

1 Real Estate Advisor

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'll have to take a good look at your budget, debts, credit reports, and credit score. Once you have a good picture of your 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 your finances -- if you have a lot of debt, errors on your credit report, or a low credit score -- getting ready financially could take six 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 a fee.

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 reasonably afford. These formulas are called qualifying ratios because 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.

Generally speaking, to qualify for conventional loans, housing expenses should not exceed 26 to 28 percent of your gross monthly income. Monthly housing costs include the mortgage principal, interest, taxes and insurance. For example, if your annual income is \$30,000, your gross monthly income is \$2,500, and $\$2,500 \times 28 \text{ percent} = \700 . So you would probably qualify for a conventional home loan that requires monthly payments of \$700.

It is important that you select a home that will meet your family's needs and keep you happy for years to come.



Determining a Mortgage You Can Live With

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 or 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 to 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.

Don't Be Discouraged

If your loan application is rejected, find out what the problem is and how it can be resolved. Maybe you need to look for a less expensive house, or save more money. Check to see if there are any affordable housing and community programs you might be eligible for to help you through your home buying process.

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