

How Much House Can You Afford?

How much house you can afford begins by understanding the following two concepts:

RATIOS: Statistics show that no more than approximately 30% of a household's income should go towards a house payment, and no more than approximately 40% towards all the minimum monthly debt payments including the house payment. These debt-to-income percentages are called front end and back end **ratios** and are represented as 30/40.

PITI: A mortgage payment includes much more than just a monthly payment towards the principal of the loan. It includes four main items called **PITI**, which are principal, interest, taxes and insurance that generally total the entire payment. Experts suggest consumers use debt-to-income ratios to determine what is an affordable payment. Automated underwriting qualifies consumers for more than the traditional ratios. Therefore, it is important to take into consideration what is comfortable to the consumer and allows him/her to meet all financial obligations.

Lenders use ratios to qualify home buyers. In order to calculate ratios, they need to know the following information:

ARE YOUR DEBTS EXCESSIVE?

LIST ALL YOUR MONTHLY DEBT PAYMENTS.

(Debt = Required Minimum Monthly Payment)

\$ _____ Auto Loans

\$ _____ Credit Cards (includes dept. store cards)

\$ _____ Student Loans

\$ _____ Medical Debt

\$ _____ Child Support / Alimony

\$ _____ Other Loans *

\$ _____ Total Monthly Debt Payment

(*Although lenders do not include family loans, charitable contributions or co pays on prescriptions, these items should be considered when calculating "actual" monthly debt payments.)

WHAT IS YOUR DEBT-TO-INCOME RATIO?

(Circle your income on the graph below. Then compare the most common loan types.)

Allowable Ratios:	Conventional 28/38	FHA 29/41
Gross Annual Income	Recommended Allowable Monthly Debt Payment if House Payment Reaches the Full Front End Ratio.	
\$15,000	\$125	\$150
\$20,000	\$167	\$200
\$25,000	\$208	\$250
\$30,000	\$250	\$300
\$35,000	\$292	\$350
\$40,000	\$333	\$400
\$45,000	\$375	\$450
\$50,000	\$417	\$500
\$60,000	\$500	\$600
\$70,000	\$583	\$700
\$80,000	\$667	\$800
\$90,000	\$750	\$900

CALCULATE YOUR PAYMENT

The following information will assist you in computing your ratios. Ratios may vary depending on debt, type of loan, and lending institution.

Conventional Loans (28/38):

$$\begin{matrix} \$ ______ & \times & .28 & = & \$ ______ & \text{(A)} \\ \text{Gross Monthly Income} & & & & \text{Maximum House Payment/PITI} \end{matrix}$$

$$\begin{matrix} \$ ______ & \times & .38 & = & \$ ______ \\ \text{Gross Monthly Income} & & & & \end{matrix}$$

$$\text{Less Debt Payments (see above)} \quad - \quad \$ ______$$

$$\text{Maximum House Payment/PITI} = \$ ______ \text{(B)}$$

**Note: Your Maximum House Payment to Qualify:
Circle the Lesser of (A) or (B).**

FHA Loans (29/41):

$$\begin{matrix} \$ ______ & \times & .29 & = & \$ ______ & \text{(A)} \\ \text{Gross Monthly Income} & & & & \text{Maximum House Payment/PITI} \end{matrix}$$

$$\begin{matrix} \$ ______ & \times & .41 & = & \$ ______ \\ \text{Gross Monthly Income} & & & & \end{matrix}$$

$$\text{Less Debt Payments (see above)} \quad - \quad \$ ______$$

$$\text{Maximum House Payment/PITI} = \$ ______ \text{(B)}$$

**Note: Your Maximum House Payment to Qualify:
Circle the Lesser of (A) or (B).**

TAXES AND INSURANCE

Now that a PITI estimate is calculated, it is necessary to estimate what portion of this payment will be taxes and insurance.

