Homeownership:

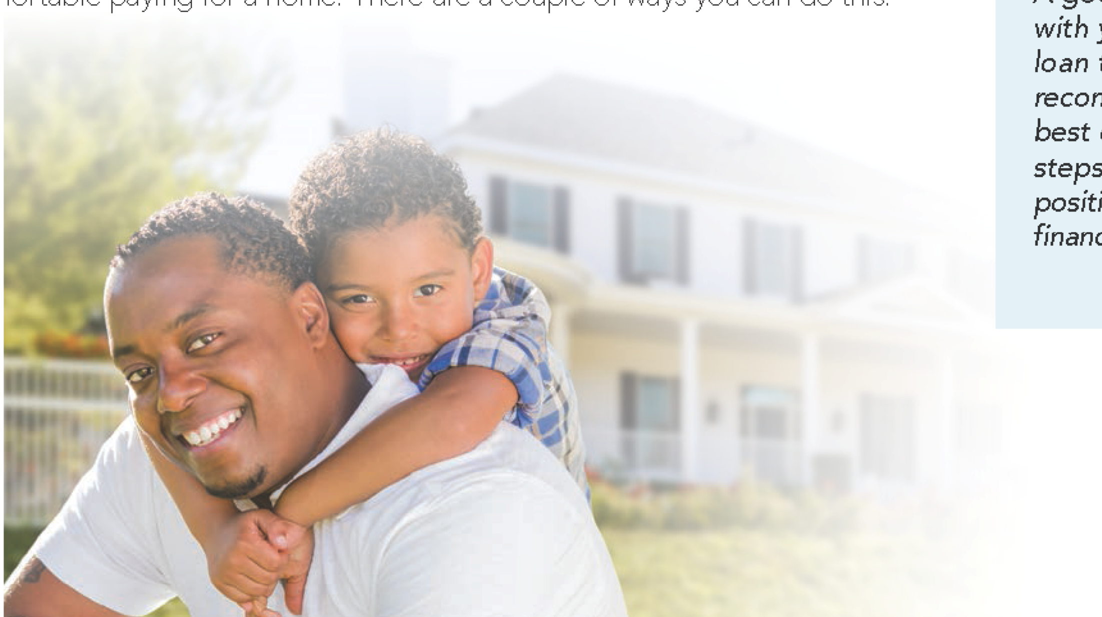
HOW MUCH MORTGAGE CAN I AFFORD?

While mortgage calculators and rules of thumb such as buying a home no more than 2.5 times your salary can give you a broad sense of how much you can afford to spend on a home, a more accurate estimate of your housing budget is essential before you make an offer on a home.

Determining your maximum purchase price for a home depends on how much you have in cash or gift funds or homebuyer assistance programs for a down payment and how much you can borrow. A lender can pre-qualify you for a loan based on an estimate of your income and credit profile, but before you seriously begin house hunting, you should get a full preapproval for a mortgage based on verification of your income and assets, your credit score and your debt.

Decide your own comfort level for your housing payment

A mortgage lender will follow a specific formula – usually with an automated system – to determine the maximum amount you can borrow. But even before you meet with a lender, you should review your personal financial picture and decide for yourself how much you would be comfortable paying for a home. There are a couple of ways you can do this.



Mortgage Options

Your mortgage payment will depend on your **loan term and interest rate**. In general, a longer loan term will have lower payments, but will usually have a higher interest rate, and you'll pay more in interest over time because of the term. If you can afford the higher payments, a loan term of 15 or 20 years can be a smart move to build your home equity more quickly.

Mortgage insurance

If you make a down payment of less than 20 percent on a conventional loan, you'll pay private mortgage insurance until your loan-to-value reaches 80 percent. If you choose an FHA-insured loan, you will only need to make a down payment of 3.5 percent, but you will pay mortgage insurance for the life of the loan. Those mortgage insurance payments could add $100 or more to your monthly housing payment. VA and USDA loans don't require mortgage insurance.

A good lender can work with you to compare various loan terms and make recommendations on the best choice for you, and steps you can take to position yourself for a solid financial future.

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1. Look at your current rent payment (or mortgage if you are a repeat buyer) and think about whether you can handle paying more if you buy a home. Keep in mind that your housing payment includes principal and interest on the mortgage, property taxes and homeowners insurance. If your down payment is less than 20 percent, you'll need to pay mortgage insurance.

   You may need to pay homeowner association or condominium association dues. You should budget at least one percent of the home price for maintenance and repairs. However, if you go from renting to buying, you will be able to deduct your interest payments and property taxes on your income taxes.

2. One way to evaluate your comfort level is to write down a budget that includes all of your monthly obligations as well as discretionary spending. A lender won't include extra savings for future college expenses or retirement in your loan calculation and won't even think about your expenditures for vacations or golf or your intention for one spouse to reduce work hours to take care of your family. ***Consider important financial and life goals in your personal housing budget.***

Mortgage loan qualifications

Shop around for a mortgage with several different recommended lenders because they have different guidelines and different loan programs. Lenders base their decision on your credit score, cash reserves, job history and debt-to-income ratio. If you are weak in one area but stronger in another, you may still be able qualify for a mortgage.

Most programs allow a maximum debt-to-income ratio of 41 percent to 43 percent. **To calculate your ratio,** compare your gross monthly income — including all income that can be documented — with your monthly debt payments including your new housing payment and the minimum monthly payment on all your outstanding debt, such as a credit card, a student loan, a car loan, alimony, child support or a personal loan. Don't forget that the housing payment includes principal, interest, taxes, insurance and possibly mortgage insurance and/or a homeowner association fee.

In order to qualify you for a loan and determine your interest rate, a lender will look at a variety of factors, including your income, assets, down payment, credit score, debts and job history. The higher your credit score, the lower your interest rate will be for conventional loans, which in turn means your payment will be lower. Federal insured mortgage loan programs such as FHA (Federal Housing Administration), VA (Veterans Affairs) and USDA (U.S. Department of Agriculture Rural Housing Development) loans typically have the same interest rate regardless of your credit score.

What Can I Really Afford?

Lenders base their decision on these **four factors:**

- your credit score
- cash reserves
- job history
- debt-to-income ratio

If you are weak in one area but stronger in another, you may still be able qualify for a mortgage.

Use this guide as a starting point for your home purchase, and consult your REALTOR® for further guidance.