PART I

Eight-Step Guide to Getting the Best Rate and Protecting Yourself from Most Common Scams

CHAPTER 1

Step 1: Boost Your Credit Rating and Prequalify

Unless you just won the lottery, you need a good credit rating. Without it, you'll be at the mercy of higher rates, bigger fees, and fewer options. Or worse, you could find yourself sitting on the curb with all your belongings piled up next to you, and nowhere to go. That's exactly what happened to a family I'll call the Happys. The Happys were so happy they'd found their dream home, they made an offer, signed an agreement, and gave notice to their landlord. They weren't worried about a thing—not even their credit—because they had a prequalification letter for financing in hand. They were happy, too, because the builder was going to get the home finished just before Mrs. Happy was due to have her baby. But, alas, their financing hit a snag when the lurid details of their credit came to light. Consequently, their prequalification could not be turned into an approval. Frantic, they went online and shopped every lender imaginable, but no one would grant them a loan.

"Why won't anybody take a chance on us?" wailed Mrs. Happy. "We're good people, and I'm about to have a baby!"

What she failed to realize was that the mortgage business is not about taking a chance on good people. You can be a saint from heaven and still get denied if your credit report is ugly as hell. The mortgage business is all about making money for its investors, and these investors want to *invest* their money, not gamble with it.

"Perhaps your landlord can let you stay longer while you clean up your credit?" I asked, being one of a long line of loan officers she'd come begging to.

> Mortgage companies have to pay their investors. They can't afford to gamble on people with good intentions and a poor payback history.

"No, he's already rented it out to someone else for next month. We have no choice but to get out, and we have absolutely nowhere to go. I've got my entire house packed in boxes, ready to move, but I can't seem to find a loan. I didn't think our credit was *that* big a deal." Ignorance about credit does not equal bliss.

Last I heard, the Happy family was anything but, as they were forced to move three states away to bunk up with the wife's dad. You might think this story is ludicrous, but it's true, and some version of it happens to someone every day. That's why you must take care of your credit as your first step; otherwise, your prequalification letter won't be worth the ink it took to print, and you could find out what it means to be homeless.

✐ **NOTE**
If you know your credit is outstanding, you can skip ahead to the shaded box titled, "Look Who's Selling Your Credit behind Your Back!" You'll want to know about this slimy practice and what you can do to prevent it from happening to you. ✎

What Credit Score Do You Need to Buy a Home?

If you want a conventional loan with the lowest rate, you need a score of 620 to pass lenders' automated underwriting programs (defined below). I'll explain how this works and mention some exceptions. If you don't need this information, skip ahead to "How Lenders Rate Credit."

Lenders pull a *trimerged credit report* that contains data from the three credit bureaus (Equifax, Experian, and TransUnion) with a credit score for each. Your numeric score comes from a complex algorithm based on at least 40 components from the information in your credit file. It's an industry-specific score that's been created just for mortgages. The purpose of the score is to predict how risky it will be for a lender to extend you credit.

Mortgage companies go by the middle score. If your scores are 560, 589, and 650, your score is considered to be 589, for example. Other rating factors include the following:

- Lenders do not average your scores together.
- Each person has his or her own score; married couples do not share a score.
- Your scores will vary with each bureau, because not all creditors report to all three bureaus.

The loan officer or a loan processor inputs your application into a specific lender's computerized underwriting program. This program, called *automated underwriting* or *desktop underwriting (DU),* reads the information, looks at your credit, and spits out a verdict lickety-split, as follows:

- *Accept.* This means you're approved as long as a live underwriter looks over your paperwork and agrees that the figures you've provided match your pay stubs and other information. The program also provides a list of the documentation that is required for the final approval, which is done by a real underwriter.
- *Review.* This means the computer isn't certain and wants a live underwriter to make the call. If you get a "review," your loan will go in line and may take a few days to get the verdict. So if you're wondering, "Why is it taking so long for me to get an approval when my neighbor got one in an hour?" this could be the reason.
- *Denied.* If the computer turns down your application, your loan officer may appeal the decision or go to a different wholesale lender. (If your loan officer works for a bank or direct lender, then he or she has only that lender's own loans to pick from and can't shop around for you like a broker can.)