If you had a \$130,000 conventional mortgage with a fixed 6.5% interest rate for a 30 year term, you could expect to pay the following amounts on top of your monthly principal and interest payment:

- With 5% down payment = \$62 (taxes) + \$117 (mortgage/hazard insurance) = \$179 (Taxes + Insurances)
- With 10% down payment = \$62 (taxes) + \$101 (mortgage/hazard insurance) = \$163 (Taxes + Insurances)
- With 15% down payment = \$62 (taxes) + \$88 (mortgage/hazard insurance) = \$130 (Taxes + Insurances)
- With 20% down payment = \$62 (taxes) + \$33 (hazard insurance) = \$95 (Taxes + Property Insurance)

What will my total monthly mortgage payment be, including principal, interest, taxes and insurance (PITI)?

If you had a \$130,000 mortgage with a fixed 6.5% interest rate for a 30 year term, you could expect to pay the following amounts for your total monthly mortgage payment:

- With 5% down payment = \$179 (Taxes + Insurances) + \$822 (Principal & Interest) = \$1001 (PITI)
- With 10% down payment = \$163 (Taxes + Insurances) + \$822 (Principal & Interest) = \$985 (PITI)
- With 15% down payment = \$130 (Taxes + Insurances) + \$822 (Principal & Interest) = \$952 (PITI)
- With 20% down payment = \$95 (Taxes + Insurances) + \$822 (Principal & Interest) = \$917 (PITI)

***This example assumes \$750 paid yearly in taxes and \$33.00 paid monthly for hazard insurance on a 30 year loan. The mortgage insurance (PMI) will vary based on the amount of the down payment. The PMI estimate shown above ranges from \$0-\$84.00 a month.
 **These numbers may be higher or lower based on the type of loan you select and are subject to change based on loan type and yearly increase in interest rates.*

PRINCIPAL AND INTEREST

To calculate how much house you can afford, subtract the estimated monthly taxes and insurances from the maximum monthly house payment/PITI circled on the other side. An estimated TI is approximately 20% of the PITI, including PMI.

$$\frac{\text{PITI (from other side)}}{\text{Estimated TI}} = \text{Maximum PI}$$

The amount of your mortgage will depend on how much you borrow, the term (repayment period) of the loan, and the interest rate. To identify your affordable loan amount, find the current interest rate and use the maximum principal and interest payment amount calculated above. Note that this chart only reflects the principal and interest of a loan.

Loan Amount	INTEREST RATE										
	5%	5.5%	6%	6.5%	7%	7.5%	8%	8.5%	9%	9.5%	10%
30,000	161	170	180	190	200	210	220	231	241	252	263
35,000	188	199	210	221	235	246	257	269	282	294	307
40,000	215	227	240	253	266	280	293	308	322	336	351
45,000	242	256	270	284	302	317	330	346	362	378	395
50,000	268	284	299	316	333	350	367	384	402	420	439
55,000	295	312	330	347	369	388	404	423	443	462	483
60,000	322	341	360	379	399	420	440	461	483	505	527
65,000	349	369	390	411	436	458	477	500	523	547	570
70,000	376	397	420	442	466	489	514	538	563	589	614
75,000	403	426	449	474	503	529	550	577	603	631	658
80,000	429	454	480	506	532	559	587	615	644	673	702
85,000	456	483	510	537	570	599	624	654	684	715	746
90,000	483	511	540	569	599	629	660	692	724	757	790
100,000	537	568	600	632	665	699	734	769	805	841	878
110,000	591	625	660	695	732	769	807	846	885	925	965
120,000	644	681	719	758	798	839	880	923	966	1009	1053
130,000	698	738	779	822	865	909	954	1000	1046	1093	1141
140,000	752	795	839	885	931	979	1027	1076	1126	1177	1229
150,000	805	852	899	948	998	1049	1101	1153	1207	1261	1316
160,000	859	908	959	1011	1064	1119	1174	1230	1287	1345	1404
170,000	913	965	1019	1075	1131	1189	1247	1307	1368	1429	1492
180,000	966	1022	1079	1138	1208	1270	1321	1384	1448	1514	1570
190,000	1020	1079	1139	1201	1275	1340	1394	1461	1529	1598	1667
210,000	1127	1192	1260	1325	1395	1470	1540	1610	1680	1755	1830
230,000	1235	1306	1381	1459	1540	1625	1705	1785	1865	1945	2025
250,000	1342	1419	1495	1575	1655	1740	1820	1900	1980	2060	2140