



## Ten Reasons Why You Cannot Buy a House

by

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Buying a house has never been more affordable. Low prices coupled with record low mortgage rates have made purchasing a primary residence, second home or investment property very appealing for many. Unfortunately, many purchase transactions fall out of escrow, some buyers are unable to qualify for mortgage loan financing and others cannot get their offer accepted.

In today's market, buying a house requires diligence, a little bit of luck and a lot of planning. But most importantly, your expectations must be in sync with the market.

Here are 10 common pitfalls that could keep you from sealing the deal:

### **You have large cash deposits but no paper trail**

Be prepared to source all cash deposits and transfers into your bank accounts. Are you doing side jobs? Do you get regular cash deposits from a friend or family member? All deposits and transfers from other accounts will need to be sourced.

### **Your gift money and/or down payment cannot be sourced**

Getting money from mom and dad to purchase a house? That's great; here's what they will need to provide so you can secure a home loan stress-free:

Signed gift letter stating the money is truly a gift.

Full bank statement showing they had the ability to gift funds.

### **Your debt-to-income ratio is above 45 percent**

Your debt-to-income ratio (DTI) is the amount of a new monthly house payment plus other recurring monthly debt divided by your gross monthly income. Most loan programs require that this ratio be at or below 45 percent. You can determine whether a house is within your affordability range in two ways:

Calculate your DTI: Proposed mortgage payment + all minimum monthly debt obligations ÷ gross monthly income.

Calculate your maximum mortgage payment: Gross monthly income × .45 (45 percent DTI) – all minimum monthly debt obligations.

### **You're self-employed and show losses on your Schedule C**

You cannot have your cake with the tax man, eat it too and expect to qualify for the maximum house price. If you file your income taxes on a Schedule C be prepared to show strong positive figures on any one of the following line items (note: this will likely cause you to pay more in income taxes, so consult with a tax professional).

Line 31 net profit (business use of the home can be added back for income qualifying)

Line 12 depletion

Line 13 depreciation

### **You take 2106 business expenses on your tax return**

You're a W2 employee, and you personally pay for business-related expenses out of your own pocket. Sounds great, right? Here's the red flag: Lenders calculate 2106 business expenses as a debt and will take this annual expense and divide it by 12 to get a monthly figure.

### **You need a seller credit for closing costs**

Many buyers today, especially first-time home buyers, are short on cash to close and need seller concessions for closing costs. But what if the seller doesn't agree? Be prepared to pay about 3 percent of the purchase price in closing costs, in addition to your down payment.

#### **You're indecisive**

Ideally, you should shop for your loan before making an offer on a house. If, however, your offer is accepted before you choose which lender or loan program you're going to use, then you will be forced to do one of two things:

Commit to working with a lender.

Cancel the contract if you cannot meet obligations.

#### **The house has structural and/or pest-related issues**

These things happen, so be ready for it. If you're going with a government-backed mortgage for your home purchase, you will be subjected to slightly higher appraisal standards than if you were going with a conventional mortgage.

#### **You're competing with multiple offers and stronger buyers**

So how do you win? Start by asking your mortgage lender to close the transaction in less than 30 days. This increases your negotiating ability.

#### **You have unrealistic purchase price expectations**

This happens time and time again: Buyers are very particular about what they're looking for — and what they're willing to pay for it. Most buyers have to compromise at some point along the way, but it often takes multiple offers on several homes for this fact to ultimately resonate. A good real estate agent should be able to advise you of the reasonableness of your offer.

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