Mortgage Matters
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How to Get a Mortgage with Student Loan Debt

Even if you have student loan debt, there are viable paths to homeownership. The process is easier if you understand debt-to-income ratio, the importance of your credit score and the possibility of refinancing your student loans.

Understand your Debt-to-Income Ratio (DTI)

To determine your debt-to-income ratio your lender divides all your monthly debt payments by your monthly gross income. Debts may include student loans, auto loans, credit card debt, child support payments and your potential mortgage payment. For example, if you make $3,000 per month and owe $1,100 in debt per month, your debt-to-income ratio is roughly 37% ($1,100/$3,000 = 36.667). Depending on the lender, they will likely want to your debts to be less than 45% of your income.

If your student loans are in deferment, the mortgage lender often considers 1% of your total student loans as the monthly payment. However, if you have a document from the student loan lender that indicates you will be on an income-based repayment plan or will pay less than the 1% amount, your mortgage lender may adjust the monthly debt amount.

Increase your Credit Score

Before you apply for a mortgage, you should check your credit score with Equifax, TransUnion and Experian. Generally, if your credit score is below 640, building up your score before you apply for a mortgage can help. One thing that can impact your credit score is your outstanding credit card balance in relation to your card limit – known as credit utilization. When you pay down credit card debt, it helps improve your credit utilization amount. Other ways that may improve your credit score include paying your bills on time, asking for higher credit limits and disputing any inaccuracies in your credit reports.

Refinance Your Student Loans

Another way to lower your DTI ratio is to refinance your student loans and get a lower monthly payment. If you have a strong credit score and meet the refinance qualifications, you may get a lower interest rate on your student loans, which usually means a lower monthly payment. However, you should talk to your mortgage lender before refinancing. Refinancing does appear as new debt on a credit report and may negatively impact your credit score in the short-term.

Even if it takes a little longer than you expected, you may still fulfill your dreams of owning a home. Talk with your lender to find out what you need to do to get started.

I am here to help, even if you are not an RCB Bank customer. Feel free to call me at 405.608.5291 or email me at kwohl@bankrcb.net.

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