

## Can You Afford A House?

Contributed by Brian Daniel  
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{bot\_wrgoogle}There are many factors you need to take into consideration when purchasing a home. First and foremost, ask yourself what size monthly payment you can afford. When determining how large a mortgage you can afford, be sure to factor in all your current expenses such as car payments, credit card bills, student loans, utilities, and the like. You may also want to factor in how much you spend on things like entertainment, eating out, and traveling. You don't want to add a mortgage payment and say goodbye to your social life. Instead, you want to make sure that you're not overextending yourself financially so you can enjoy a good quality of life.

At the present time, most lenders will allow for a whopping debt-to-income ratio of 45% - 50%. Your debt-to-income ratio is the sum of your mortgage payment and any other credit card or loan payments, divided by your monthly gross income. Lenders use this ratio to help determine your credit worthiness. All of your revolving debts along with your mortgage payment divided by your monthly gross income should not exceed the 36% - 45% debt-to-income ratio. Here's a quick formula to help you figure out how much you can afford to put toward your monthly house payment:

--Multiply your gross monthly income by 0.45

--Subtract your non-mortgage debt payments from the result

--What's left is your allowable mortgage payment

So, if we have a couple with a combined monthly gross income of \$5000 and they pay \$700 a month toward two auto loans and one credit card, they would qualify for a monthly payment of \$1550.

In case you don't know, not all of your monthly housing payment goes toward your principal and interest. A portion must go toward homeowner's insurance and property taxes. I mention this because on most mortgage calculators that'll you use, you'll need to enter these figures to get an accurate idea of what your real monthly mortgage payment will look like, and you'll need the numbers to figure out how much of a house you can afford.

Property taxes are typically a percentage of your home's assessed value. To calculate property taxes, local jurisdictions generally multiply the tax rate by a home's assessed value. For example, if you pay 0.5% in property taxes of the assessed value, a home assessed at \$250,000 would have a yearly property tax bill of \$1,250. In order to find out the tax rate, you will need to contact your county tax assessor, or a local mortgage broker or bank may be able to assist you. As for the homeowner's insurance, your best bet is talking to a local broker or bank to get a general idea of what it is for your area. Mortgage calculators will ask you for a percentage rate sometimes and others will ask for a yearly figure. It can be confusing for a new buyer; so don't be afraid to seek a little assistance.

Figuring out how much you can afford to put toward your monthly house payment is a start. Now, you want to know how much house you can afford. There are mortgage calculators galore that will help you do this, but, as I mentioned above, they will require you to enter real estate taxes, homeowner's insurance, and interest rates.

Once you know how much you can comfortably spend a month toward a home, and you've gathered your tax and insurance rates, you only need an idea of what kind of interest rate you'll get. You can probably kill three birds with one stone by trying to get rates for the taxes, insurance, and interest rate in one phone call. Once you have an idea of what your interest rate may be, you can plug in all your numbers on any of the numerous mortgage calculators on the internet to get a good idea of what you think you can afford.

Afterwards, if you like, you could call a local bank or broker and get pre-qualified to see if you're in the ballpark. If your figures are similar, congratulations on a job well done. If your results are different, take the time to figure out why and don't be afraid to ask questions. Remember, buying a house is one of the biggest financial decisions of a person's life. You owe it to yourself to be as thorough as you can. The fact that you're reading this article attests to that, so good luck and happy house hunting.

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