# *Income Requirements for A Mortgage | 2024 Income Guidelines*

**What is the minimum income required for a mortgage?**

Home buyers need to meet certain standards to get a home loan, but there isn't a minimum income required for mortgages.

There are minimum credit scores, employment requirements, and more. But many first-time home buyers don't realize that there's no minimum income required to buy a house.

Instead, you must **earn enough to qualify** for the requested loan amount. And the money you earn must be an acceptable type of income (though most types are perfectly fine). Here's how to determine if your income will qualify for a mortgage.

**What's the income required for mortgage approval?**

There is no minimum income required for mortgage approval. Home buyers at any income level can qualify for mortgage loans. The most important thing isn't how much money you earn, but rather, that your income meets a few key requirements.

**Income requirements for a mortgage:**

- You need a **reasonable debt-to-income ratio** (DTI) — usually 43% or less
- You must have been earning a steady income for at least two years
- Your income must be expected to continue for at least three years

Outside of those basic criteria, income requirements for a home loan are flexible. Most types of income can qualify — from standard salaries to commission, investment, self-employment, bonus, and RSU income.

Thanks to today's flexible mortgage programs, you don't need a high salary to buy a home. **Low-income mortgage programs** can make buying affordable even for families without a lot of cash flow or savings.

### Income requirements to qualify for a mortgage in 2024

There's no true minimum income required for a mortgage loan. Lenders just want to know if you can afford the mortgage. That means you need to prove you have enough income to cover your future monthly payments.

### Debt-to-income ratio

One method used by lenders to determine affordability is by looking at your **debt-to-income ratio** (DTI). DTI compares your existing monthly debt payments with your monthly gross income. This shows how much money you have "left over" each month for a mortgage payment.

Lenders look at your debt in two ways:

- **Front-end ratio** calculates housing costs (like mortgage payments) as a percentage of pre-tax income.
- **Back-end ratio** includes all debt payments (housing costs, credit card payments, car loans, etc.) relative to income.

### Reliable income

Your annual income must be reliable and stable, too. After all, most mortgage loans last 30 years. So, you need to have a steady cash flow and the ability to keep making loan payments over that time.

Most home loan programs require two years of **consecutive employment or consistent income**, either with the same employer or within the same field. This is a sign of stability, indicating that your annual income will likely remain reliable for at least three years after closing on your home purchase.

There are **exceptions to the two-year income rule**, though. For example, "If you are in a profession like a nurse or a lawyer and you recently graduated, schooling will count towards this 2-year requirement," says **Jon Meyer**, loan expert and licensed MLO.

### What sources of income qualify for a mortgage?

Mortgage lenders can **approve borrowers with all sorts of income**, such as salaried employees, hourly wage earners, freelancers, business owners, and those who receive **Social Security** payments. But any source of income must meet certain guidelines to qualify for a mortgage application.

### Employees (salaried/hourly wage)

Employees can use the income they receive from a salary, hourly wage, **commissions**, or overtime, as well as **restricted stock unit income and bonuses** for mortgage-qualifying purposes. You must provide your lender with your most recent paycheck stubs, W-2s, and tax returns from the previous two years. Annual income must be consistent over this two-year period.

To use commissions, overtime, restricted stock unit income, or bonus income for qualifying purposes, you must show evidence of this income continuing for at least two to three years post-closing. This involves your employer providing written confirmation.

### Freelancers and self-employed

Getting a **mortgage as a self-employed person** — which includes independent contractors, freelancers, gig workers, and business owners — is a bit trickier. But it's not impossible by any means.

**Self-employment income** can fluctuate from year to year. Not only will you provide your complete tax returns from the previous two years, but your annual income must either remain the same or increase during these two years.

A minor decrease from one year to the next is usually okay. Just know that lenders typically average your self-employment income over this two-year period to determine your qualifying amount. So, if your freelance income is $40,000 one year and $75,000 the next year, your lender uses a pre-tax income of $57,000 to decide affordability.

As a self-employed borrower, be mindful that too many business deductions on your tax return can reduce your qualifying amount. Lenders use their net income *after* deductions for qualifying purposes. They can add back some deductions, such as those for mileage and use of a home office. As a rule of thumb, the more business deductions you have, the less you earn on paper.

### Other types of income that qualify for mortgage approval

Here's what you need to know when using other sources of income to qualify for mortgage loans:

- **Dividend income:** This income must be regular, and you must show a two-year history of receiving dividends
- **Retirement income:** Income must continue for at least three years post-closing
- **Social Security income:** This income must continue for at least three years post-closing
- **Alimony and child support:** You must have received regular payments for at least six to 12 months prior to getting the mortgage, and support payments must continue for at least three years post-closing. You'll need to provide a copy of a divorce decree and other court orders

If you're not sure whether your income qualifies, talk to a mortgage lender. Your loan officer can help you understand which sources of income are eligible and the home prices you can afford based on your monthly cash flow.

