

Prequalification Worksheet

I. MONTHLY INCOME ANALYSIS

A. Gross Monthly Income Calculation. Determine your (and, if applicable, your co-borrower's) total gross monthly income – the total stable and verifiable income from all sources before taxes and insurance premiums are deducted. Record the total on Line 1 below.

1. **Total Gross Monthly Income** \$ _____ (Line 1)

B. Housing Expense Test. Based on your Total Gross Monthly Income, determine *an estimate* of the maximum amount you could afford toward your monthly housing expense. Lenders typically allow for up to 33% of gross monthly income to be paid toward housing expense. This allowance factor is called the Housing Expense Ratio.

Total Gross Monthly Income (Line 1) \$ _____
 Housing Expense Ratio _____ x .33

2. **Maximum Monthly Housing Expense Payment** \$ _____ (Line 2)

(You will need to refer to this figure later on in the worksheet.)

C. Total Debt Test. Based on your Total Gross Monthly Income, determine *an estimate* of the maximum amount you could afford to pay each month toward *total debt*, including housing expense *and all other installment and revolving credit debt*. Lenders typically allow for up to 38% of gross monthly income to be paid toward total debt. This allowance factor is called the Total Debt Ratio.

Total Gross Monthly Income (Line 1) \$ _____
 Total Debt Ratio _____ x .38

3. **Maximum Monthly Total Debt Payment** \$ _____ (Line 3)

II. MONTHLY OBLIGATIONS ANALYSIS

D. Total Monthly Installment and Revolving Debt

Monthly Installment Debts. On a separate sheet of paper, list all monthly installment debts with 10 or more payments. Add up the amounts and record that amount on Line 4 below.

4. **Total Monthly Installment Debt Payment** \$ _____ (Line 4)

Revolving Credit Debts. On a separate sheet of paper, list all revolving credit balances. Add up the balances and multiply the total by 5% (.05) to estimate the monthly payment. Record that amount on Line 5 below.

Total Revolving Credit Balance \$ _____
 _____ x .05

5. **Total Monthly Revolving Credit Debt Payment** \$ _____ (Line 5)

Now add together your Total Monthly Installment Debt Payments (Line 4) and your Total Monthly Revolving Credit Debt Payment (Line 5). Record the amount on Line 6 below.

6. **Total Monthly Installment & Revolving Credit Debt Payments** \$ _____ (Line 6)

E. Available Income Test. Determine the actual amount of income available to be used for your maximum affordable monthly mortgage payment, including principal, interest, taxes and insurance (PITI), by subtracting Line 6 from Line 3.

Maximum Monthly Total Debt Payment (Line 3) \$ _____
 Monthly Installment & Revolving
 Credit Debt Payments (Line 6) – \$ _____

7. **Income Available for maximum affordable Monthly Mortgage Payment (PITI)** = \$ _____ (Line 7)

III. AFFORDABILITY ANALYSIS. This section will help you estimate a maximum affordable home price using the Affordability Factor Table on the next page.

F. Maximum Payment Calculation. The Affordability Factor Table is based only on the principal and interest portion of your estimated mortgage payment, because taxes and insurance can vary so widely from one region of the country to the next. For the purpose of this estimate, assume that 75% of your total mortgage payment goes toward principal and interest; the remaining 25% toward taxes and insurance.

The smaller of Line 2 or Line 7 \$ _____
 _____ x .75

8. **Maximum Principal & Interest Payment** = \$ _____ (Line 8)

(continued)



Gross Monthly Income includes:

- child support
- alimony
- unemployment compensation
- Social Security
- rental income
- seasonal employment income
- commission income

Housing Expense and Debt Ratios, measurements used by lenders to determine whether you can afford a mortgage, are based on:

- total monthly income
- estimated monthly housing expense
- estimated total monthly debt

The **monthly housing expense ratio** compares your projected total monthly housing expense with your total monthly income. Monthly housing expense includes the principal, interest, taxes and insurance (PITI) payment and, if applicable, other financing and homeowners association dues.

The **total debt ratio** compares your total monthly debt with total monthly income.

Monthly Installment Debt includes:

- student loans
- car loans
- home equity loans
- 401(k) loans
- child support or alimony

Revolving Credit Debt includes:

- lines of credit
- credit cards

PITI is an acronym for the four components of the monthly mortgage payment:

- **Principal** – the portion of the payment that is used to reduce the loan balance.
- **Interest** – the portion of the payment used to pay interest that is due.
- **Taxes** – one-twelfth of the annual property tax bill.
- **Insurance** – one-twelfth of the annual mortgage and homeowners insurance bills.