✐ **NOTE: EXCEPTIONS**

Nonconforming (or subprime) lenders don't follow these rules, because they have different investors and their own guidelines. They'll accept credit scores lower than 620. One lender takes your highest credit score (rather than the middle one) with a 10 percent minimum down payment and a higher interest rate. ✎

> The credit score is an index of risk. It is an unbiased indicator of whether a consumer will repay a loan on time. Scores range between 400 and 850, approximately.

If your score is 620-plus, lenders will look to see if you have any other factors that could cause a denial, such as a recent bankruptcy, foreclosure, judgment, or tax lien. It's something of a pass/fail system with computerized underwriting (called *automated underwriting* or *desktop underwriting*). Whether your score is 620 or 720, you pass, and that means you are eligible for the best interest rate of the day. The conventional 30-year fixed-rate loans don't have a better interest rate for people with higher scores, as long as automated underwriting gives you an "accept."

✐ **NOTE**

If you're getting a Stated Income loan or other nonconforming loan, then your score will make a difference in your interest rate, up to about 720. This is called risk-based lending. ✎

If your score is 720 or higher, you can take your choice of the loan smorgasbord. If your score is 800 or higher, you'll have loan officers exclaiming over you and treating you like a rock star.

Here's a general guideline of how lenders rate credit scores:

720–higher	A	Take your choice of loans at the lowest cost, including risk-based loans such as Stated Income and Interest Only.
620–719	A–	You qualify for conforming, conventional loans. You'll pay slightly more for risk-based loans.
600–619	B	You may take a Federal Housing Administration/Veterans Administration (FHA/VA) loan or even a zero-down loan with desktop underwriting.

575–599	C	You can qualify for a subprime loan, but your interest rate will be significantly higher. Expect a prepayment penalty.
500–559	D	Most lenders will deny your loan; but there are a few "hard money" subprime lenders who will approve a loan if you have a sufficient down payment. Mortgage brokers have access to these wholesale lenders.
490–499	D–	Only the rare subprime lender will approve a loan for someone with a score below 500, and a large down payment will be required—usually 25 to 50 percent. Other conditions will apply, as well.

Additional Notes about How Lenders Rate Credit

Tax Liens and Judgments. Public records (liens and judgments) must be paid off prior to or through closing the loan. For example, if you have an IRS tax lien that shows up on your credit, it will have to be paid before your home loan can record and fund. This is because the tax lien would be in "first position" on the title to your property and the mortgage would be secondary. A mortgage company cannot take a second position to a tax lien or a judgment because that would put them in financial jeopardy.

Consumer Credit Counseling. Many lenders regard being in a debt-consolidation program—such as Consumer Credit Counseling, Solutions, and other similar nonprofit organizations—equal with being in a Chapter 13 bankruptcy, because they look at it as a self-made debt reorganization bankruptcy. Most lenders will require that you complete and be out of the debt counseling program before they will approve your home loan. Some require a length of time to pass for the reestablishment of good credit thereafter.

It is my opinion that there are two better solutions for burdensome debt: (1) negotiate payments and settlements with the creditors yourself, or (2) file a Chapter 7 bankruptcy and get the ordeal over with in a few months rather than draw it out for years. (Again, this is my personal opinion. Consult an attorney for legal advice.)

Collections and Charge-Offs. Just because a credit card company writes off a bad debt and stops harassing you, doesn't mean everything is okay now and you can ignore it. Often, an unpaid debt is "charged off," and then sold to a collection company.

