DEBT STRATEGY BUYER DECISION GUIDE

Should I Pay Off Debt Before Buying a Home?

Underwriters don't care what you owe - they care what you pay every month. That single fact changes almost every debt decision a buyer makes before applying for a mortgage. Paying off a card with a $40 minimum barely moves your qualifying ratio; paying off a $450 car payment can move it enormously. Meanwhile, some of the moves that feel responsible - closing an old card, paying a collection right before applying - can quietly work against you. The right answer isn't 'pay off everything' or 'pay off nothing.' It's knowing which specific balances change your debt-to-income ratio, which change your credit score, and which change neither.

Reviewed: August 2026
Read time: ~13 minutes

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Guide: readinessiq.ai/guides/should-i-pay-off-debt-before-buying

Key facts at a glance

WHAT UNDERWRITING COUNTS
The payment - Not the balance - your monthly obligation drives DTI.

INSTALLMENT LOAN EXCLUSION
10 payments left - Conventional loans can drop these from DTI entirely.

REVOLVING DEBT
Minimum payment counts - Even if you pay in full every month, the statement minimum is used.

COURT-ORDERED DEBT
Can be excluded - When payments are made by someone else per legal order and documented.

The one-minute answer

Underwriters don't care what you owe - they care what you pay every month. That single fact changes almost every debt decision a buyer makes before applying for a mortgage. Paying off a card with a $40 minimum barely moves your qualifying ratio; paying off a $450 car payment can move it enormously. Meanwhile, some of the moves that feel responsible - closing an old card, paying a collection right before applying - can quietly work against you. The right answer isn't 'pay off everything' or 'pay off nothing.' It's knowing which specific balances change your debt-to-income ratio, which change your credit score, and which change neither.

Buy now if:

Your debt-to-income ratio already fits your target loan program, or you have a specific installment debt with ten or fewer payments left that a lender can exclude for you.

Wait if:

A single revolving or installment payment is quietly eating a large share of your qualifying income, and paying it off (not just down) would meaningfully change your approval.

Consider an alternative if:

You have cash that could go either toward debt or toward your down payment. Run both scenarios with a loan officer - the better move depends on which one buys you a lower rate, a lower payment, or removed mortgage insurance.

THE CORE RULE

Underwriting counts the payment, not the balance

> BRIAN MIX, NMLS #111175
> A $15,000 balance at $150 a month and a $6,000 balance at $450 a month are not the same problem. The second one is the one hurting your approval.

Most buyers approach debt the way a financial advisor would: pay off the highest interest rate first, or knock out the smallest balance for momentum. Both are reasonable strategies for your finances. Neither is how a mortgage underwriter looks at your file.

Underwriting is built around one calculation: debt-to-income ratio (DTI) - your monthly debt payments, plus your new housing payment, divided by your gross monthly income. Balances don't appear anywhere in that formula. Only the payment does. That means a $30,000 personal loan with a $280 monthly payment is a bigger obstacle to approval than a $9,000 credit card with a $35 minimum, even though the balance is more than three times larger.

This is why 'pay off debt before buying' is incomplete advice on its own. The useful version is: find the payments that are actually constraining your qualifying ratio, and target those first. A debt with a small balance but a large monthly payment - often a short-term personal loan, a buy-now-pay-later plan, or a near-payoff auto loan - can free up more qualifying room per dollar spent than clearing a larger card balance ever will.

Run your own numbers before deciding anything. The debt-to-income calculator shows exactly how much room you have and which payment is taking the biggest bite out of it. Add each of your current debts, then remove one at a time to see which removal moves the number the most - that's the one worth paying off first, not necessarily the biggest balance or the highest interest rate.

This reframing also explains why two buyers with the same total debt can have very different approval outcomes. It's the shape of the debt - how it's structured into payments - that underwriting responds to, not its size on paper.

