UNDERSTANDING THE { MORTGAGE PROCESS }

Dealing with debt

One of the key criteria that lenders consider when reviewing a mortgage application is **real income.**

In simple terms, that is the **amount of monthly payment you can afford,** based on monthly income and *monthly debt obligations.* As a rule, your total monthly debt (including your mortgage payment) divided by your monthly income should be no more than 45 percent.

$$\frac{\text{Monthly debt* + your new mortgage payment**}}{\text{Monthly gross income}} \leq \text{45\% Monthly gross income}$$

Example:

$$\frac{\text{\$3,100 Monthly debt (including mortgage payment)}}{\text{\$7,000 Monthly gross income}} = \text{44.3\% Monthly gross income}$$

**Defined as revolving credit (credit cards) and loans (car, student, personal, mortgage)*
*** Defined as principal, interest, taxes, homeowners insurance and HOA fees*

If you are looking to buy a home, you need to take a serious look at your monthly debt and adopt a plan to attack it. Here's how to get started:

1 – Understand your debt – and face it.

- Make a list of all debts, total amount owed, monthly payment, interest rate (if applicable) and due date.
- Get a copy of your credit report (free once a year) to confirm your list is complete and accurate.
- Calculate your real income to get a financial snapshot of where you are.
- Update your list monthly to keep a "big picture" view and track your progress.

2 – Reduce your debt.

- Prioritize your debt by the type of loan and the highest interest rates.
- Pay debts with low balances and high-interest credit cards first. Most credit card statements will include the minimum payment required to pay off the card balance within three years.
- Consider the "snowball" method to prioritize paying off one of your debts, while paying the minimum payments on the others.
- Consider a way to earn additional income to pay down debt.
- Look for ways to reduce your monthly expenses, i.e. lower rent, lower car payment, bring your lunch, etc.

3 – Commit to best practices.

- Pay your bills on time each month.
- Pay at least the minimum payment – more if you can on debts where you carry a balance.
- Don't add to the balance on credit cards when you're trying to pay them off. Keep one low-interest card for travel and emergencies if needed.
- Move your accounts to banks or credit unions with no or low fees.
- Consolidate student loans.
- Refinance a high-interest car loan.
- Transfer credit card balances to lower interest rate credit cards when possible. But don't close accounts that are paid off. The length of time you have credit open has a positive impact on your credit scores.
- If you fall behind on payments, attempt to pay past due bills as quickly as possible, but keep your other accounts in good standing.
- Create a small emergency fund to fall back on.

NOT SURE WHERE TO BEGIN?

Your Allen Tate Mortgage Consultant can help you understand your debt and what work you need to do to qualify for a mortgage.

GIVE US A CALL!