

How Much Home Can You Afford?

A general rule of thumb is your mortgage payment (principal plus interest) should be about 25 percent of your gross monthly income. Real estate taxes plus insurance will add another 3 to 6 percent. Other monthly living expenses (including food, clothes, auto payments, other loans, charge cards and utilities) should range between 33 percent to 36 percent of your gross monthly income. The balance of your income goes for taxes (federal, state and city) and savings.

It's easy to figure an approximate amount for taxes and living expenses. The big question is how to figure out what size mortgage you can afford. Don't forget you'll need at least a 10 percent down payment (and maybe 20 percent) plus closing costs of 2 to 5 percent of your mortgage - cash up front.

The basic formula to calculate your monthly payments is:

$$\frac{\text{MORTGAGE AMOUNT}}{\$1,000} \times \text{PAYMENT FROM BELOW CHART}$$

You have just found a house for \$150,000 and you have a \$30,000 down payment plus the closing costs (\$2,400 to \$6,000). You have to mortgage \$120,000. Can you afford it?

Using the monthly payment formula for a 30-year mortgage at 10 percent interest you have:

$$\frac{\$120,000}{\$1,000} \times \$8.78 = \$1,053.60$$

MORTGAGE PAYMENT TABLE

Equal Monthly Payments to Amortize a Loan (per \$1,000 value)

RATE %	15 YEARS	30 YEARS
5	\$7.91	\$5.37
5-1/2	8.17	5.68
6	8.44	6.00
6-1/2	8.72	6.33
7	8.99	6.65
7-1/2	9.27	6.99
8	9.56	7.34
8-1/2	9.85	7.69
9	10.14	8.05
9-1/2	10.44	8.41
10	10.75	8.78

monthly payment or \$12,643.20 per year. To figure if this is 25 percent of your gross annual income divide by .25 which equals \$50,572.80. You must earn \$50,572 to qualify for this mortgage. This is assuming there are no kinks in your credit rating.

If this turns out to be good news and you actually can afford a bigger and more expensive house (room that you don't necessarily need at this time), you should consider a 15-year mortgage at 10 percent.

Using the formula again, your monthly payments on the same mortgage with the same down payment will be \$1,290 per month (120 x \$10.75), but now your annual gross income has to be approximately \$61,920 to qualify.

Your next question may be "Why should I pay more per month for a 15-year mortgage?" Examine the interest table.

The interest on your 30-year mortgage will amount to \$2,161 x 120 or \$259,320, while the interest on your 15-year mortgage is \$935 x 120 or \$112,000. A difference of a whopping \$147,120! Does that answer your question?

Also, something else to consider is that the equity in your house accumulates much faster with a 15-year mortgage. You're now in a more positive situation to move to a more expensive house, if you wish.

MORTGAGE INTEREST TABLE

RATE %	TOTAL INTEREST/\$1,000	
	30-YEAR	15-YEAR
5	\$ 911	\$416
5-1/2	1,031	466
6	1,151	516
6-1/2	1,271	567
7	1,394	618
7-1/2	1,517	669
8	1,643	721
8-1/2	1,769	773
9	1,898	825
9-1/2	2,028	879
10	2,161	935

CONVENTIONAL BUYER WORKSHEET

The following example is based on a family earning \$60,000 yearly, with monthly debts (such as car payments and credit cards) of \$425 monthly.

STEP 1

			\$1,400
			MAXIMUM HOUSE PAYMENT
\$5,000	↗	x 28%	
GROSS MONTHLY FAMILY INCOME			\$1,800
	↘	x 36%	
			MAXIMUM DEBT AMOUNT

STEP 2

\$1,800	---	\$425	=	\$1,375
MAXIMUM DEBT AMOUNT		TOTAL MONTHLY DEBT		ADJUSTED TOTAL HOUSE PAYMENT

STEP 3

\$1,375	---	[\$175 + \$30]	=	\$1,170
ADJUSTED TOTAL HOUSE PAYMENT		ESTIMATED MONTHLY TAXES + INSURANCE		PRINCIPAL AND INTEREST AMOUNT

STEP 4

\$1,170		QUALIFIES FOR A MORTGAGE AMOUNT OF	\$175,710
PRINCIPAL AND INTEREST AMOUNT		AT 7% FOR 30 YEARS.	

NOTE: The mortgage amount figure for this sample couple is derived from a principal and interest table. These figures will vary by the interest rate and length of mortgage.