Struggling to Qualify for a Mortgage? Do This!

Description

Recently, the National Bank of Canada (NBC) released some grim data. Only 5% of Canadians have the minimum household income required (around $130,000) to qualify for a mortgage on a typical home (non-condos).

For many prospective homebuyers that news can feel overwhelming, especially as low mortgage rates have never made buying a home feel more affordable. If you're below the minimum income threshold, or something else is stopping you from qualifying for a mortgage, here are some steps you can take to increase your chances.

1. Know how much you can afford

Before you even look at homes, take a hard look at what you can truly afford. Your struggle to get a mortgage might be exacerbated simply because you're going for houses that are way out of your league.

Of course, this is *Canada* we're talking about, where the housing market is so hot you could fry an egg on it. But that doesn't mean you should go after homes outside your budget. Set a range of prices you can afford, then look honestly at your options within it.

2. Improve your credit score

So much depends on a little three digit number, right? In the world of lending, a good credit score can easily be the deciding factor in your mortgage application. The higher your score, the more likely you'll be approved.

Ideally, you want your score to be at least 660. But, to be safe, aim to have a 700 or higher, which puts you in the "Very Good" range.

How can you improve your credit score? The simplest way: pay your debts on time and in full. The lower your debt-to-income utilization ratio, the higher your score will be.

If you've racked up credit card debt and you're struggling to pay it off, you might benefit from a balance transfer card. These cards typically give you a low introductory APR, which will help you put more toward your credit card debt and less toward interest.

3. Save more down payment

The down payment is the portion of your home that you pay upfront, usually expressed as a percentage of the total purchase. For example, if you're looking at a $500,000 home, a 20% down payment would be $100,000.

With down payments, the more you pay upfront, the less you pay overall. A higher down payment means you'll pay less interest over the long run. And for down payments above 20%, you'll also forgo paying CMHC insurance.

For those struggling to qualify for a mortgage, beefing up your down payment might be your best strategy. Those with higher down payments are less likely to default on mortgage payments, making them attractive borrowers in the eyes of lenders.

4. Keep your job

Along with good credit and a hefty down payment, you also need to show mortgage lenders you have steady income. And that means showing them that you (and possibly your spouse) have a full-time job.

According to the Bank of Canada, you and your spouse should have an income of at least $130,000 if you want to qualify for a mortgage (for non-condos, it's more like $164,000). Of course, that can change from city to city. In Montreal, for instance, you'd need an income of at least $87,200, whereas in Toronto, you'd need $172,000.

If you're self-employed, things can get tricky. As a freelancer or contractor, you'll need to provide evidence that your business is profitable, which may require you to provide income statements from the last several years. If you're struggling to get a mortgage and you're self-employed, consider getting permanent work, even if it's part-time. That could give your application more credibility.

5. Get a mortgage pre-approval

While a mortgage pre-approval doesn't guarantee you'll get a mortgage, it can show you how much mortgage you can afford. Plus, home sellers and lenders take you more seriously when you're pre-approved.

6. Consider a private mortgage

Why should banks decide whether or not you qualify for a mortgage? If you have steady income and a pretty hefty down payment, you should be able to afford a home, right? Well, if you can't qualify for a traditional mortgage, you could go down the private mortgage route. Private mortgages are issued by individuals, not banks. These individuals are typically using the mortgage as an investment: they have a wad of cash sitting around, and they'll lend it to you to profit off its interest rate.

Keep in mind, private mortgage typically have higher interest rates than normal. And they often don't last as long as traditional mortgages, usually several years.

Don't qualify yet? Wait…

If you don't qualify, don't rush it. The housing market is a little crazy right now. Continue saving for your down payment, pay down debt, and keep a steady income. Patience can go a long way in this kind of market.

Want to beef your down payment up? Consider this…

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/07/01
Date Created
2021/05/14

Author
sporrello