

Pay Down Debt or Pay More Down?

We plan to sell our condo and buy a house this summer. We expect to get enough money from the proceeds (after commissions, closing costs, etc.) to pay off all our debts, or make a down payment on the new house, but we can't do both. Which will allow us to buy the most house for our money?"

It depends. Debt is one of the factors used to assess the adequacy of your income, and it also affects your credit score. If the minimum monthly payments on your credit cards and all other debt exceed 8% of your gross income, or if you have a fistful of credit cards that are "maxed-out," paying down debt might increase your house-buying capacity. But it's difficult to know for sure until you get well into the loan qualification process.

Lenders generally assess the adequacy of borrower income with two ratios. The "housing expense ratio" is the proposed monthly mortgage payment, including mortgage insurance, property taxes and hazard insurance. This is divided by the borrower's gross monthly income. The "total expense ratio" is the same but expenses include the borrower's existing debt service obligations.

For each loan program, lenders set a maximum housing expense ratio, such as 28%, and a maximum total expense ratio such as 36%. (But these rates can vary widely so be sure to check with your lender.)

While the maximums may vary from one type of loan to another, or with other features of the transaction, usually the total expense maximum is 8% above the housing expense maximum. What does that mean? It means that if your monthly debt payments are less than 8% of your income, debt will probably not be a limiting factor on how much of a loan you can afford.

But even if monthly debt payments exceed 8% of income, debt should not be a limiting factor if your total expense ratio is below the maximum. For example, if the maximums are 28% and 36%, and your ratios are 24% and 34%, debt is not a limiting factor even though debt service payments are 10% of income.

While you can calculate your debt service payments as a percent of income now, you can't calculate your total expense ratio because that requires knowledge of the total loan amount and interest rate. Sit down with your lender and allow him or her to crunch some numbers for you. That should give you a feel for the likelihood that your current debt service will limit the amount you can borrow.

Keep in mind that debt also affects credit scores. Your credit score may affect your house-purchasing capacity by affecting the interest rate, the required down payment, or both. Your ability to improve

your credit score by paying down debt, however, is limited. Also, if you have a past history of payment delinquencies, repaying the accounts that have been delinquent will not raise your credit score. Remember, a poor payment history can be neutralized only by a good payment history, and that generally takes some time. Strive to make your payments on time.

Whether or not an increase in credit score will increase your house purchase capacity depends on what your score would be with and without debt repayment. Lenders commonly stipulate minimum scores for different classes of risk. (See your lender to learn more about your credit score.)

For example, your lender may set 660 as the minimum for an "A-rated" borrower. If you have an overall credit score of 650 with 8 credit cards, paying off 4 of them might raise your credit score above 660. But if your current score is 690, you are already an A-borrower, and if it is 620 you probably can't get to 660 by paying off balances.

The circumstances under which debt repayment will increase house-purchase capacity are thus somewhat difficult to determine. It is going to be difficult to know for sure until you go through the

process of qualifying for the loan needed to buy a property at some price. That's why someone in your position really needs a skilled professional to guide them through the process.

Contact your lender and schedule an appointment today.



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The Value of Your Dirt

You may not know it, but your home's real value is in the dirt. When you purchase a home, you are actually buying real estate, a combination of dirt (the land) and all the stuff affixed to it: your home, the garage, maybe a swimming pool, fences, septic tanks, shrubs, trees, and driveways.

Land is real estate's most valuable resource because the planet provides a fixed supply. You can't move it and you can't make more of it. Your house is viewed as little more than an improvement upon the land.

Because it is so valuable, your piece of the rock has its own legal description and a documented history recorded under a parcel or plot number.



The planning or building department or division of your local government can provide you with your land's legal description, boundaries and perhaps its surveyed dimensions, as well as a copy of the map of your parcel within a tract or subdivision. Some files include photos.

The file containing your land's description will include the legal specifications or schematics of septic tanks, aquifers, wells, easements, the floor plan of your home and other evidence of how your land has been used over time.



Secure Your Home: Don't Be a Victim of Crime



Door and window locks in most homes today might keep out someone who just rattles the knob, but they won't stop a determined or professional burglar. In more than 40 percent of residential burglaries, the thieves came in through an unlocked door or window.

Every exterior door in your home should have a dead-bolt lock with a one-inch throw. If you have a key-in-the-knob lock, install an auxiliary lock—a verti-

cal bolt, cylinder dead-bolt, or horizontal-bolt model. And if you just moved into a new house or apartment, re-key the locks immediately. You never know who may still have a set of old keys. Also, do not hide your keys in mailboxes, planters, or under doormats. Give a duplicate key to a trusted neighbor instead.

Secure sliding glass doors with commercially available locks, with a rigid wooden dowel in the track or with a nail inserted through a hole drilled in the sliding door frame and projecting into the fixed frame. Lock double-hung windows with window key locks or by sliding a bolt or nail through a hole drilled at a downward angle in each top corner or the inside sash and part way through the outside sash. Consider grilles for basement or street-level windows if you live in a high-crime area.

Check Your Doors

Locks lose their effectiveness if they are installed in flimsy or weak doors. Make sure outside doors are solid, at least 1-3/4 inch metal or hard wood. Doors should fit tightly in their frames and hinges should be on the inside. Double check the door between your house and the garage since that is a common entry spot for thieves.

Install a peephole or wide-angle viewer in all entry doors so you can see who is outside without opening the door. A short chain between the door and the jamb is not a good substitute because it can be broken easily.

Look at Your Home from the Outside

To discourage burglars from selecting your home, make sure that any shrubbery around doors and windows is pruned so they will not hide anyone tampering with the entry points. Cut back tree limbs that could help a thief climb into second story windows.