A collection company buys a bundle of bad debts for pennies on the dollar. Then it goes to work to collect. It may add on its own fees and may continue to charge interest, causing your balance to rise higher and higher as time goes on. Even if you don't agree that you owe payment to this third party, if it's on your credit report, it's a factor in calculating your score and getting a mortgage. (Read how to handle collections and charge-offs on page 11, under "Nine Steps to Boost Your Credit Rating.")

Bankruptcy. Your mortgage broker can shop the subprime wholesale lenders to find you the best loan available for people who have had a bankruptcy discharged just yesterday. Yes, as long as you're out of the Chapter 7 or Chapter 13, some subprime lenders don't care how long ago it was, and they'll go by your credit score. (Other conditions will be required, however. Your loan officer will advise you, as lenders vary.)

> If you had a bankruptcy, you probably need to clean up inaccurate information on your credit report. Don't delay because time is a factor in calculating your score.

The government loans, FHA and VA, require that a bankruptcy be discharged for 24 months, and that you have clean credit thereafter. Credit score is not a factor for government loans.

Foreclosure. Mortgage lenders don't want to see that you failed to pay on a past mortgage. Period. And the fact that your former house was a "short sale" or otherwise amicable foreclosure doesn't cheer them up a bit. Foreclosures make investors very nervous. But don't despair if this happened to you. Just realize you'll need to take some time to rebuild good credit, and make sure you have absolutely perfect payments on everything from here on out.

No matter what your credit looks like today, you must never give up on your dream of home ownership. Your credit score is recalculated at the moment your credit report is pulled, so there's always hope for a better score once the data in your credit file improves.

What to Do if You Have Credit Challenges

What if you have "ugly" credit but still want to buy a house *right now*? Will it take a miracle to get a loan? No, just a large down payment. If you give the investors enough security, they'll make the investment in you—provided they collect a higher rate of interest to compensate for the risk. You might wonder how far that rule can be stretched. Here's an example.

> Giving the lender collateral in the form of a down payment is one way to make up for having poor credit.

As a wholesale account executive, I got a loan approved for a couple who had six pages of late payments and paid-off collections. These people had stiffed everyone from Visa to the pizza delivery guy. It was one ugly credit report! But this lucky family had just inherited money, so they got their loan. The catch was that they had to make a 20 percent down payment and take a high interest rate with a two-year obligation (prepayment penalty).

What's interesting is that the investor wasn't the only one who wanted more money. On top of the lender's high rate, the loan officer jacked up the rate by an additional 1.25 percent so she could collect the maximum back-end commission for herself. Then she added a couple extra points up front, too, because she figured they'd consider themselves "stuck" and wouldn't shop around. So Mr. and Mrs. Lucky ended up paying *triple* for their bad credit, because on top of what the lender required, the loan officer saw an opportunity to take advantage. And that's the way it usually goes.

People with Low Scores Get Ripped Off More Often

Why is this the case? Simply, if you have subprime credit, you're easy prey for loan sharks disguised as helpful, understanding, charming loan consultants. In fact, some loan officers prefer to specialize in subprime loans, because it's easier to make a killing on them.

Folks with subprime credit are famous for not scrutinizing the cost of their loans. Typically, they: (1) fail to shop properly, (2) fail to scrutinize their Good Faith Estimate, (3) don't know their real credit status and believe they're a "D" when they're really a "B," and (4) focus on payment rather than on the true cost of the loan.

Suave, good-looking guys like Jake are in high spirits about helping people with credit and income challenges. I walked into his office one day to see if I could be of service. (I was one of his wholesale lending reps.) Jake leaned back in his leather swivel chair, hands clasped behind his head, and announced with a big, happy smile, "I'm making $16,000 on this loan!" He held up a loan file.

"How are you doing that?" I asked.

"Four points," he said triumphantly.

Not only that, he had two loans he was charging four points on, so by doing just two loans that month, his take was about $32,000. Not a bad monthly income for part-time work.

4% of $400,000 = $16,000 commission
Two of these loans = $32,000

You might wonder how Jake was getting away with what looks like highway robbery. I asked him that question.

