No-Doc Loans - Buying A House Without A Job

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We don't have jobs, we told the mortgage loan salesman. That's when we learned how easy it was to get a no-doc loan. {mosbotwordcount}

What are no-doc loans? "No doc" is short for no documentation. These are loans for which the bank or other mortgage lender doesn't require any documentation of income or employment. It doesn't quite mean no documents at all, and in fact, it can mean different things to different lenders.

{bot_wrgoogle}When we got the loan on the house we are in now, for example, we didn't provide evidence of income. We didn't have jobs at the time. In fact, the lender made it clear that we shouldn't even mention what our reported income was. We did have a new business that was becoming very profitable in recent months. However, the previous year's tax return would have shown an income too low to qualify us for a loan.

We qualified based on credit scores alone. Fortunately, both my wife and I have always paid everything on time and had good scores. We did have to provide information on when we started our business, and the usual appraisal of the home was required. So "no doc" doesn't really mean no documents, but rather limited documentation.

In fact, many such loans are referred to as "no income verification" loans. You might still have to verify that you have a job or a business, but without any evidence of how much income you make from it. Some loans may be referred to as "partial documentation loans," or "low documentation loans," and require some proof of income, but still be based primarily on credit score.

Why No-Doc Loans?

At a time when the typical 30-year mortgage loan was charging 6% interest, our loan cost us 7.25%. That is typical of no-doc loans. They will always have a higher interest rate, because they are considered a higher risk by lenders. I know of at least one person who obtained a no-doc loan at 11% annual interest while normal rates were a little below 6%. That brings up the question of why you might want such a loan.

The answer is a simple one - because you have no choice. In our own case we had money in the bank and a growing business, but the business had just started to really take off, so the previous year wasn't so profitable. We couldn't show income sufficient for any loan, but we had good credit scores. If we wanted to buy a house, we had to rely on those.

If you have a great job, but were unemployed the year before, you might face a similar situation. Also, getting a better job may seem great to you, but to a lender, if the job is too new and in another field than your previous job, you are a risk. You may have to rely on your credit score.

As you can imagine, when you get a no-doc loan, credit score matters. Our higher score meant 7.25%, which seemed high until compared with that 11% loan I saw. Keep in mind what is likely to happen in the future when looking at these loans. For example, if we were within a month or two of filing the next years tax return, we could have waited to buy a house and obtained a regular mortgage loan at 6%.

Of course, you can also look at a no-doc loan as a temporary solution. As soon as you have documented income from a business, or enough time on the job, or have otherwise corrected whatever the problem is, you can refinance. This certainly would be my goal if I had an 11% mortgage loan when 6% was available.