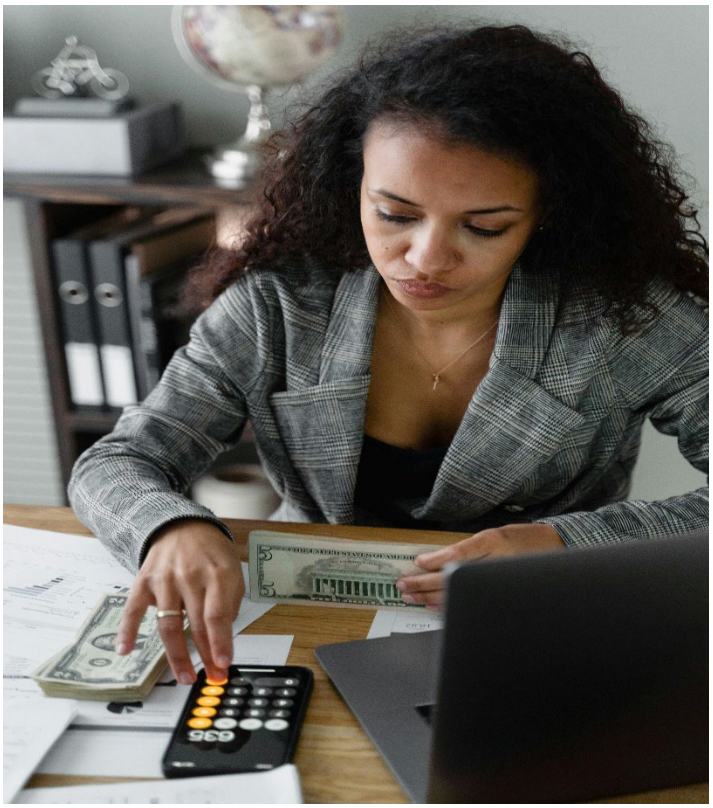
Determine your debt-to-income ratio.

Mortgage lenders will look at your debt-to-income ratio (DTI), which is a comparison of your monthly income to your monthly debt, before approving you for a mortgage. A lower DTI will improve your chances of getting a loan. To increase your chances of approval, you want a DTI below 43%.



To calculate your DTI, divide your total monthly debt payments by your total monthly income before taxes. You can decide to calculate total income from all eligible sources. *

➢ Let's say your housing costs, car payment, student loan and credit card payments add up to $1,400 a month and your income is $4,000 a month:

$1,400/$4,000 = 0.35, or 35%

➢ If you need to lower your DTI to qualify for a loan or afford the mortgage you want, start paying down those debts. Another way to lower your DTI is by calculating all income from all eligible 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

Create a budget.

Now that you have a good idea of your ideal price range, narrow that estimate down even further by creating a budget that factors in all your other costs, like gas, groceries, and entertainment expenses. Just because an online calculator says you can afford a $1,600 monthly mortgage payment doesn't mean you should be paying that much. Items to list when determining your monthly budget include:

- Total monthly household income, including any investment profits or alimony
- Estimated monthly mortgage
- Homeowners insurance
- Utilities
- Car payments
- Student loans
- Average credit card payments
- Home maintenance costs, such as new furniture, repairs, services such as lawn care, homeowners' association dues, or appliance maintenance.

As a rule, your mortgage and other debts shouldn't exceed 36% of your total monthly income. So, again, if your household income is $4,000 and you pay $500 a month in expenses:

$4,000 x .36 = $1,440 - $500 = $940

You're now looking at a monthly payment closer to $900 than $1,100.

