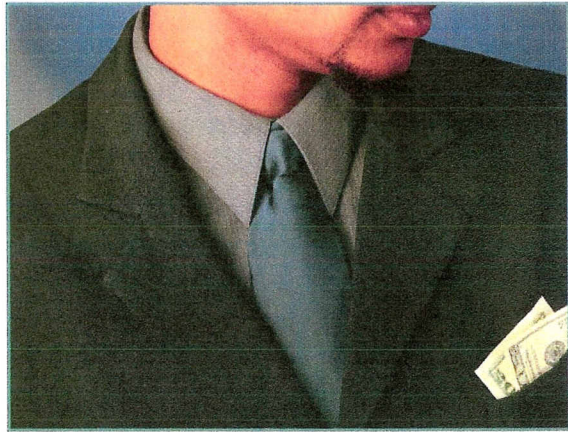


HOW MUCH HOME CAN YOU AFFORD?



DETERMINE YOUR PRICE RANGE BEFORE YOU BEGIN TO SHOP FOR THAT NEW HOME



HOW MUCH HOME CAN YOU AFFORD?

"How much home can I afford?" is the first question on many buyers' minds, so you're certainly not alone. If you're looking for a way to figure out whether or not you can buy the home of your dreams, read on.

CONSIDER FINANCIAL PRIORITIES

Buying your dream home probably isn't your only financial goal. You may also want to:

- ❖ Fund your retirement
- ❖ Send a child or two to college
- ❖ Take vacations
- ❖ Buy a car

In other words, depleting your life savings and forcing yourself to live paycheck to paycheck may not be the wisest course of action when considering how much you want to spend on a home.

CLEAN UP YOUR CREDIT

One of the first things you can do to make your home-buying dollar go as far as possible is to clean up your credit. The better your credit, the lower the interest rate you'll qualify for, and the more money you'll be able to borrow. If you have credit concerns, contact your mortgage professional. They may be able to give you some pointers or refer you to a qualified financial planner who can help.

COST AND DEBT RATIOS

One means a lender will use to determine how much home you can afford is to measure your total monthly housing costs. To determine your cost ratio, take Principal, Interest, Taxes and Insurance (otherwise known as PITI - pronounced pitee) and divide by your total monthly pretax income. Most lenders like to see a maximum of 28% of your income go towards housing, but some will go as high as 33%.

The other ratio lenders consider to be crucial to your ability to afford a home is your total debt ratio. To calculate your total debt ratio, add your PITI plus all other monthly debt divided by your total monthly pretax income.

For ratio calculation purposes, credit card debt uses the minimum monthly payment. Also, if you have installment debt (car payment) with less than 10 months remaining, you can generally ignore that debt when figuring this ratio. Most lenders would like to see no more than 36-38% total of your mortgage and debt payments to your income.

HOME BUYING ASSISTANCE

The federal government offers certain groups of potential home buyers assistance through programs such as Freddie Mac, Fannie Mae, VA and FHA. Benefits of these programs may include smaller down payments, higher maximum debt to income ratios and lower mortgage insurance costs.

If you have not owned a house in the past two years, you can use a portion of your IRA funds towards your down payment. You also could consider borrowing from your IRA. Consult your accountant for the exact details.

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Receiving a gift of money to use as your down payment is also a possibility. Tax law allows gifts of several thousand dollars a year without tax consequences to either the giver or recipient. The gift-exclusion amount is adjusted annually to reflect inflation, so check with the IRS for the current year amounts.

UNDERSTANDING COSTS

Many potential home buyers don't realize just exactly what is included in the actual cost of buying a home. Just because a home is listed at \$250,000 doesn't mean that's all you'll have to pay to get your hands on the deed. You may also have to factor in:

- ❖ Down payment
- ❖ Closing costs (these generally run between 2 and 5% of the home's purchase price)
- ❖ Points: 1 point=1% of loan
- ❖ Loan origination fees
- ❖ Interest rates
- ❖ Discount points
- ❖ Private Mortgage Insurance (if needed)
- ❖ Property Taxes
- ❖ Moving expenses
- ❖ Inspection costs
- ❖ Lawyers' fees (if you live in a state that requires legal representation)

CONSIDER PLAYING HOUSE

If you already have a home price in mind, some experts recommend that you live for a few months as if you already were paying that mortgage amount. If you can do so fairly comfortably, not only will it answer your question (can I afford this home?), but you'll have a little bit extra socked away in savings.



PRE-APPROVAL

It's an excellent idea to be pre-approved for a mortgage before you start seriously looking at new homes. It's an unpleasant shock, to say the least, to have your heart set on the home of your dreams only to find out you can't qualify for a mortgage in that price range.

PMI

Private mortgage insurance is required for any mortgage that is financed for over 80% of the value of the house. PMI runs about 1% of the cost of the home, so it does add a substantial amount to your monthly payment. There are some ways around paying PMI – talk to your mortgage professional about your options.

OTHER CONSIDERATIONS

When determining how much home you can afford, you may want to think about any renovations you plan for the house, decorating (including window coverings) and maintenance. Although these items are not figured into the ratios for qualification purposes, they are expenses you'll incur nonetheless, so it makes sense to include them for your own planning.

The safest bet, when determining how much home you can afford, is to ask your mortgage professional. They can help with all the needed figures as well as a no-obligation pre-approval; all you have to do is call.

