

HOW MUCH CAN YOU AFFORD?

Your monthly payments –

"What can I afford to spend on housing each month?"

As a homebuyer, it's the most important question you can ask yourself. And ranges won't do either...you need a specific number.

It is easier & quicker to ask a mortgage pro to calculate this for you...but here is a brief idea how it is done...

Once you know your monthly budget, determining whether a home is affordable for you is a matter of working some basic mortgage math. You'll need a mortgage calculator for this step.

First...calculate the following 3 figures...then add them together for a total amount.

- 1) The home's annual real estate tax bill, divided by 12
- 2) The home's estimated annual cost to insure, divided by 12
(Your mortgage pro can help determine this number)
- 3) Is the home located in a subdivision with a Homeowners Association? If so...need to know the home's monthly dues...and add this figure also.

Next...subtract this sum from your monthly budget amount and you're left with your maximum monthly mortgage payment.

Example: If your budget is \$1,500 and the above sum is \$400...you have \$1,100 left monthly to spend on your mortgage.

This next step is tricky...

Using your mortgage calculator, enter your maximum payment amount (example \$1,100)...your loan's expected term (example 30 years)...and your expected interest rate (example 4.75%).

Then...have the calculator solve for “loan size”, add to that figure your expected down payment amount, and -- voila -- you’ve found the maximum price you can pay for a given home while still remaining within your budget.

But seriously...it is much easier just to ask a mortgage pro! They can calculate it very quickly for you...instead of doing all this math!

The Interest rates – for calculating the total payment

Homes are more affordable today than at any time in recorded history. It’s not because home prices are down, though -- it’s because mortgage rates are.

Trying to time the housing market...and waiting to save more money is foolish. Rising mortgage rates and house prices can quickly erase your savings.

Low mortgage rates extend a buyer’s housing budget farther than falling home prices ever could. But with mortgage rates changing every 4 hours on average, affordability can be short-lived.

Every time mortgage rates change, so does your budgeted maximum purchase price. And the changes can be dramatic.

Example: For each 0.125% increase to mortgage rates, your maximum purchase price must fall by 1.45% to stay “in budget”.

What type of loan to choose?

Picking the Proper Mortgage Product to Fit Your Needs

Mortgage rates are a major influence on your monthly housing budget, but, they’re outside of your control. Mortgage rates are based on the price of mortgage-backed securities; bonds bought and sold on Wall Street.

You can, however, control with which mortgage product you finance your home. And, by making better mortgage choices, you can avoid “over-paying” on your home loan, like using a 30-year fixed rate mortgage when a lower-rate adjustable rate mortgage is more suitable.

Homeowners planning to sell within 7 years, for example, don’t need a 30-year fixed-rate loan. Yet, most will opt for one anyway, citing “peace of mind”.

It’s an expensive insurance policy that can hit you hard in the wallet.

Example: In mid-2011, mortgage rates for the 30-year fixed-rate mortgage were 130 basis points higher than for an otherwise identical 5-year ARM, equal to a 12 percent increase to your monthly mortgage payment.

Take note, though. Adjustable-rate mortgages should not be used as a means to “afford more home”. They’re most suitable for people with a relocation history and/or ambivalence about higher mortgage rates in the future.

But to answer all your mortgage questions...

Talk with a qualified Mortgage professional...they will make the process smooth and easy to understand! And be able to give you a mortgage payment that you will be comfortable with...in mere minutes 😊

I can help you find a Mortgage pro...just text or give me a call at (352) 843-1988