenders only check those when you initially submit your loan application and begin the underwriting approval process.

However, as the closing date for a mortgage approaches, your lender will re-check some aspects of your financial situation to ensure that nothing significant has changed since the initial approval.

Some of the key things that mortgage lenders re-confirm right before closing include:

- Credit report
- Debt-to-income ratio
- Employment and income

If you're eager to buy that new high-definition TV for your living room, it's a good idea to wait until after the closing. In general, you should avoid financing any large purchases or opening new lines of credit (like a credit card) between mortgage approval and closing.

New debts can affect your credit score and **debt-to-income ratio (DTI)**. This could seriously affect your loan approval and interest rate.

In addition, if anything changes with your income or employment prior to closing, let your mortgage lender know immediately. Your loan officer can decide whether any changes to your financial situation will impact on your loan approval and help you understand how to proceed.

3 things mortgage lenders don't want to see on bank statements

You might want look at your bank statements with a mortgage underwriter's eye before submitting them to your mortgage company.

That's because the lender looks for red flags that, if found, can require lengthy explanations.

Red flags for mortgage underwriters include the following:

- Bounced checks or non-sufficient funds fees
- Large deposits without a clearly documented source
- Monthly payments to an individual or non-disclosed credit account

When examining your bank statements, mortgage underwriters are trained to uncover unacceptable sources of funds, undisclosed debts, and financial mismanagement.

Here are three items on your bank statements that might turn up a red flag for a financial institution:

1. Bounced checks

If your checking account shows multiple overdrafts or NSFs (non-sufficient funds) charges, underwriters will likely conclude that you're not managing your finances well.

Mortgage rule-making agency Freddie Mac says that additional scrutiny is required when bank statements include NSF fees.

FHA loans require lenders to manually re-approve mortgage borrowers with NSFs, even if a computerized system has already approved them.

2. Large, undocumented deposits

Outsized or irregular bank deposits might indicate that your down payment, required reserves, or closing costs are coming from an unacceptable source.

A large deposit could indicate an illegal gift. A home buyer can't take help from a party who stands to gain from the transaction — like the home seller or real estate agent.

So, what's a "large" bank deposit to mortgage lenders?

- Fannie Mae's Selling Guide says, "When bank statements (typically covering the most recent two months) are used, the lender must evaluate large deposits, defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan."
- Likewise, Freddie Mac lists "recent large deposits without acceptable explanation" as red flags about which lenders should follow up with the applicant

If you can't prove through documentation that the source of a big deposit is acceptable under the loan program's guidelines, the mortgage lender must disregard the funds and only use verifiable funds to qualify you for the home loan.

If the verified funds aren't enough to qualify you for a loan, you'll need to save another chunk of cash — from an acceptable source.

Acceptable undocumented deposits

That said, you may borrow a down payment by most loan programs. You must disclose where the down payment money came from. This must be considered an “acceptable” source, such as:

- A down payment gift from a family member or other relation
- Down payment and/or closing cost funds from a down payment assistance program

If you receive money from someone else, a mortgage lender requires a gift letter explaining the funds are freely given and not a loan.

If you did receive a large deposit recently — and it wasn’t from one of these sources — you may want to wait 60 days before applying for a mortgage.

At that point, the funds become “seasoned,” meaning they are now your funds, despite the source.

Obtaining funds from a party with interest in the transaction is not a good idea. That breaks a myriad of other rules.

But if your family member paid you back for a recent vacation, or you sold a car to your aunt and didn’t document it, waiting 60 days could be a solution.

3. Regular payments, irregular activities

Another thing to be cautious about regarding bank statements is monthly payments that don’t align with a disclosed credit account on your mortgage application.

Typically, your credit report will pull in your credit cards, auto loans, student loans, and other debt accounts. But some creditors don’t report to the major credit bureaus, such as Equifax or Experian.

For instance, if you got a private, personal, or business loan from an individual instead of a financial institution, those debt details may not appear on your credit report.

However, the monthly $300 automatic payment on your bank statement will likely alert the lender of a non-disclosed credit account.

A bank "VOD" (verification of deposit) won't solve all bank statement issues

Verifications of Deposit, or VODs, are forms that lenders can use instead of bank statements. You sign an authorization allowing your banking institution to hand-complete the form, indicating the account owner and current balance.

Some borrowers use VODs to "get around" bank statement rules. But don't count on them to solve the above-mentioned issues.

- First, the lender can request an actual bank statement and disregard the VOD, if it suspects potential issues
- Second, depositories also list the account's average balance. That's likely to expose recent large deposits

For instance, if the current balance is $10,000 and the two-month average balance is $2,000, there was probably a very recent and substantial deposit.

In addition, there's a field in which the bank is asked to "include any additional information which may be of assistance in the determination of creditworthiness."

That's where your NSFs might be listed.

There are good reasons to double-check your bank statements and application before sending them to your mortgage lender. The bottom line is that you don't just want to be honest — you want to avoid appearing dishonest.

Your lender won't turn a blind eye to anything it finds suspicious.

FAQ on mortgage bank statements

Why do mortgage lenders need bank statements?

Mortgage lenders need bank statements to ensure you can afford the down payment, closing costs and your monthly mortgage payment. Lenders use all types of documents to verify the amount you have saved and the source of that money. This includes pay stubs, gift letters, tax returns, and bank statements. Loan officers want to see that it's really your cash — or at least, cash from an acceptable source — and not a discreet loan or gift that makes your financial situation look better than it really is.

How many bank statements do I need for a mortgage?

Mortgage lenders typically want to see the past two months' worth of bank statements.

Do I have to disclose all bank accounts to a mortgage lender?

If a bank account has funds that you'll use to help you qualify for a mortgage, you must disclose it to your lender. That includes any account with savings or regular cash flow which will help you cover your monthly mortgage payments.

What do underwriters look for in bank statements?

When underwriters look at your bank statements, they want to see that you have enough money to cover your down payment and closing costs. Some types of loans require a few months' worth of mortgage payments leftover in the account for emergency cash reserves. In other words, the upfront costs can't drain your account.

What are sourced and seasoned funds?

Underwriters also want to see that all the funds in your accounts have been "sourced and seasoned." That means the source of each deposit is acceptable and verified, and the funds have been in the account long enough to show they weren't a last-minute loan or a questionable deposit.

Do mortgage lenders look at savings?

Yes. A mortgage lender will look at any depository accounts on your bank statements — including checking and savings accounts, as well as any open lines of credit.

Why would an underwriter deny a loan?

There are plenty of reasons underwriters might deny a home purchase loan. The two most common are insufficient credit and a high debt-to-income ratio. As far as bank statements are concerned, an underwriter might deny a loan if the sources of funds can't be verified or aren't "acceptable." This could leave the borrower with too little verifiable cash to qualify.

How long does it take an underwriter to make a decision?

Underwriting times vary by lender. The time it takes an underwriter to approve your mortgage could be as little as two or three days, or as much as a week. Big banks tend to move more slowly than non-bank mortgage lenders.

How far back do loan officers look at bank statements?

The timeframe for bank statement review by loan officers can vary based on the type of loan, the lender's policies, and specific circumstances. Generally, they typically request bank statements covering the most recent two to three months.

What are red flags on bank statements?

Red flags on bank statements for mortgage qualification include large unexplained deposits, frequent overdrafts, irregular transactions, excessive debt payments, undisclosed liabilities, and inconsistent income deposits, which prompt lenders to scrutinize the borrower's financial stability and may require further explanations.