

# What Your Money Can Buy

## Six Easy First Steps To Find Out What Price Home You Can Afford

**F**inding what price home you can afford to buy can be a time-consuming process of calling on several lenders, collecting data on various current mortgage rates and reviewing your finances with several lending officers.

Fortunately, there's an easy way around all this. With a few simple steps, you can figure out for yourself the approximate mortgage amount a lender is apt to approve for you. That amount, plus the amount of your down payment, gives you the price range of homes you are qualified to buy. We call this exercise "pre-qualification."

First, you need to find what interest rate is currently being charged for 30-year fixed rate loans. But, instead of phoning several lenders, you can simply give us a call. We make it our business to have the latest information on lenders' rates and financing packages right at hand.

Next, apply the following do-it-yourself system to zero in on the approximate mortgage amount lenders are likely to approve:

### Mortgage Loan Amount Estimator

The following table illustrates how your mortgage amount will vary, at different interest rates, even though your affordable monthly principal and interest payment remains the same (Step 6 of the accompanying story). Add your qualified mortgage amount to your down payment to calculate your approximate home price range.

#### Affordable Mortgage Amounts Over 30 Years

Monthly Payment (PI)	5%	6%	7%	8%	9%	10%
\$ 600	111,800	100,000	90,200	81,800	74,600	68,400
800	149,000	133,400	120,200	109,100	99,450	91,200
1,000	186,300	166,800	150,200	136,400	124,300	114,000
1,200	223,500	200,200	180,200	163,700	149,150	136,800
1,400	260,800	223,500	210,200	191,000	174,000	159,600
1,600	298,100	266,900	240,200	218,300	198,850	182,400
1,800	335,300	300,200	270,200	245,600	223,700	205,200
2,000	372,600	333,600	300,200	272,900	248,550	228,000
2,200	409,800	367,000	330,200	300,200	273,400	250,800
2,400	447,100	400,300	360,200	327,500	298,250	273,600

Figures are approximate for a 30-year fixed monthly payment mortgage after a down payment of 10%. Taxes, homeowners or condominium fees and insurance costs are not included in monthly payment figures.

**1** Calculate your gross monthly income — the amount you make before deductions. Add your spouse's gross monthly income, if any.

**2** Multiply the income amount by 36% (.36). This is called the "debt ratio."

**3** Then subtract long-term monthly debts (more than 10 months), such as car loan payments, personal loans, alimony, child support or regular payments toward a credit card balance. This is the generally accepted standard lenders use to determine what borrowers can afford, after a down payment of 10%. Some lenders and mortgage plans apply more or less strict factors, such as 33% with a 5% down payment or 38% with a 20% down payment.

**4** Also, many lenders calculate a "housing ratio" of 28% times gross monthly income. The result does not take into account long-term monthly debts. To qualify for a mortgage, lenders may require ratios of, say, 28/36. The first number means the maximum mortgage payment you qualify for could be up to 28% of gross income (.28); the second number means the maximum mortgage payment plus monthly debts could be up to 36% of gross income (.36).

**5** Take a "guesstimate" of average annual real estate taxes in your area, plus the annual cost of homeowner's insurance. Divide by 12 to obtain a monthly figure. (On average, the monthly cost of these two items might be about one-tenth of 1% of the home purchase price. Ask us about your specific situation.)

**6** Deduct the monthly taxes and insurance cost from both figures you arrived at in Step 3 and Step 4. The result is the ballpark monthly payment on principal and interest you can afford to pay on a mortgage.

With the amount of principal and interest (PI) payment you can make in hand, we can calculate the amount of mortgage you can obtain, at various rates. Or you can find the approximate answer for yourself in the table.

We'd be happy to discuss the many alternative mortgage plans — besides the 30-year fixed rate — that can dramatically increase the home price you can afford.

Remember, the price range of homes you can afford is figured after a down payment is added to your qualified loan amount. In addition, you'll need to set aside an amount for closing costs and point payments. Ask us how much these may amount to in your specific situation.



To Purchase Call (703) 698-7750