### Consider using a low-income home loan

Low-income home loans are a type of mortgage product designed to help individuals and families with lower income levels afford a home.

They often come with lower interest rates, reduced down payments, and more flexible qualification requirements. Government agencies typically back these loans, which lowers the risk for lenders and enables them to offer more benevolent terms.

The benefits of low-income mortgages include:

- **Lower down payments:** Low-income home loans often require smaller down payments, making homeownership more accessible
- **Flexible credit requirements:** These loans typically have more lenient credit requirements, making it easier for individuals with lower credit scores to qualify
- **Reduced interest rates:** Backed by government agencies, these loans often come with lower interest rates, reducing the overall cost of the loan

If you're struggling to save up enough money to buy a home, then one of the mortgage loans below may be worth considering.

### Comparing low-income home loans

| Loan Type | Down Payment | Credit Score Requirement | Special Requirements |
|---|---|---|---|
| HomeReady Loans | As low as 3% | Varies | Homeowner education course, income eligibility |
| Home Possible Loans | As low as 3% | Varies | Homeowner education course, income eligibility |
| Conventional 97 Loans | As low as 3% | At least 620 | Single-unit primary residence |
| FHA Loans | As low as 3.5% | At least 580 | Steady income |
| USDA Loans | None | Varies | Income eligibility, rural area |
| VA Loans | None | Varies | Service requirements |

Low-income home loans are ideal for individuals or families who have a steady income but find it challenging to save for a large down payment or qualify for a conventional mortgage due to their income level.

They're also a good fit for first-time homebuyers who may not have a substantial credit history. Here's what you can expect.

- **HomeReady loans:** Offered by Fannie Mae, these loans require a down payment as low as 3% and allow co-borrowers who don't live in the home. Borrowers must complete an online homeowner education course and meet income eligibility requirements
- **Home Possible loans:** This is another product from Freddie Mac designed for low-to-moderate income homebuyers. It requires a down payment as low as 3% and offers flexible credit terms. Borrowers must meet income eligibility requirements, and first-time homebuyers must complete a homeowner education course
- **Conventional 97 loans:** This is a type of conventional loan that requires a down payment as low as 3%. It's a good option for first-time homebuyers and requires a credit score of at least 620. The loan must be for a single-unit primary residence
- **FHA loans:** FHA loans, which have the backing of the Federal Housing Administration, have flexible credit requirements and a minimum 3.5% down payment. Borrowers must have a credit score of at least 580 and be able to demonstrate a steady income
- **USDA loans:** These loans are designed for low-to-moderate income families in rural areas. They require no down payment and have lower interest rates. Borrowers must meet income eligibility requirements, which vary by location and household size
- **VA loans:** Available to veterans, active-duty military members, and their families, VA loans require no down payment or private mortgage insurance. Borrowers must meet service requirements and have a good credit history

### Are there income limits for a mortgage loan?

Some mortgage programs have **income limits**, meaning your income cannot exceed a certain percentage of the area's median income (AMI) to qualify. Standard conventional loans, VA loans, and FHA loans don't have income limits. But household income limits are typical with USDA loans and some specialized programs.

- USDA loan**:** Your annual income cannot exceed 115% of the area median income
- Fannie Mae's HomeReady**:** Your income must remain below 80% of the area median income
- Freddie Mac's Home Possible**:** Your income must remain below 80% of the area median income

Keep in mind, too, that many **down payment assistance programs** have income limits. These limits vary depending on the program. Typically, your income cannot exceed 100% to 115% of the median area income.

### Other requirements to qualify for mortgage loans

The amount of money you earn isn't the only thing that matters when buying a home. You should be mindful of other factors lenders take into consideration when reviewing your application:

- **Credit score**: Most mortgage programs have a minimum credit score requirement. Conventional loans (the most common type) require a 620 FICO score; FHA loans require a 580 minimum; VA loans usually require 580-620; USDA loans require a 640 score
- **Credit history**: Your recent credit history also determines whether you qualify for a home loan. Most programs don't allow more than one 30-day late payment within the previous 12 months. You can also expect a waiting period after a foreclosure or bankruptcy, which can range from two to seven years depending on the home loan

- **Down payment**: The size of your down payment also affects your qualifying amount. Borrowers with a bigger down payment have greater purchasing power
- **Existing debt load**: Too many existing debts also reduces purchasing power. Paying down a car loan, a student loan, and credit cards can increase affordability.
- **Assets/cash reserve**s: You need enough cash saved to cover the down payment and closing costs. Lenders may want to see "cash reserves," too, meaning you have enough cash left over in the bank to cover 2-6 months' worth of mortgage payments if your income were to be cut off

If you're **buying a house with low income**, these other factors can help you qualify. For example, a higher credit score or bigger down payment could make up for a lower income and higher DTI. Your mortgage lender will look at your entire financial profile — not just income — to see if you can afford a home.

