

## How Much Home Can You Afford?

You are excited! You have made the important decision to buy a home! No more apartment living with the couple upstairs who party after midnight on weekdays. No more running to your car during the rain/snow. No more rent increases. Now the big question, just how much home can you afford? The answer is not that simple, but with a little knowledge and the right loan consultant you should be able to determine just how much home you can afford.

When trying to figure how much home you can afford, there are several areas with which you need to be concerned. They are credit scores, ratios, loan products and interest rate, and down payment. All of these areas combine to determine your ability to own your dream home. Let's look at each area so that you can understand the importance each has on your ability to qualify for a loan.

Credit scores are one of the most important areas when determining your ability to own a home. Not only do credit scores affect your ability to qualify for a loan, credit scores can influence the rate. Generally, the higher the rate, the higher your mortgage payment. Credit scores are issued by the three major credit bureaus, Equifax, Experian, and TransUnion. Credit scores are in a range from 300 (lowest possible score) to 850 (highest possible score). The higher the score the more favorable your interest rate in most cases. Credit scores are based on five areas:

- Payment history (35% of the rating)
- Length of credit history (15%)
- New credit (10%)
- Types of credit used (10%)
- Debt (30%)

The second area that determines how much home you can afford is your "ratios." Lenders use two ratios when calculating your ability to qualify for a specific loan amount. The first ratio is called the "housing ratio." The housing ratio compares your gross monthly income to the proposed mortgage payment which includes interest, principal, taxes and insurance and in the case of certain types of housing, maintenance fees. Usually, the mortgage payment should not exceed 28% of your total income.

The second ratio is called the "total obligation" ratio. This is the percentage of your income that goes to meet your total debt obligation including housing, credit cards, car loans, any and all debt beyond six months. Your debt obligation can even include child support. Normally your debt obligation should be less than 36% of your gross monthly income. Both the housing and obligation percentage ratios can vary with each lender and different programs. The higher your house payment, the higher your ratios. Many

mortgage websites have calculators that assist you in determining your ratios, but the best advice is to seek the assistance of a loan consultant since there are many variables.

Loan products and rates can have a very direct affect on the amount of home you can afford. Obviously the lower the interest rate the lower the payment, the more home you can buy. Various loan products can also give you some advantages in the home buying process. Let's look at some examples:

- Fixed rate loans- these loans are the standard products for the mortgage industry. The interest rate for these loans is set at the time of closing and remains the same over the life of the loan.
- Comment: This seems misplaced. A buydown is not a type of loan product, but rather it is an option that may be available in connection with various loan products. Suggest this be deleted.
- Adjustable rate mortgages- ARMs are loans with interest rates that can adjust up or down depending upon the structure of the loan. The interest rate for an ARM is typically lower than the interest rate for a fixed rate loan. If the interest rate on the ARM goes up, so does the monthly payment amount.

There are many other loan products that are variations of the above loan types.

Down payment directly affects the amount of home for which you can qualify. The more you put down the lower the monthly payment, thus the lower the loan ratios. Generally you will have to pay 3-5% in closing costs and have around three months of mortgage payments in reserve in addition to the down payment.

There are many websites that have mortgage calculators to help determine the monthly mortgage payments you can afford, but your best option is to seek a consultation with a professional loan consultant. There are so many variables such as credit score, products and price, ratios and down payment, a website will never give you a complete picture. This is one of the most important financial decisions you will ever make! Only a skilled professional can give you sound advice and peace of mind. Good luck in finding that dream home with no hassle and full knowledge of the process.