> FAST
> Before paying off anything, calculate your DTI with each debt removed one at a time. Pay off the one that moves the ratio the most per dollar spent - not the one with the biggest balance.

THE TRADEOFF

Payoff versus down payment: where should extra cash go?

This is the question we hear most often from buyers sitting on savings: should that $8,000 go toward a car loan, or toward the down payment? There's no universal answer, but there is a clear way to decide.

Paying off debt helps you qualify for more, or for a program you couldn't otherwise use. If a debt payment is capping your approved loan amount or pushing your DTI above a program's limit, paying it off can be the difference between approval and denial - or between a comfortable payment and a stretched one. It can also raise your credit score by lowering your credit utilization, which may improve your rate.

Putting cash toward the down payment lowers your loan amount and monthly payment directly, and can remove mortgage insurance. On a conventional loan, reaching 20% down avoids private mortgage insurance (PMI) entirely; reaching certain equity thresholds later can cancel PMI you're already paying. A bigger down payment also means less interest paid over the life of the loan.

How to decide between the two:

- If a specific debt payment is disqualifying you or badly straining your ratio, pay that one down or off first. Qualifying is the gate; nothing else matters until you're through it.
- If you already qualify comfortably, extra cash usually does more toward the down payment - lowering your payment, avoiding mortgage insurance, or reaching a lower-rate pricing tier.
- If the debt carries a high interest rate (credit cards especially), paying it off protects you regardless of the mortgage decision, since that interest keeps compounding whether or not you buy a home.
- Always keep a reserve. Don't drain your account to zero for either goal. Underwriters and your own safety net both want to see money left over after closing.

A loan officer can run your file both ways - debt paid off versus applied to the down payment - and show you the actual difference in approval, rate, and payment. That comparison is worth doing before you move a dollar.

> TIP
> Ask your loan officer to run your approval twice: once with the cash applied to debt, once applied to the down payment. The difference in your monthly payment and loan amount is often more dramatic than expected in one direction or the other.

INSTALLMENT LOANS

The 10-payments-or-fewer rule on conventional loans

One of the most useful - and most overlooked - underwriting rules involves installment debt that's almost paid off. Under Fannie Mae guidelines, a monthly debt payment (such as a car loan, personal loan, or student loan in repayment) can be excluded from your debt-to-income ratio entirely if it has ten or fewer scheduled monthly payments remaining at the time of closing, or if the remaining balance can be paid off with less than 5% of the borrower's monthly qualifying income committed to it.

This matters because it means you don't necessarily need to pay off a loan to get the underwriting benefit - you may just need to wait until it naturally crosses that ten-payments-remaining line. A car loan with 14 payments left today will cross that threshold in four months without you doing anything.

How to use this rule:

- Check every installment loan's remaining term, not just its balance. A loan with a small balance but 22 payments left doesn't qualify for exclusion; one with a larger balance but 9 payments left does.
- If a loan is close - say, 12-14 payments remaining - ask whether making a lump-sum payment to bring it under ten remaining payments makes sense versus simply waiting a few months.

- This exclusion generally applies to conventional loans following Fannie Mae or Freddie Mac guidelines. FHA and VA have their own, somewhat different treatment of near-payoff installment debt, so confirm the rule with your loan officer for the specific program you're using.
- The exclusion applies to the payment in your DTI calculation - it does not erase the debt from your credit report or credit score.

This rule is exactly why 'pay off debt before buying' needs nuance. Sometimes the highest-leverage move isn't paying off a loan at all - it's simply timing your application for after the tenth-to-last payment posts. That's a free strategy, and most buyers never learn it exists because it isn't intuitive.

> WATCH
> This exclusion is for installment debt with a defined end date and a fixed payment. It generally does not apply to revolving accounts like credit cards or open-ended lines of credit, which have no fixed number of remaining payments.

CREDIT CARDS AND LINES OF CREDIT

Paying down revolving balances versus paying them off

Revolving debt - credit cards, HELOCs, retail store cards - works differently from installment debt in underwriting, and differently again in your credit score. Understanding both sides matters.

