

How Much Can I Really Afford?

You've probably already heard that before you start your search for your first home you should establish how much you can afford to spend. But many home owners don't know where to start to figure this out: Here are some tips;

Figure out your DTI:

Many lenders use your Debt to Income ratio (DTI) in figuring out how much they are willing to let you borrow. Contact a mortgage professional to get pre-approved and find out what a lender is willing to lend you.

The Lender is Going to Tell You the Maximums:

Just because you qualify for a certain amount doesn't mean you can actually afford that amount. You need to examine your expenses and lifestyle to see whether you can and are willing to pay the maximum month after month. Think about what other major expenses you are responsible for, i.e. auto repair bills, educational costs, high medical expenses etc., and factor these in to what you want to borrow.

The Loan Amount Isn't the Only Monthly Payment:

While it is extremely important to figure out what your monthly principle and interest payment is to the lender, you also need to factor in monthly amounts for property taxes, home owners insurance, home owners association dues and regime dues (if any). Also find out what average utility costs are in the area you are considering. Add all of these costs to the monthly mortgage payment to figure out what your total fixed housing expenses will be.

Things Come Up, Don't Put All Your Money Into Your New Home:

Plan on having several months' worth of income put away in your savings account just for emergencies. You should allow for money towards start up costs. Inevitably when you move into your new home you'll be spending money on paint, new furniture, window treatments, new tools and equipment - these things should be factored into your housing plan.

Think Down the Road:

What's in your future? Are you considering growing the family a bit? College in your plans? What other major expenses are you considering? Take into consideration such unforeseen events like job lose or health challenges. Having thought through these may result in a more conservative approach to buying your first home. On the other hand if you foresee an increase in your income you may want to borrow the maximum if you are willing to stretch your monthly budget for the first couple of years.