How much house can you afford?

A home could be the biggest purchase you ever make, and it's important that you end up with the monthly mortgage payment that feels comfortable and affordable. But how do you know how much house you can afford? Before you start your home search, it's important to know how much you can afford. There are steps you can take and affordability calculations you can use to help you find the right home at the right price.

Do the basic math.

First, do a quick calculation to get a rough estimate of how much you can afford based on your total income alone. Most financial advisors recommend spending no more than 25% to 28% of your monthly income on housing costs. Add up your total household income and multiply it by .28.

For example, say you bring home $4,000 a month:
$4,000 x .28 = $1,120
At most, you may be able to afford a $1,120 monthly mortgage payment.

Total your monthly income from all eligible and reliable sources, also known as gross monthly income. This is the total amount of money an individual receives in each month before any deductions, including taxes. It includes all income from all sources, such as:

- Salary or wages
- Overtime
- Bonuses or commissions
- Freelance work or side gigs
- Interest from bank accounts
- Dividends from investments
- Rental income
- Private sales
- Child support
- Social security

Remember, when you apply for a mortgage, lenders must assess income, assets, credit history, and more. They also must consider what kind of monthly debt payments and other expenses you have.

You might receive a comfortable amount of take-home pay. However, if you're also chipping away at monthly credit card debt, student loans, and paying weekly child support, you may not have much left over every month to pay your mortgage, homeowners' insurance, taxes, and other home maintenance costs.

Just plug in your annual income, assets, and any monthly payment obligations you have, such as car payments and student loans – and then experiment with different scenarios. Go ahead and try various interest rates, down payment amounts, property taxes, and mortgage terms to see how they impact your monthly payment and loan size.

This calculation formula shows your debt-to-income ratio (DTI), helping you determine what you can afford. Your DTI compares your debt payment to your overall income. It's calculated by dividing <u>total</u> recurring monthly debt by <u>gross</u> monthly income and is expressed as a percentage. All loan programs have DTI maximums. Speaking with a loan officer can help you determine yours.

The Affordability Calculation is a great method to help you evaluate your unique financial situation and determine what size loan and monthly payment will work best for you.