

How Much Home Can You Really Afford?

Chances are, you've heard it before: start your search for your first home with a clear idea of how much you can afford. But how do you calculate your budget? Here are some guidelines.

1. Lenders Often Use the 28/36 Method of Qualifying Buyers

The monthly payment cannot exceed 28 percent of your monthly income, and the total of all debt payments is limited to 36 percent of your income.

2. The Lender Percentages Are Usually Maximums

Not everyone can afford the largest home they qualify for. You need to look carefully at your expenses and lifestyle to see whether you can pay the maximum, month after month. Families with high medical expenses, auto repair bills or educational costs, for example, may decide to take out a smaller mortgage rather than borrow the most they can.

3. Inquire About the Monthly Principal and Interest Payments on the Loan You Qualify For

Add in the monthly cost for property taxes, homeowners insurance and homeowner association dues, if any. Estimate utility, credit card and car payments. Add all these items to the monthly mortgage to get your total fixed expenses. Also, figure in some routine maintenance costs. Subtract the total from your monthly income to get an idea of how much discretionary spending money you will have left at the end of the month in your new home.

4. Don't Put All Your Money Into the New Home

Plan to have several months' worth of income in a savings account for emergencies after you pay closing costs. Also, allow for start-up costs such as new furniture and draperies, paint and wallpaper, new tools and equipment, etc.

5. Look Into the Crystal Ball

If you foresee a loss of income or a growing family, you may want to be more conservative in the amount you spend on your first home. On the other hand, if you expect your income to rise, enabling you to reach a comfort level after stretching your budget for a year or two, you may want to borrow the maximum.

6. Consider Moving to Bigger Home in Steps, Rather Than All At Once

After considering all the figures, you may decide to move into your first home now, even if it is not your dream home. In a few years, your dream home may be within a comfortable reach.

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Buyer's Planning Guide

The table below page shows how much 28 percent is at various income levels.

Annual Income	Gross Monthly Income	Affordable Monthly Payment
\$20,000	\$1,667	\$467
\$25,000	\$2,083	\$583
\$30,000	\$2,500	\$700
\$35,000	\$2,917	\$817
\$40,000	\$3,333	\$933
\$45,000	\$3,750	\$1,050
\$50,000	\$4,167	\$1,167
\$55,000	\$4,583	\$1,283
\$60,000	\$5,000	\$1,400
\$65,000	\$5,417	\$1,517
\$70,000	\$5,833	\$1,633
\$75,000	\$6,250	\$1,750
\$80,000	\$6,667	\$1,867
\$100,000*	\$8,333	\$2,333

*For incomes over \$100,000, add together the two appropriate lines.