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# Student Loans May Be The Only Thing Keeping You From Getting A Mortgage

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Anyone who has tried to apply for a mortgage and had student loans knows what it's like to be scrutinized and questioned by the mortgage company over the impact of those obligations. Like other forms of debt, such as car loans or credit cards, student loans are in the same classification: debt made against income or rather an *ability to repay*. J

ust like all consumer debts, student loans can reduce the ability to borrow (<http://blog.credit.com/2013/05/how-student-loans-can-keep-you-from-buying-a-home/>) because they erode income. So let's take a closer look at how your student loans can hurt your mortgage application, and what you can do to protect yourself.



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## Quick Life-Cycle – Student Loan To Home Loan

Student loans are reported on [a credit report](#) just as any other payment obligation. In many instances, the student loan payments are deferred (<http://blog.credit.com/2013/06/pay-student-loans-cant-afford/>), extended out into a future date when the payments kick-in– if they have not already.

Lenders are required by law to account for all material debt known to them in the supporting documentation a borrower provides in anticipation of acquiring a home loan. Student loans are the wildcard because they can show a payment at \$50 per month on an obligation all the way up through \$100 per month and higher. It's not so much the monthly payment per student loan that lenders have to overcome, but in most cases it's multiple student loans with multiple lenders, each showing a payment anywhere between \$50-\$80 per month.

For example, a consumer's credit report (<http://blog.credit.com/2013/04/how-do-student-loans-impact-your-credit/>) might show six separate student loans totaling \$50,000, each with a payment of \$80 per month. That translates to a \$480 per month obligation, which can reduce borrowing power by upwards of \$60,000!

Let's look at the path for a student loan borrower who's trying to buy a house:

1. Consumer decides to take out various large student loans in excess

of \$50,000 (average amount) to pay for college tuition.

2. Finishes college in hopes to land an occupation with the expectation of earning an income large enough to afford *student loan payments and a housing payment*.
3. Enter: Decision to buy a house.
4. Consumer takes the next step: Speaks with a mortgage lender about purchasing a house.
5. Student loan(s) resurface into financial picture negatively affecting purchasing power.
6. Consumer's expectation of purchase price becomes "subject to change" based upon all liability payments.
7. Consumer purchases a house (<http://www.sonomacountymortgages.com/purchase-mortgage-loans/>) with student loan payments counted for and makes timely repayments of principal and interest on both mortgage and student loans.

## How To Keep Your Mortgage Application From Being Denied

If a student hopes to someday buy a home, he or she would be well advised to avoid private lenders when obtaining a student loan. Private lenders charge significantly higher rates of interest and can contain shorter-term amortizations inflating the payment obligation, which is what the mortgage lender will use when trying to qualify you for a home loan.

### Further tips:

- If you have multiple student loans, consolidate them into one loan to reduce total student loan payments (speak to a lender first).
- If student loans are consolidated and they don't report that way on the credit report, the lender has to use the information they have showing the higher payments because that's what the credit report reveals, unless further supporting documentation can be provided to show each loan has been consolidated into one new debt.
- Avoid any student loan delinquencies (<http://blog.credit.com/2013/06/neverending-student-loan-nightmare/>), especially in the last 12 months. Ignoring this could result in your application being denied for a government loan. Government programs are strict

about delinquencies on federal debt, which is what a student loan is.

- If student loans report as *deferred* on your credit report, get the specific payment amounts from the servicer or a payment letter from the servicer stating an approximation of what the payments will be when they come due and payable.
- If a payment letter cannot be obtained, the lender will use 2% of the principle balance to determine appropriate payment obligation for qualifying.
- If any student loans are paid off in full, but your credit report shows there is a current payment obligation, provide supporting documentation showing that it has been paid off in full to the mortgage company.

\*Credit (<http://www.sonomacountymortgages.com/mortgage-loans-credit-scores/>) Caveat — if a student loan is in deferment for 12 months or longer, only on an FHA Loan can the payment be omitted from the lender's qualifying ratios. Qualifying ratios are used by the lender to determine your ability to borrow.



## Qualifying for a Mortgage Out of College

If you are a former student, and have a limited work history and student loan debt, you can still potentially qualify for a home loan if your field of study was in direct relationship to your field of employment. For example, you have a degree in accounting and you've recently taken a job as an accountant.

Furthermore, if you were previously a full-time student, and you were not required to file a federal income tax return, you can still qualify for financing as you were not required to file IRS tax returns.

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