For debt-to-income ratio purposes, underwriting typically uses the minimum payment shown on your most recent statement, regardless of whether you pay the balance in full each month or carry it. That means even a card you pay off monthly still counts as a debt in your DTI calculation, using whatever the statement's minimum payment happens to be. Paying a card down to zero the week before applying eliminates that payment from your DTI going forward, since the following statement will show no minimum due.

For credit score purposes, what matters most is your credit utilization ratio - the balance divided by the credit limit, both on individual cards and across all your revolving accounts combined. Utilization above roughly 30% starts to weigh on your score; above 50% weighs more heavily. Paying a maxed-out card down to 10% of its limit can raise your score noticeably within one to two statement cycles, even without paying it to zero.

So which matters more for you?

- If your DTI is tight and close to your program's limit, paying revolving balances to zero removes the payment from the ratio and gives the cleanest qualifying benefit.
- If your DTI has room but your credit score is holding back your rate or your mortgage insurance cost, focus on utilization - getting every card under 30%, and especially under 10%, tends to move the score faster than chasing a zero balance on one card.
- Spreading a payoff across several maxed cards to bring each one below 30% utilization is usually more effective for your score than paying one card to zero while others stay maxed.

Check your real numbers with the debt-to-income calculator and compare against your target program's limits before deciding where to send extra cash.

> TIP
> If you're choosing between paying one card to $0 or spreading the same amount across three maxed cards to get each under 30% utilization, the spread-out approach usually helps your credit score more.

A COMMON MISTAKE

Why closing a paid-off account can hurt you

It feels responsible: pay off a credit card, then close it so you're not tempted to use it again. For a mortgage applicant, this instinct can backfire in two specific ways.

It can shrink your available credit and raise your utilization ratio. Utilization is calculated using your total balances against your total credit limits across all open revolving accounts. Closing a paid-off card removes its limit from that total, which can push your utilization percentage up even though your actual balances didn't change. A higher utilization ratio can lower your credit score right when you need it steady.

It can shorten your average age of accounts. Length of credit history is a scoring factor, and closing your oldest card removes it from the average calculation going forward (closed accounts in good standing do stay on your report and continue to help for a while, but the effect fades over time, and the account no longer contributes its credit limit to your utilization).

What to do instead:

- Pay the balance to zero, but leave the account open.
- Put the card away - a drawer, not your wallet - if the concern is temptation, rather than closing it.
- If a card carries an annual fee you no longer want to pay, weigh that cost against the scoring impact, and time any closure well before you plan to apply, not during the mortgage process.
- Never close, open, or apply for any new credit account between pre-approval and closing. Underwriters re-check credit near closing, and a new inquiry or a closed account can change your file at the worst possible time.

The general rule during a mortgage application: your credit profile should be as boring and unchanged as possible from the day you're pre-approved to the day you close.

> WATCH
> Never close a credit card between pre-approval and closing, even if it's paid off and you don't plan to use it again. Wait until well after you close on the home.

STUDENT LOANS

Student loan payments count differently across loan programs

Student loans are often the single largest source of confusion in this whole topic, because the three major loan types calculate the qualifying payment differently - and the difference can swing your DTI by hundreds of dollars a month.

Conventional loans (Fannie Mae/Freddie Mac): If your loan statement shows an actual monthly payment amount (including a reduced payment under an income-driven repayment plan), that documented payment is generally used, even if it's $0 or very low. If the statement shows $0 or the loan is in deferment, underwriting typically uses a calculated payment, often around 0.5%-1% of the outstanding balance, depending on the specific guideline in effect.

FHA loans: HUD guidance generally requires using the greater of the actual documented monthly payment or a percentage of the outstanding balance (historically 0.5%), applied even to loans in deferment or income-driven repayment, though income-driven payment amounts that are properly documented can often be used directly. FHA's treatment has been more conservative than conventional in some periods, so always confirm current guidance with your lender.

