5 Times It Pays to Wait to Get a Mortgage

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By Scott Sheldon | Credit.com – Wed, Aug 7, 2013 7:00 AM EDT

You're doing everything right, paying your bills on time, earning a good living, and you're applying for a mortgage — with second thoughts. Maybe you're trying to buy a new home, and something's just not right, perhaps the payment is too high. Whatever the case, paying attention to the signs means the difference between making a potential mistake worth thousands of dollars or choosing the path that makes better financial sense.

Upon applying for a mortgage loan, a lender conducts a thorough analysis of your credit history, credit score, income, employment status, job history, as well as your ability to make payments on your debt. You can rest assured, if the numbers don't make sense, and home affordability is problematic for you, it will absolutely be apparent to the lender as well.

Here are the five times you should consider waiting to apply for a mortgage.

1. Your Debt Is Too High.

If more than 10% of your monthly income goes to liability payments (car loans, credit cards, other debts), not only will these liabilities hurt your ability to qualify, they limit how much house you qualify for.

Remember, liabilities (debt) erode borrowing power to a ratio of 2:1. In other words, a minimum payment on a credit card at $100 per month needs $200 per month in income to offset that liability payment. You should also consider how much more manageable that mortgage payment would be without those liability payments. It may make more sense to pay off those limiting debts for a future benefit.

2. Your Income Is Too Low.

Perhaps your debt payments are too high, and your income needs to be higher to compensate for that — or you need to simply pay off your debt — in order to qualify. Maybe your income is just not high enough to support a house payment for the price range you desire. This differs in many markets, but generally speaking, you need to have enough income to support a house payment of at least $1,500 per month when buying a home. How much income are we talking about? At a minimum, just shy of $40,000 per year or 55% of a $1,500 mortgage payment.

3. You Don't Have a Down Payment & Closing Costs.

You'll need at least 3.5% of the purchase price for a down payment. This can be your money or it can be gifted money. On a $300,000 house, for example, that's $10,500 down. Gone are the days of attaining seller credits for closing costs. Typical closing costs are approximately 3% of the purchase price, so that same house for $300,000 translates to an additional $9,000 in closing costs, for a grand total of $19,500 to make the purchase.

4. Your Employment Is Not Stable.

Possible change of careers? How about a job gap? These situations not only can hurt your potential ability to qualify for the loan, but it raises the question of whether or not you can support a house payment. This includes changing job status, for example going from being a W2-wager to self-employed and vice-versa, as lenders will look at the income you can

5. Your Credit Is Less Than Stellar.

Do you have derogatory items on your credit, like a bankruptcy or short sale, or even a foreclosure? It's an automatic 2- to 3-year wait to re-enter the market. This is a prime opportunity to save for a down payment and closing costs, and to clean up your credit history to prepare to purchase a home later on. You can pull your credit report for free once annually from each of the three major credit reporting agencies at AnnualCreditReport.com or you can monitor your credit on a monthly basis using the free Credit Report Card.

Remember, while you might still qualify for the mortgage now, that does not necessarily mean you should accept the obligation. The long-term prospectus of what that obligation means over time is paramount. Consider the effects the new mortgage payment will have on long-term savings ability, household cash flow and lifestyle. The last thing anyone wants is to be tied to a mortgage payment that they can't adequately support.

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