



# TAKE CONTROL

*for Your Future*

## How much home can I afford?

**B**efore deciding how much home you can afford, make certain that home ownership is the appropriate for you by considering a few simple questions. If the answer to any of the questions is “no,” you may need to wait or investigate further before considering home ownership.

Here are questions to ask before considering home ownership:

- Do you have a stable income and employment?
- Are you planning to remain in the same area for a number of years?
- Do you have a good credit history?
- Do you have enough for a down payment and closing costs?
- Is your debt low enough to qualify for a loan?
- Have you been pre-approved for a loan? (Real estate agents will “pre-qualify” a person by running debt-to-income ratios, but this is no guarantee of getting a loan. It is better to be pre-approved by a lender.)

If you have pre-qualified for a mortgage loan, it’s important to remember, the amount of mortgage you qualify for isn’t always the same as how much you can actually afford. Homeownership often comes with additional expenses, including maintenance, insurance and taxes and you do not want all of your money tied up in the monthly mortgage. Once you are pre-qualified, remember, do not make large purchases such as furniture that can change your debt and income ratio.

Three basic considerations that can help you determine how much home you can afford:

- Your income
- Your living costs and other debt payments

- Your housing expenses, including taxes, insurance, utilities, furnishings, maintenance, mortgage payments and homeowners association dues. Taxes will increase, thereby increasing your mortgage payment.

In general, your monthly mortgage payment should be at most 28 percent of your monthly gross pay (gross pay is your total compensation before any deductions). In addition, your monthly debt plus your mortgage payment should be no more than 36 percent of your gross take-home pay. Debt includes items such as student loans, credit cards, child support, alimony, and car payments. If you are married, you can add both incomes together to qualify. Just remember that you have to add the debts of both individuals as well.

Ginnie Mae has an online mortgage calculator that can help you determine what you can reasonably afford given your current income and debt: [www.ginniemae.gov/2\\_prequal/intro\\_questions.asp?section+YPTH](http://www.ginniemae.gov/2_prequal/intro_questions.asp?section+YPTH)

This tool allows you to plug in your specific information into the calculator to see how much house you can reasonably afford. Be certain to complete both the general estimate as well as the detailed estimate because it will make a difference in the overall amount you can afford. The detailed estimate will also ask you specifically about how much you can afford for a down payment. Remember, too, your loan choice (FHA, VA, conventional,

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etc.) will have an influence on what you can purchase. The other important factor is how much you have available for a down payment and closing costs.

Here is an example of what the Ginne Mae calculator estimates for a hypothetical couple with two children, making \$75,000 a year, with a \$700 a month obligated for debt payment (credit card, student loans, car payments). The general estimate for the maximum sales price this family can afford for a home is \$231,438. This general estimate is for a 30-year fixed rate mortgage at 6.25 percent with approximately \$35,000 down payment (for a loan amount of \$196,722) and \$8,000 in closing costs.

Now let's see what happens when we plug in specifics for the detailed estimate. For this example we will use Alamance County, North Carolina as the county of home purchase, with a 30 year fixed rate mortgage of 6.25 percent, and \$15,000 available for a down payment and closing costs. The numbers change considerably — the estimate for the maximum sales price this family can afford on a conventional 30 year fixed rate mortgage at 6.25 percent is a home with a maximum sales price of \$78,302 (with a loan amount of \$66,556).

These numbers change significantly if the family has \$25,000 for down payment and closing costs, raising the conventional maximum sales price to \$133,997 (with a loan amount of

\$113,898). In addition to a fixed rate conventional loan, the mortgage calculator will also give estimates for FHA and VA loans, which have smaller down payment and closing cost requirements, but they also have specific qualification requirements.

One other consideration that may affect your ability to pay for a home is future debt. If you know you will be incurring large debt or greater expenses in the very near future such as a the purchase of a new car or the birth of a child and child care costs, factor that into your total debt and run it through the mortgage calculator again. This may provide you with a more realistic near future vision of what you can afford.

Once you have determined how much you can afford and begin your home search, keep in mind potential hidden expenses. For example, consider the location of the home from your work and/or school. The farther the home is from these, the more you will incur for transportation costs. The age of the home is important as well. The older the home, the more maintenance issues you may have. Your real estate professional may encourage you to buy as much home as your pre-approved loan allows. Resist the temptation and buy only as much house as you can afford, leaving a little “breathing room” in the budget will make home ownership more enjoyable and, more importantly, sustainable.

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*For more information on the Web, go to:*

**[www.nctakecontrol.com](http://www.nctakecontrol.com)**

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