Smiling, he pointed to one file and then the other and said, "It's because these people have some collections, and these other people are self-employed and can't verify their income. They don't think they can get a loan anywhere else."

He had, in short, convinced them that because of their circumstances he was the only one who could get them approved. Of course, that wasn't true; in fact, any mortgage broker could have done the same loans more cheaply. But these were two typical subprime borrowers, and they were getting gouged.

Jake grinned and said, "I have to scoot now as I've got a game of golf this afternoon."

Good People with Bad Credit. Not all people with poor credit are irresponsible goof-offs. Some have suffered through illness, hurricanes, and other storms of life. These are intelligent people with integrity who need a fresh start.

I don't like seeing good people being taken advantage of, so I'm offering you an easy nine-step plan (*with new information revealed*) to boost your credit score. This is beneficial information for *everyone* who wants to prepare to buy a home. No matter what your past has been, if you follow this simple plan, you will become a homeowner, and the American dream will be yours. So take heart and start today.

Nine Steps to Boost Your Credit Rating

1. *Ignore private Web sites offering free credit reports.* Instead, obtain a copy of your credit report directly from the credit bureaus so you can check for errors. Avoid using other Web sites, because with these "middleman" reports, the information may not be updated and complete. What's more, the credit score is usually 30 to 80 points higher than the score your mortgage lender receives. Consumers who order free credit reports via various Web sites are shocked and upset when their loan officer tells them their actual score is lower. A rep for one of the bureaus told me she receives complaint calls daily, so the word needs to get out: scores from Web sites other than those of the credit bureaus themselves may not be calculated with the same algorithm and can appear higher.
2. *Take immediate action to correct errors with one handy form.* You can compose your own letter or get a handy fill-in-the-blanks form on my Web site, www.AskCarolynWarren.com (offered free to purchasers of this book). In addition, call each creditor who has reported an error, and do the following:
   a. Ask to speak with the supervisor in charge.
   b. Explain the situation and ask to have a letter confirming the correction sent to you right away.
   c. Ask the creditor to report the correction to the credit bureaus also, politely reminding them that it is illegal to report false information. (But don't trust them to do this; take responsibility to send in your own dispute as well.)

   And note that according to the Fair Credit Reporting Act, the bureaus must investigate your dispute and report the results to you within a reasonable time (30 to 45 days).
3. *Get current on credit cards and installment loans.* Get caught up on any past-due accounts, and from this day forward, pay everything on time. The older a late payment becomes, the less harm it does to the score, so time really does heal bad credit.
4. *Get single bad accounts deleted.* If you have good credit overall, with an "uncharacteristic" late payment, contact that creditor and ask to have the "mistake" deleted. Usually, a company will do this favor for one of their long-time good customers. (If a clerk says no,

call back and ask for the supervisor. You're likely to get a yes.) Don't worry, this is legal. The law does not require a creditor to report information; in fact, some companies don't report to the bureaus at all. If creditors choose to have a late payment deleted from an individual's credit file, they are within their legal rights to do so, even if the late payment actually happened. Creditors own the credit information for their own accounts. They may choose to give grace by having a mistake deleted early in order to keep their customer happy and returning to their store. It's simply good business.

Here's an example of how this works. One day a loan officer came to me for advice, because she discovered a collection on her credit report. She was fairly frantic, because she was just about to buy a house. She said she didn't know about the derogatory account until she checked her credit, and this one thing was dragging down her score. I advised her to call the creditor, tell her story, and politely ask to have it removed from her credit. Sure enough, a few minutes later she reappeared in my office, smiling. The creditor was happy to fax her a letter stating the collection was "in error" and should be deleted. Once she explained the situation, the creditor was happy to give her some grace providing she paid the sum with her credit card. This mutual agreement benefited both parties. And why not? This collection was an honest oversight and uncharacteristic of her credit profile. She was not defrauding or deceiving future lenders.