LTV (Loan to Value) is the mathematical computation that compares the loan amount to the value of the property.

The Loan-to-Value Ratio, expressed as a percentage, is determined by dividing the loan amount by the value or selling price of the property. Usually, the higher the LTV, the greater the interest charged. Maximum percentages for banks, savings and loans, or government-insured loans are set by statute.

Closing Costs are those costs, in addition to the price of the property itself, that are due at loan closing. These costs normally include, but are not limited to:

- origination fees
- discount points
- attorney's fees
- costs for title insurance, surveys and recording documents
- and prepayments of real estate taxes and insurance premiums held by the lender.

Sometimes the seller will help the borrower pay some of these costs.

G. Home Affordability and Down Payment Options. Using the Maximum Principal & Interest Payment (Line 8) and the Home Affordability Factor Table below, you will be able to determine your home affordability and down payment options that can help you meet your homeownership goal. Select the loan type and interest rate.

Maximum Principal & Interest Payment (Line 8)	\$ _____	\$ _____	\$ _____
Affordability Factor (see table)	x _____	_____	_____
Maximum House Buyer Qualifies For	= \$ _____	\$ _____	\$ _____
Down Payment (3%, 5% or 15% expressed as a decimal)	x _____	_____	_____
Minimum Down Payment Required <i>(Does not include closing costs)</i>	= \$ _____	\$ _____	\$ _____

HOME AFFORDABILITY FACTOR TABLE

Instructions:

1. Select a loan term (15- or 30-year).
2. Find the current interest rate for the loan term you selected. (You can often find current mortgage interest rates in the real estate section of your local newspaper.)
3. Read across and record the factor for each loan-to-value in the Affordability Factor section.
4. Complete the affordability analysis calculations above.

Suggestion:

Examine your options by comparing the affordability of different loan terms (30 or 15 years) with different down payment amounts.

Interest Rates	30-Year Loans						15-Year Loans					
	Down Payment						Down Payment					
	0%	3%	5%	10%	15%	20%	0%	3%	5%	10%	15%	20%
4.50	161	172	180	198	218	246	115	121	126	137	149	163
4.75	157	168	175	192	212	239	113	119	124	135	147	160
5.00	154	164	171	188	207	232	111	118	122	132	144	158
5.25	150	160	167	183	201	226	110	116	120	130	142	155
5.50	147	156	163	178	196	220	108	114	118	128	140	152
5.75	143	152	159	174	191	214	107	113	117	126	138	150
6.00	140	149	155	169	186	208	105	111	115	125	135	148
6.25	137	145	152	165	181	203	104	109	113	123	133	145
6.50	134	142	148	161	177	197	102	108	112	121	131	143
6.75	131	139	145	158	173	192	101	106	110	119	129	141
7.00	128	136	141	154	169	187	99	105	108	117	127	139
7.25	125	133	138	150	165	183	98	103	107	115	125	136
7.50	123	130	135	147	161	178	97	102	105	114	124	134
7.75	120	127	132	144	157	174	95	100	104	112	122	132
8.00	118	125	129	141	153	170	94	99	102	111	120	130
8.25	115	122	127	137	150	166	93	98	101	109	118	128
8.50	113	119	124	134	147	162	91	96	100	107	116	126
8.75	111	117	121	132	143	158	90	95	98	106	115	125
9.00	109	115	119	129	140	155	89	94	97	104	113	123
9.25	107	112	117	126	137	151	88	92	95	103	111	121
9.50	104	110	114	124	134	148	87	91	94	102	110	119
9.75	103	108	112	121	132	145	86	90	93	100	108	117
10.00	101	106	110	119	129	142	84	89	92	99	107	116
10.25	99	104	108	116	126	139	83	87	90	97	105	114
10.50	97	102	106	114	124	136	82	86	89	96	104	113
10.75	95	100	104	112	122	133	81	85	88	95	102	111
11.00	93	98	102	110	119	131	80	84	87	94	101	109
11.25	92	97	100	108	117	128	79	83	86	92	100	108
11.50	90	95	98	106	115	126	78	82	85	91	98	107
11.75	89	93	96	104	113	123	77	81	84	90	97	105
12.00	87	92	95	102	111	121	76	80	83	89	96	104
12.25	86	90	93	100	109	119	75	79	81	88	95	102