

What Can You Afford?

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Providing valuable resources for our Real Estate Buyers and Sellers is our top priority.

Now that you have made the decision to buy, it is important to figure out what you can buy.

Lenders will look at your current budget (income, assets, and debts), and how much you would like to down pay and calculate two ratios to determine how much they are willing to lend. The first ratio sets a limit on what they think you can spend on housing. For example, a 28% housing ratio means your projected housing cost should be less than 28% of your gross monthly income. These numbers are all flexible depending on your down payment. Generally, the bigger your down payment, the less your monthly payment will be. People can usually afford a house 2.5-3 times their gross annual income. The second ratio compares monthly debt obligations to monthly income.

After all this is calculated, you can get pre-approved for a loan. This will tell you officially how much you can afford and what your monthly payments will be. Also, this tells the seller you can afford to buy their home. Often buyers can use their pre-approved status as leverage during negotiations.