5. *Pay down credit balances that are up to or near the limit.* A balance that is over 50 percent of your credit limit lowers your credit score, even if it is paid on time. I suggest keeping balances below 30 percent for maximum benefit. This is a step you can take to boost your score—pronto. Once your balance is lowered, your score immediately improves.
6. *Keep long-standing credit open.* If you close off accounts you've had for several years, you will lose your "longevity points" and lower your score. You don't have to carry a balance from month-to-month, so don't waste money paying interest. Simply use the card for a minimal purchase ($20 is fine) a couple times a year to keep it active with the bureaus.
7. *Avoid opening new credit. Say no at the checkout counter.* Applying for and opening new credit temporarily lowers your credit score, so

don't apply for a credit card or auto financing until after you've closed on your home loan. If you've got three credit cards, do not apply for another—even if a retailer tries to bribe you with a 10 percent discount on your purchase. (In addition to helping your credit score, this will lower your debt ratio, too.)

8. *If you have old collection accounts with balances, leave them alone.* Don't pay collections or charge-offs before you apply for a loan, or your score will be penalized. The credit scoring system looks at the "date of last activity." So if you make a payment, you update that date of last activity from years ago to now—and your score goes down. It may seem ridiculous that you get docked for paying an old, bad debt, but because that's the way the system is set up you have to play the game that way. Until this is changed, I advise you *not* to pay off old collections and charge-offs (unless they're recent). Many of the subprime lenders will allow you to ignore collections that are over two years old and close your loan without paying them off.

   If one of the conditions on your loan approval is to pay off a collection, it's best to do so through the escrow company or attorney who is closing your loan. Don't pay it off while your loan is in progress. That way you don't have to go through the hassle of providing more paperwork and proof that it's paid in full. It's easy and "clean" when you do it through your closing, and lenders prefer it.

9. *Correct bankruptcy misinformation.* If you had a bankruptcy in the past, you'll probably see credit cards with open balances that were actually included in the bankruptcy. You need to mail a copy of the list of creditors that were included in the bankruptcy to the credit bureaus to fix this, along with the handy form mentioned above.

Don't be discouraged. You can consider this the tenth step in this plan. Don't be downhearted about mistakes in your past. Let go of the emotional baggage and concentrate on your future. I've seen people raise their credit scores by 60 to 100 points in just a few months. The important thing is to take action—*now.* Procrastination is a thief that steals many dreams. It's all in your hands.

Once your credit is squared away, you'll want to find out how much money you can borrow.

Look Who's Selling Your Credit behind Your Back!

We like to think our credit is a personal matter, but someone is toying with your private information without your consent. The credit bureaus have concocted another scheme to make more money. They're selling your private information, including your home telephone number, to bottom-feeding mortgage companies.

When one mortgage company pulls your credit report, the bureaus say, "Aha, someone wants a mortgage." So then they sell your pertinent information to a competing mortgage company who can then call during your dinner and try to steal you away. Can you imagine the nerve? They call them "trigger leads."

A mortgage company in Michigan, for example, pays one of the credit bureaus to tattle whenever a credit report is pulled in the state of Michigan by a mortgage lender. Then someone from the company scurries to the phone, calls you up, and harasses you to switch your business over to it.

A loan officer at a small broker shop confronted another loan officer at a large national lender about trying to steal his clients. The officer at the large firm wasted no time in admitting that her company was doing just that. "It's the advantage of working for a large company," she said. "We can afford to buy these trigger leads, which are very expensive, from the credit bureau. When the bureau notifies us that a person in our state has had their credit pulled by a mortgage lender, we get in touch with them and have a friendly chat. 'How are you doing?' we ask. 'Is there anything I can do for you today? I understand you have a Good Faith Estimate from another company. Let me show you how I can save you money. By the way, where do you work? Oh, that's on my way home, so I'll drop by and get your signature on my application.' "

To opt out of having your private information sold by the credit bureaus, go to www.OptOutPrescreen.com.

