

Is a Mortgage Possible if you Have Student Loans?

Student loans can damper your plans to buy a house, but they aren't a reason to give up on your dreams. Yes, mortgage companies look at your total debts and compare them to your monthly income, but you can get approved for a mortgage with student debt with the following steps.

The key is understanding what lenders look for and how to make the most of your qualifying factors.

Manage your Other Debts

If you have other consumer debts, try paying them down or off as quickly as possible. Lenders look at your debt-to-income ratio. This compares your total monthly obligations to your gross monthly income (income before taxes).

Most lenders allow a maximum DTI of 43%, so no more than 43% of your income can cover your new mortgage payment, student loans, and other outstanding loans.

Paying off credit cards or other small loans can free up room in your DTI and allow you to get a mortgage with student debt.

Consolidate Federal Loans

If you have federal student loans, you might consider consolidating them into one loan. When you do this, you might also be eligible for payment plans, such as the Income-Based Repayment, which bases your student loan payment on your income, keeping it affordable.

The lower your monthly payment is for your student loans, the more room it leaves for a mortgage payment.

Save for a Higher Down Payment

If your DTI is high, try saving money for a higher down payment. The more money you invest in the home, the less risk the lender takes. Therefore, lenders may be willing to accept your higher DTI if you put more money down on the house.

It may feel impossible to save money when you have other debts but think outside the box. Consider starting a side gig or even a part-time job. Dedicate the money you make from the job to your down payment to increase your chances of buying a home.

Consolidate Other Debts

If you have good credit, try to consolidate your other debts into one loan to lower your payments. For example, you may consolidate your credit card debt onto a 0% APR credit card or consolidate other consumer debt into a personal loan.

Knocking your interest rates down and keeping your payments as low as possible is vital. This keeps your debt-to-income ratio manageable and allows you to get approved for a mortgage.

Final Thoughts

Don't let your student loan debt stop your dreams of homeownership. Today, many loan programs help first-time homebuyers with higher debt-to-income ratios.

The key is to save as much money as you can for a down payment and lower your debts as much as possible. Of course, the better your qualifying factors are, the easier it is to get a mortgage, but there are still ways to get approved, even with student loans.