VA loans: The VA Lenders Handbook allows the actual payment shown on the credit report or student loan statement to be used if it will be a permanent payment. Loans in deferment for at least 12 months beyond closing may be excluded from DTI in some cases; otherwise a percentage-of-balance calculation (commonly around 5% of the balance divided by 12 months) may apply.

Why this matters before you buy: A $70,000 student loan balance can produce a qualifying payment ranging from under $200 to over $600 a month depending on the program and your specific repayment plan. Before assuming you need to pay down student debt, ask your loan officer to run your DTI under each program you're considering - switching from an income-driven plan's documented low payment to a program that requires a percentage-of-balance calculation can change your approval more than any payoff would.

Compare estimated payments across scenarios with the affordability calculator, then confirm the exact treatment with your lender for the loan type you're using.

> **FAST**
> Before paying down a student loan, find out how your target loan program calculates the qualifying payment. The repayment plan you're on can matter more than the balance.

WHAT CAN LEGITIMATELY BE EXCLUDED

Court-ordered debt and other payments you may not need to count

Not every monthly obligation on your credit report has to count against you. A few specific categories can be excluded from your debt-to-income ratio when properly documented, and knowing about them can change your qualifying picture without paying off a single dollar of debt.

Court-ordered assigned debt. When a debt - commonly a joint credit card, car loan, or line of credit - was assigned to someone else, such as an ex-spouse, by a divorce decree, legal separation agreement, or other court order, and that other party has been making the payments, the debt can generally be excluded from your DTI. Underwriting will typically want to see documentation of the court order assigning the debt, along with evidence (bank statements or a similar paper trail) that the other party has actually been making the payments, often for the most recent 12 months.

Debts paid by someone else on your behalf. Similarly, if a non-occupant party (not just a court order) has been reliably paying a debt in your name and can document at least 12 months of that payment history, some programs allow it to be excluded, though requirements vary and this is more restrictive than the court-ordered scenario.

Co-signed debt where the other party pays. If you co-signed a loan for someone else (a car for an adult child, for example) and that person has made all the payments for the past 12 months with documentation, that debt may be excluded from your ratio even though your name is legally on it.

Authorized-user accounts. A credit card where you're only an authorized user, not an account holder, is generally not counted against your DTI, though it can still affect your credit score.

Debts with fewer than ten payments remaining. As covered earlier, this applies broadly to installment debt on conventional loans.

The common thread: these exclusions all require documentation, not just an explanation. Gather court orders, twelve months of statements showing who actually paid, and any agreement letters before you apply - pulling these together after your loan officer asks for them under a closing deadline is far more stressful than assembling them in advance.

> LOCAL
> If a debt was assigned to an ex-spouse in a divorce decree, start pulling twelve months of bank statements showing they made every payment now - this is one of the more document-heavy exclusions and takes time to assemble.

THE DANGER ZONE

What not to do about debt once underwriting has started

Everything above assumes you're making these decisions before you apply. Once you're in underwriting - meaning you've submitted an application and documents - the calculus changes, and several instincts that seem helpful can actually derail your closing.

Don't pay off collections or old debts without asking first. Paying an old collection account can sometimes reset its reporting date, and in rare cases can trigger a temporary score dip before it helps. It can also use cash your lender is counting as part of your verified reserves. Ask before you pay anything mid-process.

Don't consolidate debt into a new loan or balance transfer. A new consolidation loan is a new account, a new inquiry, and a new payment - exactly the kind of change that can require re-verification and can push your DTI or credit profile in the wrong direction at the worst time.

Don't make a large, unexplained deposit to pay something off. Underwriters source and verify large deposits into your accounts. Moving money around to pay off a debt can trigger a paper trail request that slows your closing, even when the money is entirely legitimate.

