

## How much home can you afford?

Buying a home should be a joyful event. But buying one that is too expensive, and requires too large of a monthly mortgage payment, can quickly turn that joy into a financial nightmare.

No one wants to be house-poor. That's when the cost of owning your home, including making your monthly mortgage payments, is so high that paying to live in your residence becomes a financial burden.



Financial experts say that spending too much on a home can negatively impact your entire life. You might have landed what you think is a low mortgage interest rate (<http://www.mortgageloan.com/rates>). But if your overall monthly payment, including taxes and insurance, is still too high, that lower interest rate won't matter.

You might struggle to sleep while worrying about paying your bills each month. Your three-digit credit score might plummet when you can't afford to pay each of these bills by their due dates. And the pressure of making that high mortgage payment each month might make you hate that home you were once so eager to buy.

Fortunately, with just a bit of research into your finances you can avoid overspending on a home. And with this research, you'll increase your odds of ending up with a monthly mortgage payment that you can comfortably afford.

### Lenders' debt-to-income ratio

Kevin Quinn, senior vice president of retail lending with First Internet Bank, said that it's important to determine early in the buying process just how much home you can afford. If you don't, you could feel the financial sting for years, he said.

"Spending too much on a home could leave you with little money for retirement, your children's college fund, family vacations or even everyday expenses," he said.

Quinn said that the key is to know exactly how much you make each month and how much you owe. Lenders do this by studying your gross income -- the money you make before any deductions -- and your estimated monthly expenses, including your estimated new mortgage payment. In general, lenders don't want your expenses to equal more than 43 percent of your gross monthly income.

### Setting realistic goals

But Quinn said that what mortgage lenders (<http://www.mortgageloan.com/lenders>) approve you for is not always a loan that you can comfortably afford. Quinn recommends that instead of just focusing on your gross income, which you use to qualify for a mortgage, that you also look at your monthly net income. This is your take-home pay after all deductions are removed from your checks, and is a more realistic view of the money you actually have at your disposal each month.

Stuart Crawford, regional manager with Scottsdale, Arizona-based V.I.P. Mortgage, said that consumers need to be careful about taking on a mortgage payment that puts them right at that highest debt-to-income ratio.

"There is a difference from what the guidelines say you can do and what you should do," Crawford said. "If you go with the guidelines, you'll be pushing yourself to the absolute financial maximum. That could lead to trouble if anything changes with your finances."

Next, it's time to make a monthly household budget tracking your income and expenses, including estimated, and realistic, amounts for what you spend each month on such flexible items as groceries, entertainment and transportation.

Once you have these figures, you can determine how much room there is in your budget for a mortgage payment each month. You'll be less likely, then, to overspend on a house that will come with a mortgage payment higher than this amount.

### Spending habits





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15 yr fixed	2.875	▲
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