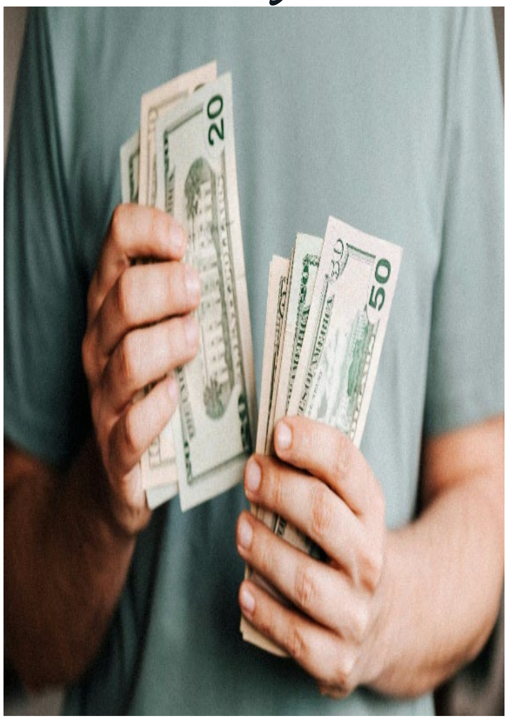
Factor in fees and closing costs.

Don't forget about fees and closing costs. These include:

- Appraisal fee
- Attorney fees
- Inspection fee
- Origination fee
- Underwriting fee
- Title fee

There are also fees you may have to pay for applying for your loan, running your credit report, recording your purchase with the local government and surveying your property. In some cases, your seller may pay some of your closing costs, especially if they're motivated to sell quickly, but it's important to factor in these costs when building your budget.

Determine your down payment.



Your down payment is a significant factor in determining how much house you can afford, and the amount varies depending on loan type. The more you can put down, the less you'll have to borrow from a lender. This can mean better mortgage rates, lower monthly payments and possibly even a shorter loan term.

Putting a higher amount of money down may lower your interest rate and build equity in your home quicker. If your down payment on a conventional loan is less than 20%, you must pay private mortgage insurance (PMI), which covers the lender if you stop paying your mortgage and default on your loan. The yearly cost of PMI is about 1% of your outstanding loan balance and is added to your monthly mortgage payment. You can request to have PMI eliminated once your outstanding balance reaches 80% of the original loan amount.

Some loan types may require less of a down payment, such as only a 3% to 5% down payment. Federal Housing Administration (FHA) loans require a 3.5% down payment, while the U.S. Department of Veterans Affairs (VA) loans may not require any money down. Family or friends can gift you money toward your down payment, but there are some restrictions. The IRS doesn’t require a tax on gifts less than $14,000 per person (a relative could give you and your spouse/partner up to $14,000 each). You must verify in writing that the person giving you the gift has no financial interest in or obligation toward the property and doesn’t expect you to repay the gift.

A home lending advisor can discuss your mortgage and financing options and find out what incentives or programs you might be eligible for.
Regardless of how much you can put toward a down payment, don't wipe out your savings. Keep an emergency fund — financial experts often recommend the equivalent of three months of mortgage payments — for unexpected expenses.

Calculate your mortgage.

If you see a home you love and want to know if it's within your budget, use a mortgage calculator to figure out your monthly rate and payment. Just enter the home price, down payment and other data you've already gathered, such as your credit score, to get an estimate. You can also enter different down payments to tweak the results.

Get prequalified or preapproved.

Being prequalified or conditionally approved for a mortgage is the best way to know how much you can borrow. A prequalification gives you an estimate of how much you can borrow based on your income, employment, credit and bank account information. To move things along, consider getting preapproved once you've found a house. This step takes longer than prequalification but shows buyers you're serious. If you decide to go this route, you'll need to provide your lender with several financial documents, including:

- W-2s for the past two years
- Pay stubs for the last 30 days
- Bank statements for two to three months
- Balances on any retirement or investment accounts
- Monthly debts, such as car payments, student loans and credit cards
- Divorce documents, if applicable, including child support and alimony
- Gift letters, if you're receiving gift money from family or friends

If you plan to co-sign on a mortgage with your spouse or anyone else, they'll also need to provide copies of their financial records. The result is a valuable negotiating tool, especially in a seller's market where buyers are competing for homes.
Once you've completed these steps, you should have a pretty good picture of how much home you can afford. When in doubt, however, look for homes on the lower end of your range. After all, you're going to have expenses to budget for, from the mortgage payment itself to utilities costs to home maintenance. Make sure you have enough money left over each month to feel financially secure.