Don't close any account, even a paid-off one, for the reasons covered earlier - utilization and account age both matter, and this isn't the time to simplify your wallet.

Don't open a new credit account - a store card, a 0% financing offer on furniture, a new auto loan - for any reason before closing. Lenders re-pull credit shortly before closing specifically to catch this, and new debt discovered at that stage can delay or derail the loan.

Don't finance any new purchase, even 'no payments for 12 months' offers. These frequently still report as debt with a calculated payment on your credit report the moment the account opens, whether or not a payment is due yet.

The safest posture from the day you apply to the day you close: make your existing payments on time, and change nothing else. If cash becomes available and you want to use it toward debt, call your loan officer first - a five-minute conversation can save weeks of delay.

> WATCH
> The single most common way buyers accidentally derail their own closing is financing a purchase - a car, furniture, an appliance - after being pre-approved. Wait until after you have keys.

Your options, compared

Pay off the highest-impact debt first

Target the specific payment that's constraining your debt-to-income ratio the most, regardless of balance.

Pros

- Directly improves your qualifying ratio and can unlock a larger approval or a different program
- Can push you into a lower loan-to-value or DTI pricing tier for a better rate
- Often requires less cash than paying off the largest balance
- May free up enough room to remove the need for a co-borrower

Cons

- Uses cash that could otherwise go toward the down payment or reserves
- May not address high-interest debt if the highest-impact payment carries low interest
- Requires running the numbers carefully - the biggest balance is rarely the right target

Best for: Buyers whose DTI is close to their program's limit and who have identified one specific payment causing the strain.

Avoid if: You already qualify comfortably - in that case the same cash likely does more toward your down payment.

Wait out the 10-payments rule

Let a near-payoff installment loan naturally cross the ten-remaining-payments threshold instead of paying it off.

Pros

- Costs nothing extra - the loan pays itself down on its existing schedule
- Can fully exclude the payment from your DTI on conventional loans once it qualifies
- Preserves your cash for the down payment or reserves

Cons

- Only works if you're within a few months of the threshold
- Delays your purchase timeline by however many months are left
- Rule specifics differ between conventional, FHA, and VA - confirm before relying on it

Best for: Buyers with a car loan, personal loan, or similar installment debt that's already close to ten or fewer remaining payments.

Avoid if: The loan has more than a few months left, or you're using an FHA or VA loan with different treatment of near-payoff debt.

Apply extra cash to the down payment instead

Skip debt payoff and put available cash toward a larger down payment or reserves.

Pros

- Lowers your loan amount and monthly payment directly
- Can help you reach 20% down and avoid mortgage insurance on a conventional loan
- Builds equity from day one instead of paying down a separate obligation
- Preserves your credit profile exactly as it was at pre-approval

Cons

- Doesn't help if a debt payment is what's actually capping your approval
- Doesn't address ongoing interest cost on high-rate debts like credit cards
- Reduces cash reserves if not balanced carefully

Best for: Buyers who already qualify comfortably and want a lower payment, no mortgage insurance, or a better rate tier.

Avoid if: Your debt-to-income ratio is close to your program's ceiling - qualifying comes first.

Do nothing about debt right now

Keep every account exactly as it is and proceed with your current file.

Pros

- Zero risk of accidentally disrupting your credit profile mid-application
- Appropriate when your DTI and credit already comfortably support your target loan
- Keeps cash available for closing costs and reserves

Cons

- Leaves potential qualifying room or rate improvement on the table if a specific debt is holding you back
- Can mean paying avoidable mortgage insurance or a higher rate if debt is affecting your pricing tier

Best for: Buyers who've already run their DTI and credit numbers and confirmed everything fits their target program comfortably.

Avoid if: You haven't actually checked your debt-to-income ratio yet - confirm before deciding to leave things alone.

Decision tree

1. Have you calculated your current debt-to-income ratio?

Do this first, before any payoff decision. Use the debt-to-income calculator to see your ratio and how each individual debt contributes to it.