**Determine your required income with a mortgage calculator**

This **home affordability calculator** is a useful tool that helps you determine the income required for a mortgage and the overall cost of homeownership at today's mortgage rates. This includes your loan principal, interest rate, property taxes, and homeowners insurance — commonly referred to as **PITI**.

PITI is an acronym that means:

- **(P) Principal:** The amount of your mortgage loan's principal balance repaid each month
- **(I) Interest:** The amount of interest your mortgage lender collects on the loan
- **(T) Taxes:** Property taxes required by your city and county government

- **(I) Insurance:** Homeowners insurance and, if required, private mortgage insurance premiums (PMI)

The mortgage calculator will estimate your monthly payment using your PITI and additional inputs, including purchase price, down payment, state of residence, and loan term. Furthermore, you'll be able to filter results by monthly mortgage payments, income requirements, and home price.

### Income requirements for different mortgage amounts

Navigating the world of mortgages can seem daunting, but understanding the income requirements for different mortgage amounts can make the process a bit smoother. Here's a rough guide.

| Mortgage Amount | Estimated Annual Income Required |
|---|---|
| $200,000 | Around $50,000 |
| $300,000 | Around $75,000 |
| $400,000 | Around $100,000 |
| $500,000 | Around $125,000 |

Please note that these are rough estimates, and the exact income required can vary based on factors such as your credit score, DTI ratio, and the specific terms of the mortgage. For instance, living in high-cost areas like New York may require a higher income.

#### How to improve your income for mortgage approval

When it comes to securing a mortgage, your income is a key factor. But what if your current income isn't quite hitting the mark? Here are some strategies to help you improve your income for mortgage approval

- **Increase your earnings:** This might sound easier said than done, but there are ways to boost your income. Consider asking for a raise at your current job or look for opportunities to work overtime.

You could also explore the possibility of a second job or even a side hustle

- **Lower your debt:** Your debt-to-income ratio plays a big role in mortgage approval. This ratio is calculated by dividing your monthly debt payments (including credit card payments, student loans, and other obligations) by your gross monthly income. By paying down your debt, you can improve this ratio and increase the mortgage amount you may qualify for
- **Save for a larger down payment:** The more money you can put down upfront, the less you'll need to borrow. This can make you more appealing to lenders and could help you secure a larger mortgage
- **Boost your credit score:** A higher credit score can lead to better mortgage terms, which can make the mortgage more affordable and potentially increase the amount you can borrow
- **Consider a refinance:** If you already own a home, refinancing can potentially lower your monthly payments, freeing up more of your income for a new mortgage

Remember that these are only suggestions. Everybody has a different financial situation, so what works for one person might not work for someone else. A financial advisor or mortgage expert should always be consulted to determine the best course of action.

### FAQ: Income required for mortgage loans

#### What is the minimum income to get approved for a mortgage?

There's no universal minimum income required for mortgage loans. Your approval depends on the mortgage amount, your debt-to-income ratio, credit score, and other factors. However, you need to prove that you have a stable income that's sufficient to cover the mortgage payments, property taxes, and homeowner's insurance.

**How much income is needed for a $300,000 mortgage?**

The exact income needed can vary based on a few factors, including your debt-to-income ratio, credit score, and the terms of the mortgage. However, as a rough guideline, you might need an annual income of around $75,000 to qualify for a $300,000 mortgage.

**How much of your income should go toward a mortgage?**

A common rule of thumb is the 28/36 rule, which says that you should spend no more than 28% of your gross monthly income on housing expenses, and no more than 36% on total debt, including your mortgage, credit cards, and other loans.

**How to get a home loan with low income?**

There are several types of home loans designed specifically for low-income borrowers. These include FHA loans, VA loans, USDA loans, and certain Fannie Mae and Freddie Mac programs. These loans often have lower down payment requirements and more flexible credit requirements, making them more accessible for low-income borrowers.

**Do you meet the income required for mortgage loans?**

Numerous factors determine whether you'll qualify for a home loan. Your mortgage lender will look closely at your credit history, your debts, cash on hand, and income to gauge affordability.

Mortgage approval isn't one-size-fits-all, so it's also important to get preapproved for a loan before shopping for a new home. This way, you'll know how much house you qualify for with your current income. You can then search for real estate within that price range.