

Financing your property

If you are just purchasing property the typical down payment is 20% - 25% for financing. The down payment can come from your current home equity. The three most important factors that determine your investment financing are:

1. **Debt to income ratio** Would your monthly debt payment commitments including your new property loan be more than 36% of your gross income? See the example below.
2. **Amount of your personal cash invested in the new loan** The likelihood of receiving favorable financing increases with the amount of personal cash or existing home equity that you have to invest.
3. **Credit Rating** Credit ratings are based on your debt payment history, income and employment history, and current debt. The likelihood of favorable financing is directly tied to your credit rating.

There are exceptions to every rule. People with poor credit ratings can get favorable financing if they have a large amount of cash/home equity to invest and a healthy debt to income ratio. However, if your debt to income ratio is over 36% the chances of receiving favorable financing are slim.

Debt to income ratio example:

Gross family monthly income	\$9,000
36%	\$3,240
Current monthly mortgage	\$1,200
Monthly car payments	\$750
Monthly credit card payments	<u>\$450</u>
TOTAL	\$2,400
36% of gross monthly income	\$3,240
Minus current monthly debt	<u>- \$2,400</u>
Available loan monthly payment	\$840

Let's assume that the family has a good credit rating and can put down 25% from their current home equity. This family should receive favorable financing for a monthly loan payment amount of up to \$840 without exceeding the 36% debt to income ratio. Let's look on the next page and see how much they can borrow for a monthly payment of up to \$840.

6.5% interest loan for 15 years

Total loan amount	Monthly payment
\$50,000	\$436
\$55,000	\$479
\$60,000	\$523
\$65,000	\$566
\$70,000	\$610
\$75,000	\$653
\$80,000	\$697
\$85,000	\$740
\$90,000	\$784
\$95,000	\$828
\$100,000	\$871
\$110,000	\$958
\$120,000	\$1,045
\$130,000	\$1,132
\$140,000	\$1,220
\$150,000	\$1,307
\$160,000	\$1,394
\$170,000	\$1,481
\$180,000	\$1,568
\$190,000	\$1,655
\$200,000	\$1,742

The family in our example has a good credit rating, can put down 25% from their current home equity. They can qualify for a loan with a monthly payment up to \$840 per month. They can receive favorable financing for a loan of \$95,000.