Verdict: No start with the DTI calculator

2. Does your DTI already fit your target loan program's limit?

If you're comfortably under the ceiling for the program you want, paying off debt for qualifying purposes isn't necessary, though it may still help your rate or score.

Verdict: Yes proceed, consider down payment instead

3. Is one specific installment loan within ten payments of being paid off?

On a conventional loan, that payment may already be excludable from DTI without paying anything, or may become excludable within a few months.

Verdict: Yes confirm exclusion with your lender before paying extra

4. Is a single large monthly payment responsible for most of your DTI strain?

Identify the payment, not the balance, causing the problem. Paying off or paying down that specific debt is usually the highest-leverage move available.

Verdict: Yes target that payment first

5. Is your credit score, not your DTI, the main obstacle to a better rate?

Focus on revolving utilization - getting every card under 30%, ideally under 10% - rather than paying any single balance to zero.

Verdict: Credit is the issue prioritize utilization

6. Do you have a court order or documented arrangement where someone else pays a debt in your name?

Gather twelve months of documentation showing the other party made every payment. That debt may be excludable from your DTI without you paying anything.

Verdict: Yes assemble documentation for exclusion

7. Have you already applied for the mortgage?

Once underwriting has started, don't pay off, consolidate, close, or open any account without talking to your loan officer first. Stability matters more than optimization at this stage.

Verdict: Yes change nothing without approval from your lender

Cost examples

Maria - a near-payoff car loan versus a credit card balance

A buyer with $6,000 in credit card debt at a $180 minimum payment, and a car loan with a $6,500 balance and a $420 monthly payment, nine payments remaining. She has $4,000 available to apply toward debt. Illustrative figures - not a quote.

	Pay off the credit card	Pay down the car loan
Cash applied	$4,000 (full payoff)	$4,000 (partial paydown, still owes ~$2,500)
Monthly payment removed from DTI	$180	$420 (loan already has 10 payments left, may be excludable regardless)
Qualifying income freed up	$180/month	$0-$420/month depending on exclusion eligibility
Credit utilization effect	Drops significantly, likely raises score	No change - installment balances don't factor into utilization
Best use of the same $4,000	Improves score, modest DTI benefit	Confirm with lender: may already be excludable without spending anything

TAKEAWAY

Before spending $4,000 on the card, Maria's loan officer should confirm whether the car loan already qualifies for the ten-payments-or-fewer exclusion - if so, that $420 payment may already be out of her DTI calculation for free, and the $4,000 might do more good toward her down payment or the credit card's utilization impact.

Devon - debt payoff versus a larger down payment

A buyer purchasing a $320,000 home has $12,000 in savings beyond his planned 5% down payment. His DTI already fits his target conventional loan program. He's deciding whether to apply the $12,000 to a personal loan or to the down payment. Illustrative figures - not a quote.

	Apply $12,000 to the personal loan	Apply $12,000 to the down payment
Loan amount	$304,000 (down payment unchanged)	~$292,000 (down payment increased)
Monthly mortgage payment (P&I, illustrative)	No change from base case	~$70-$80/month lower
Personal loan payment removed from DTI	$260/month freed up	$0 - personal loan payment continues
Mortgage insurance	Still required (under 20% down)	Still required, but slightly lower cost on a smaller loan
Best fit	Improves qualifying ratio and credit profile	Lowers monthly housing cost directly

TAKEAWAY

Because Devon's DTI already fits his program, the down payment path lowers his actual monthly housing cost more directly, while the debt payoff path mainly helps his credit profile and future flexibility. Neither is wrong - it depends on whether his priority is the lowest possible payment now or the strongest possible credit position going forward.

Timeline

Today: run your real numbers

Calculate your DTI and credit utilization before deciding what to pay off - don't guess.

