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Serving the Greater Houston Area

Credit Score & DTI: How Your Limit and Rate Are Really Set

By Owen Ye, Licensed Loan Officer (Loan Factory, NMLS #2541101)

Two borrowers buying the same home can end up with very different rates and limits. Most of the gap comes from two numbers: the credit score decides whether you qualify and which pricing tier you land in; the DTI (debt-to-income ratio) decides how much the lender dares to lend. This guide explains how both are calculated, how underwriting reads them, and the moves that genuinely improve them in the 3–6 months before you buy — underwriting logic, not folklore.

1. The Credit Score: Threshold First, Then Tiers

Sets Your Pricing Tier

1. Underwriting uses mortgage scores

The lender pulls mortgage-version scores from the three bureaus, which are not identical to the score in your banking app. With several borrowers, most programs use the middle score, or the lower borrower's middle score — gauge your position on that basis.

2. Tiers matter more than averages

Conventional pricing adjusts by score band and LTV: 740+, 720, 700, 680... Each band down can worsen the rate or the fees a little. Near a band edge, gaining about 20 points can be worth more than a bigger down payment.

3. The parts of the score you can move

Payment history and credit-card utilization carry the most weight. Paying card balances below 30% of their limits (below 10% is better) is the fastest lever within a few months; and do not close your oldest card before buying — that shortens your credit history.

2. DTI: The Calculation the Lender Actually Runs

Sets Your Ceiling

1. Front-end and back-end ratios

Front-end: the new home's payment (PITI + HOA) divided by gross monthly income. Back-end: the same, plus all monthly debts — car loans, student loans, minimum card payments. Conventional back-end limits usually reference roughly 45%–50%, depending on the program and compensating factors.

2. What counts — and what does not

Only debts appearing on the credit report and in the file count; daily spending, tuition and insurance premiums are not monthly debts. Student loans are counted by program rule, as a percentage of the balance or the actual payment. A debt you co-signed can be counted under the actual payer when the conditions are met.

3. Your limit is backed out of the DTI

Maximum payment = gross monthly income × target DTI – existing monthly debts. When rates, taxes or insurance rise a little, the lendable principal falls with them. How much you can borrow is never a function of income alone.

3. The 3–6 Month Improvement Order

Work in This Order

1. Pull the reports and fix errors first

Mistaken late payments, and collections that were paid but still listed, are not rare on credit reports. Correcting them runs through the formal dispute process and takes time — often 30 days or more — so start early.

2. Kill high-payment, low-balance debts first

Pay off small debts with large monthly payments first — a car loan near its end, for example. The DTI room it frees shows up immediately, and often improves your amount faster than saving a bigger down payment.

3. Keep the report quiet

For the six months before buying, open no new cards and start no new car loans or installment plans: new accounts shorten your average history and add hard inquiries. The goal is one thing — a quiet report.

4. Common Misjudgments

Do Not Waste Money Here

1. More savings does not mean a bigger loan

Assets decide whether the down payment and reserves are enough; the amount itself is set by income and DTI. When income or DTI falls short, fix the debt structure first — not simply a bigger down payment.

2. A passing score still gets read in detail

A score can clear the bar while a fresh late payment in the last 12 months still triggers questions — or a denial. Recent history weighs far more than old entries from years ago.

3. Co-borrowers are a combined ledger

Adding a spouse or parent as co-borrower merges incomes and debts together: if they carry a car loan or a low score, they can hurt instead of help. Have your loan officer run both combinations — with and without — before you decide.

4. Run your own two numbers first

Work backwards from a target price with this site's [mortgage calculator](#) to see the payment and the DTI; check what each score tier actually pays in the [rate report](#); and compare program thresholds on the [loan programs page](#). For a line-by-line look at your own reports, use the [free consultation](#).

Questions about a loan? Ask me — free consultation: (347) 774-5396 | owenrealestatetx.com

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