The loan officer from the small broker responded angrily to the discovery of this tactic. How dare this large company "spy" on people having a credit report checked? And how dare it "backstab" him, a fellow mortgage professional?

We all know some companies sell lists of customer names to other companies. Most of us take note of that when we sign up for something online, and we make sure to check the opt-out buttons. But the credit bureaus? Somehow we don't expect them to pass along our private information *without our consent or knowledge* when we apply for a loan. But they do. And you can prevent this disgusting practice by opting out at www.optoutprescreen.com. If a parasite mortgage company calls you, you can send a message with quick "No thank you; I don't do business that way."

Find Out How Much You Qualify For

House hunting is exciting. It's fun to walk through new homes and open houses and imagine yourself living there. But what happens when you fall head over heels in love with the royal master suite with that sunken Jacuzzi tub and gigantic walk-in closet, only to find it's priced just above your budget? You start thinking there must be some way, because now that you've pictured yourself soaking in that queenly tub after a hard day's work, you really have your heart set on it. You're thinking you *deserve* it. So then you look at the new "creative" loans that will allow for the payment you need, even with the bigger mortgage. Only you don't consider that these are also high-risk loans. You're just thinking about how fabulous you're going to feel in that dream house.

Think twice, otherwise you'll be hopping mad two years later when your payment skyrockets out of control and you're faced with losing your home. It all starts with that initial unrealistic desire—because you failed to prequalify first. What's the use of getting your heart set on a house you can't afford? And what's the use of buying a home destined to become your ball-and-chain when you realize that you really couldn't afford it?

Tailor your desires to your budget, not the other way around.

Don't rely on your loan officer or your real estate agent to set your personal budget for you. Remember, they get paid on commission, and the bigger the sale, the bigger the paycheck that goes into their pockets. Even though there are some wonderful professionals who will advise you not to spend beyond your reasonable means, you have to take responsibility for determining what that is yourself.

The Three-Step Preapproval Process

After you have your credit ready to be checked by a lender, the next step is to get prequalified and then preapproved. Here's how it works:

1. *You get prequalified.* This is a verbal estimate. You call a loan officer and say you're ready to get prequalified. A prequalification is an estimate of what you can afford based on the credit, income, debt, and asset information to give him or her over the phone. You don't need to have your credit report pulled yet. You're just "testing the waters."

   You also need to decide which company and which loan officer you're going to work with, so you're not making a commitment just yet. This is why you won't give out your Social Security number for the credit check. That comes later.

   The loan officer gives you a verbal estimate for the loan amount he or she believes you will qualify for. (The officer can do this over the phone in a 10-minute conversation.) This gives you an idea of what kind of house you can afford. Of course, this verbal prequalification is only as accurate as the information you've provided, so be very careful to give accurate figures for your income and monthly payments. If you overstate your income, you can't blame the loan officer for prequalifying you for too much money.
2. *You compare three Good Faith Estimates and choose a loan officer to work with.* This is an extremely important step, which is why Chapter 2 is devoted to making sure you do it right.
3. *You get preapproved.* This is a written commitment. Once you know you're happy with the approximate loan size you qualify for, and you've selected your good, honest mortgage professional to work with, you're ready to make and receive a commitment. You've established a relationship of trust, and you're done shopping around. Now you're ready for the next five steps:

   a. You complete the loan application, including your Social Security number, and let your loan officer pull your credit.

b. You negotiate the fees on your Good Faith Estimate. (This is explained in Chapter 5.)

c. You sign the Good Faith Estimate and other disclosures for your file.

d. Your loan officer gives you a written preapproval letter or certificate. This is a commitment to lend, as long as you meet all the lender's conditions and nothing changes for the worse, such as losing your job.

e. You give a copy of the preapproval to your real estate agent to accompany your offer.

How Do Lenders Decide How Much Money to Lend You?

Lenders have their own guidelines for calculating how much money they'll lend. This is called your *debt-to-income ratio,* or DTI. Depending on the lender, the total DTI allowed is usually 40 to 45 percent. This means that when you add up all of the payments listed below, it cannot be more than 45 percent of your gross monthly income (income before taxes and other deductions).