Weeks 1-2: identify the highest-leverage target

Find the single payment or balance that moves your ratio or score the most per dollar spent.

Weeks 2-8: execute the plan, don't multitask

Pay down or off the identified target; avoid opening or closing unrelated accounts in the meantime.

One statement cycle later: re-check your numbers

Utilization and score updates typically post after your next statement closes, not immediately.

Before applying: gather documentation

Court orders, 12 months of proof-of-payment statements, and any payoff letters - assemble these before, not during, underwriting.

After pre-approval: freeze everything

No new credit, no closed accounts, no consolidation loans, no large unexplained deposits until after closing.

Common mistakes

Paying off the biggest balance instead of the biggest payment

Underwriting cares about your monthly obligation, not your balance. A small balance with a large payment can hurt your DTI more than a large balance with a small payment.

Closing a credit card right after paying it off

This can raise your utilization ratio and shorten your credit history, both of which can lower your score at the worst possible time.

Financing a car or furniture after getting pre-approved

New debt discovered on a pre-closing credit re-pull is one of the most common reasons closings get delayed or derailed.

Paying off a collection account without asking your lender first

It can trigger a re-verification, use up documented reserves, or in some cases briefly affect your score before it helps.

Assuming all student loan repayment plans are treated the same

Conventional, FHA, and VA loans calculate qualifying student loan payments differently, and the difference can be hundreds of dollars a month.

Not documenting court-ordered assigned debt

An ex-spouse making payments on a joint account doesn't automatically exclude that debt from your ratio - it requires the court order plus twelve months of proof they've paid.

Consolidating debt into a new loan mid-application

A consolidation loan is a new account and a new inquiry, both of which can require re-verification and can change your DTI in unexpected ways.

Draining savings to zero to pay off debt

Lenders and your own safety net both need to see reserves left after closing. A debt-free file with no cash cushion isn't necessarily a stronger file.

Making a large, unexplained deposit to pay something off

Underwriters source and verify large deposits. Moving money to pay off debt mid-process can trigger a documentation request that slows your closing.

Expert tips

- Ask your loan officer to run your DTI with each current debt removed one at a time. The debt that moves the number the most is the one worth targeting - it's rarely the one with the biggest balance.
- Before paying off a near-payoff installment loan, check whether it already has ten or fewer payments remaining. On a conventional loan, that payment may already be excludable from your ratio for free.
- If your goal is a better credit score rather than a lower DTI, spread payments across several maxed-out cards to get each one under 30% utilization rather than paying one card to zero.
- If you're assigning a debt to an ex-spouse under a divorce decree, start collecting twelve months of statements proving they made every payment well before you apply - this documentation takes time to assemble.
- Get your student loan repayment plan's exact qualifying treatment confirmed in writing by your loan officer for the specific program (conventional, FHA, or VA) you're using - don't assume it's the same across all three.
- Once you're pre-approved, treat your credit file like a locked box: no new accounts, no closures, no consolidation, and no large unexplained deposits until after you close.

Decision checklist

- [ ] Calculate your current debt-to-income ratio with every debt listed individually

- [ ] Identify which single debt payment contributes most to your DTI, not which has the largest balance
- [ ] Check every installment loan's remaining number of payments, not just its balance
- [ ] Confirm with your lender whether any loan qualifies for the ten-payments-or-fewer DTI exclusion
- [ ] Check your credit utilization on every revolving account, not just the total
- [ ] Decide, with your loan officer, whether extra cash is better used on debt or the down payment
- [ ] Gather documentation for any court-ordered or third-party-paid debt you want excluded
- [ ] Confirm how your specific loan program (conventional, FHA, or VA) calculates student loan payments
- [ ] Leave every account open, even ones you pay off, until well after closing
- [ ] Stop opening, closing, or financing anything new the moment you're pre-approved

Frequently asked questions

Should I pay off my credit cards before applying for a mortgage?

