How to Increase Your Purchasing Power

There are several factors that lenders take into consideration when determining how much they will lend to you for your home purchase. The three most important factors are your income, debts and down payment. Any one of these can greatly impact the amount of mortgage you qualify for. Lenders are primarily concerned with the percentage of your gross monthly income that goes to your new monthly housing expense and to your new monthly housing expense plus your other monthly debts. As a general rule, no more than 28% of your gross monthly income should be going toward your monthly housing payment and no more than 36% of your income should be going to your housing payment plus other monthly debt. These guidelines vary by the amount of down payment you make and the loan program you choose. These are general rules for loans with loan amounts at or below the conforming loan limit. Jumbo loans (loan amounts above the conforming loan limit) usually use ratios of 33% and 38%.

If you have been pre-qualified and are not satisfied with the amount you qualify for, we have listed four of the most common obstacles to qualifying for a home below and possible solutions to each.

1. Excessive Long-term Debt
   - Consolidate your debts by taking out one loan and paying off your bills with the money.
   - Pay off long-term debts by using some of your cash and making a lower downpayment
   - Pay off long-term debt by selling another asset and using the cash generated from that sale. (Generally, this is something you should consider doing in preparation for looking at homes to purchase, well before the application process.)

2. Inadequate Income
   - Income from bonuses, overtime, or future raises might be considered in qualifying. If you've overlooked any income, be sure to tell your loan officer.
   - Find a co-mortgagor who is willing to go on the loan with you to help you qualify (They may need to live in the house and take title as well).
   - Make a higher downpayment.
   - Consider a financing option that will allow you to stretch your purchasing power. Some of these options include FHA loans, adjustable rate mortgages, balloon financing or graduated payment mortgages.
   - Remember that non-taxable income may be grossed-up, as though it was taxable.

3. Credit Problems
   - Repair your credit file by contacting creditors and requesting that negative information be removed.
   - Pay off outstanding judgments, liens and collections.
   - Re-establish good credit
4. Lack of a Downpayment

- Get a gift from an immediate family member. (3-5% of the value of the house must still come from your own funds, unless the gift is 20% of the value or more)
- Ask the seller to carry back part of the financing.
- Sell or borrow against another asset.
- Borrow against or cash out your 401(K) - but consider the tax implications, if any.
- Ask the seller to contribute to closing costs, within the allowable limits.
- Obtain a low point or zero point loan.
- Consider financing options that offer lower downpayments and help with closing costs.