

Qualifying for a Home Loan

It's essential to consider how much you can afford to pay before you look for a house. Considering affordability early on will save you time and money because you won't bid on unattainable houses or apply for loans that are out of your ballpark. It will be easier to get a loan and, if necessary, you will be able to take creative steps toward improving your financial and credit profile.

How Much House Can You Afford?

As a broad generalization, most people can afford to purchase a house worth about three times their total (gross) annual income, assuming a 20% down payment and a moderate amount of other long-term debts, such as car or student loan payments. With no other debts, you can probably afford a house worth up to four or even five times your annual income. Lenders have traditionally wanted you to make all monthly payments using no more than 28% to 38% of your monthly income. (If you have an excellent credit record, however, they might allow you to go more deeply into debt.) In other words, if your monthly income is \$2,000, the lender would want you to pay no more than \$760 (.38 x \$2,000) toward all your debts. The percentage depends on the amount of your down payment, the interest rate on the type of mortgage you want, your credit history, the level of your longterm debts and other factors. Generally, the greater your other debts, the lower the percentage of your income lenders will assume you have available to spend each month on housing. Conversely, if you have no long-term debts and a great credit history and will make a larger than normal down payment, a lender may approve carrying costs that exceed 38% of your monthly income.

Online Mortgage and Financial Calculators

Dozens of websites offer calculators to help you quickly determine monthly payments on different size mortgages so you can learn how much house you can afford. All calculators are not created equal -- but all of them are free. Sample several and pick the one that gives you the information you're looking for in the format you prefer.

Mark Zwick, Bringing home results to the Greater Philadelphia area. 215-627-2848
mark@markzwick.com

Content courtesy of Rebecca Diamond