It depends on whether the payment is actually constraining your debt-to-income ratio. If your DTI already fits your target loan program, paying off cards mainly helps your credit score through lower utilization, not your qualifying ratio. If your DTI is tight, paying down the card with the highest minimum payment, or the one bringing your total utilization down the most, usually helps the most.

Does my credit card balance count against me if I pay it in full every month?

Usually, yes for debt-to-income purposes. Underwriting typically uses the minimum payment shown on your most recent statement, even if you always pay the full balance. Paying the card to zero before your statement closes removes that minimum payment going forward.

Will paying off my car loan help me qualify for a bigger mortgage?

It can, but check the remaining number of payments first. If the loan already has ten or fewer payments left, it may already qualify to be excluded from your debt-to-income ratio on a conventional loan without you paying anything early.

Should I use my savings to pay off debt or for my down payment?

If a specific debt payment is capping your qualifying ratio, address that first - you can't buy at all if you don't qualify. If your ratio already fits your target program, the same cash often does more good applied to the down payment, since it lowers your loan amount and monthly payment directly and can help you avoid mortgage insurance.

Is it bad to close a credit card after paying it off?

It can be. Closing a paid-off card removes its credit limit from your total available credit, which can raise your utilization ratio, and it can shorten the average age of your accounts. Both can lower your credit score. It's usually better to pay the balance to zero and leave the account open.

How does student loan debt affect my mortgage approval?

It depends on your loan program. Conventional loans generally use your actual documented payment, including reduced income-driven repayment amounts, or a calculated percentage of the balance if the statement shows $0. FHA and VA each have their own specific rules, which can produce a higher or lower qualifying payment than conventional treatment for the same loan.

Can I exclude a debt my ex-spouse is paying from my divorce?

Often, yes, if the debt was formally assigned to them in a divorce decree or separation agreement and you can document, typically with twelve months of bank statements, that they've actually been making the payments. Without that documentation, the debt generally still counts against you even if someone else is paying it.

What is the 10-payments rule for mortgage qualifying?

Under conventional guidelines, an installment debt - like a car loan or personal loan - with ten or fewer scheduled monthly payments remaining can typically be excluded entirely from your debt-to-income ratio. This means you may not need to pay off a near-finished loan; it may qualify for exclusion on its own once it crosses that threshold.

Does this 10-payments rule apply to credit cards?

No. It generally applies to installment debt with a fixed number of remaining payments and a defined end date, not to revolving accounts like credit cards or open-ended lines of credit, which don't have a fixed remaining payment count.

Can I pay off debt after I've already applied for my mortgage?

Talk to your loan officer before doing so. Paying off debt mid-underwriting can trigger a request to source the funds, especially if it involves a large deposit or withdrawal, and can occasionally require re-verification of your file. It's rarely a problem if planned properly, but surprises during underwriting cause delays.

Should I consolidate my debts before buying a house?

Generally, no, at least not once you're close to applying. A consolidation loan is a new account with a new inquiry and a new payment, and opening it can require your file to be re-verified. If consolidation makes sense for your finances, it's usually better done well before you start the mortgage process, not during it.

Does an authorized-user credit card count against my mortgage application?

Generally not for debt-to-income purposes, since you're not the account holder responsible for the payment. It can still show up on your credit report and affect your score, for better or worse, depending on how that account is managed.

How much does paying off debt actually raise my credit score?

It varies by how much it changes your utilization ratio. Bringing a maxed-out card down to under 30% utilization, and especially under 10%, often produces a noticeable score increase within one to two statement cycles. Paying off installment loans has less direct effect on your score than paying down revolving balances does.

What debts can be excluded from my debt-to-income ratio besides near-payoff loans?

Court-ordered debt assigned to someone else with documented payment history, debts reliably paid by a non-occupant party with twelve months of documentation, and co-signed debts where the other borrower has made all payments for the past year can often be excluded, subject to your lender's verification of the paperwork.

Sources

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