



# Should I sell or rent my current home?

## Ask Phyllis!

### Short Sale Waiting Game Proves Frustrating

*Dear Phyllis,  
In 2003 I purchased an 800 square foot home, married several years later and last year had twins. The home is simply too small. I was thinking it may be easier to just rent this home and buy another. Where do I start?*

*Jim*

Dear Jim,  
Qualifying for a loan is a bit more challenging than it was in 2003. Lenders use a total debt to income ratio when determining your income qualification. Your monthly Principal and Interest,

Taxes and Insurance (PITI) and minimum payment on installment debt, auto payments, and monthly recurring debt should not exceed 45% to 49% of your gross monthly income (depending on credit scores, down payment etc.).

For example, let's assume your gross monthly income is \$8000. Your proposed monthly PITI on a larger home is \$3,500 and you have \$200 monthly in revolving payments. Your debt to income ratio of 46% means you passed this qualification test.

In addition to not

having the equity from the sale of your current residence to add to your down payment, there's another obstacle in keeping your existing residence. Because some homeowners have been purchasing a new home and then strategically defaulting on their old home, there have been some surprising new lending guidelines:

1 If you do not have 30% equity in your existing home, the lender will not consider any rental income towards your gross monthly income. Your current monthly PITI will be added to your debts in the above

calculation and you no longer qualify.

2 If you have 30% equity in your existing residence the lender will consider approximately 75% of the monthly rent minus the PITI as income. In many instances this will result in a negative sum and then be considered a monthly liability. For example, your current monthly PITI is \$1800. Market rent is \$1800. 75% (what the lender will consider as income) of your proposed rent = \$1350; resulting in negative of \$450. In the qualifying example offered above this now moves

your \$200 in revolving payments to \$650 and your debt to income ratio to 52%. Your income is now insufficient for you to qualify purchasing the larger home.

Talk with a Realtor and learn how much your home is worth. Then talk with a knowledgeable lender, but if you don't have the 30% equity you may need to sell in order to qualify for the purchase of another larger home.

*Phyllis Harb is a Realtor with Prudential California Realty. She may be contacted at (818) 790-7325 or by email AskPhyllis@Realtorharb.com.*