Debt to Income Ratio for a Mortgage

Between pre-approval or pre-qualification, which is better? Pre-approval puts you in a better position at the bargaining table than pre-qualification. Pre-approval says the bank is ready to approve a mortgage up to a certain dollar amount because you've completed all the steps required except actually buying a property.

In pre-approval, a lender will verify gross income with your employer and subtract minimum monthly credit card payments, student loan payments, car payments, child support, alimony and personal loan payments. If all of these added together plus the mortgage payment are more than 43% of your gross pay, they will likely reject the request. Lenders prefer to see total debt payments including the future mortgage at or below 35% of your pre-tax paycheck or gross pay.

A best practice would be no more than 25% of your gross paycheck or 35% of your after tax pay going towards all housing expenses, including house payment, utilities, maintenance, upkeep and taxes. Paying off all debts including student loans prior to your mortgage application is a best practice.

If starting a family is in your future, designate only wages from the primary bread winner rather than adding both of salaries to qualify for a mortgage. The 25% rule is especially important when someone stays home to raise kids.

If you can't pass the percentage ratios, renting a home may be your best option for now.

Alex Silady, "What's the Ideal Debt-to-Income Ratio for Mortgages?" *smartasset*, 20 July 2020, https://smartasset.com/mortgage/ideal-debt-to-income-ratio-for-a-mortgage

https://www.moneygeek.com/mortgage/resources/rent-vs-buy-guide/.