Some lenders allow a 50 percent debt ratio; others allow 50 percent but require that you take a higher interest rate, because stretching your DTI is risky. Another lender allows a 55 percent debt ratio and bases your interest rate solely on credit score. (These are all wholesale lenders, and you can get these loans through your local mortgage broker.)

Don't become overwhelmed by these variances. This is precisely why you'll have a good mortgage broker representing you. He or she will handle the details of these underwriting rules and shop the various lenders to get you the right loan.

Which Payments Count for Debt Ratio?

The lender will use the following criteria in calculating your debt-to-income ratio:

- Your new house payment, including property taxes and hazard (fire) insurance and mortgage insurance (if applicable)
- Flood insurance, if required for the location

- Homeowners' dues (if a condominium, townhouse, or Planned Urban Development—PUD)
- Auto loans and other installment loans
- Credit cards
- Student loans that will not be deferred for at least 12 more months

Then, to figure out the ratio, follow these steps:

1. Take the gross income for all borrowers. Multiply it by 0.45.
2. From that number, subtract all your loan payments and credit card payments.
3. What is left is the maximum amount you can afford for your total house payment (using a 45 percent DTI).

Following are two examples that will be useful in seeing how debt-to-income is calculated. Then you can do the same for yourself to see whether or not you have enough income to qualify for a mortgage now or need to pay off some debt first. If you're uncomfortable with a 45 percent debt ratio, use another ratio. In times past, 35 percent was used, but nowadays, lenders are much more generous.

Example 1

Husband's gross monthly income is $3,000; wife's is $3,000.

Total income = $6,000

$6,000 × 0.45 = $2,700 for monthly outgo (including new house payment and debts)

$2,700 for monthly outgo

– 400 auto payment

– 200 total credit card payments

$2,100 left for new house payment

(We'll subtract $300/month for property taxes and insurance and take a 6.75 percent rate.)

This couple qualifies for $277,500. But look what happens, in the second example, if they don't have an auto payment and their credit cards are minimal.

Example 2

Same scenario as above, but with lower payments.

$2,700 for monthly outgo
0 auto payment
– 50 total credit card payments
$2,650 left for total new house payment

Now they qualify for $362,300. This extra $90,000 makes a big difference in the quality of home they can afford.

Get Your Loan Amount the Easy Way, in Private

Use the mortgage calculator at www.mortgage-helper.com to get the loan amount you qualify for. Simply type in the payment you desire and the interest rate. You'll get an instant answer. Feel free to play with different numbers, as you remain anonymous.

However, if you don't like doing any math or research, your loan officer will calculate your DTI for you.

Pick Your Own Budget

If a 45 percent debt ratio doesn't leave you enough cash (disposable net income) to live on, use 35 percent (times 0.35). You and you alone decide where your comfort level is. Some people want more money left over for living expenses such as shopping and travel than others.

What about those higher debt ratios? In my opinion, the only time to take a 55 percent debt ratio loan is when you have more money coming into the household than what you can show on the application. (So, in reality, your debt ratio is lower than 55 percent.) An example of this is when only one spouse is going on the loan (because of credit), but both

Unsure about a Higher House Payment?

Here's your solution. Perhaps you've been paying $1,000 a month for rent and want to buy a house. But you're not sure where your comfort level is. Try setting aside an extra $1,500 a month for a $2,500/month house payment and see if you can live with that for three months. This idea will let you test a higher payment before you make a commitment.

are working and bringing in money. Another example is the person who consistently makes $2,000 a month selling merchandise via online auctions but can't prove it.

Coming Up

In the next chapter, I'll talk about the extremely important decision that too many people leave up to chance: finding a competent, honest loan officer. Just wait until you read about some of the sneaky rip-offs! You'll understand why working with the right professional is critical and why you can't always trust a referral.