ALCHALEL & RAMOS
Advisor

Real Estate Tips, Tools, & Advice

How Much Home Can You Afford?

The single most important part of buying a house is figuring out how much you can realistically afford to pay. You have to take a good look at your budget, debts, credit reports, and credit score. Once you have a good picture of you financial status, start saving as much money as you can for a down payment, closing costs, and other extra expenses that come along with buying a house. Extra expenses could include paying for a home inspection (around $300-$500 depending on where you live) or hiring a moving company after the sale is final.

Depending on the condition of you finances, if you have a lot of debt, errors on your credit report, or a low credit score, getting ready financially could take 6 to 12 months or more! If your credit score falls below 620, lenders may see you as a risky borrower. It might be worth your time to take a year and work on building a better credit report before taking on the responsibility of a mortgage. Also if you qualify for a lower interest rate, you could save thousands of dollars over the life of the loan. Be wary of companies that offer to repair your credit for free.

Determining a Mortgage You Can Live With

There are a few basic formulas commonly used by lenders to determine how much of a mortgage you can reasonable afford. These formulas are called qualifying ratios or known as debt to income ratios. They estimate the amount of money you should spend on mortgage payments in relation to your income and other expenses. It is important to remember that these ratios may vary from lender to lender and each application is handled on an individual basis, so the guidelines are just that-guidelines.

Debt-to-income ratios are powerful indicators of creditworthiness and financial health. Depending on your down payment and credit score, the guidelines can be looser or tighter and vary according to program. Debt-to-income ratio not only affects your ability to buy a house, but other purchases as well. The debt-to-income ratio of 33/38 is a common guideline to follow. 33/38 means 33 percent of your monthly gross income is used to pay your monthly housing costs, and 5 percent of your monthly gross income is used to pay your consumer debt-so your housing costs plus your consumer debt equals 38 percent.

Qualifying ratios are set by the lender, for example FHA loans requires no better than 29/41 qualifying ratio while the VA guidelines require no front ratio but a back ratio of 41 (0/41). Generally speaking, to qualify for conventional loans, housing expenses should not exceed 26 to 28 percent of your gross monthly income. So you would probably qualify for a conventional home loan that requires monthly payments of $700. Monthly income costs include the mortgage principle, interest, taxes, and insurance. For example, if your annual income is $30,000, your gross monthly income is $2,500 x 28 percent =$700.

When budgeting to buy a home, it is important to allow enough money for additional expenses such as maintenance and utilities. If you are purchasing an existing home, gather utility cost averages and maintenance costs from previous owners and tenants to help you better prepare for homeownership. Generally speaking, if your finances are in decent shape, you could look for a home priced at two or three times your gross yearly salary. And while using mortgage calculators can give you a rough idea of how large of a mortgage you might qualify for, talking to a lender or mortgage broker in person will give you a more accurate figure.

For a Free Home Evaluation, Call Us Today!

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