

Affordability

How Much Home Can I Really Afford?

An affordability calculator is a great first step to estimate how much home you can afford. But here are some other things to consider when figuring out your home shopping budget.

The 28/36 Rule for Affordability

One rule of thumb that lenders may use to assess how much of a mortgage you qualify for is the 28/36 rule. This rule says that your mortgage payment (which includes property taxes and homeowners insurance) should be no more than 28% of your pre-tax income, and your total debt (including your mortgage and other debts such as car or student loan payments) should be no more than 36% of your pre-tax income. While these numbers are used as a guide by many lenders, there are some cases where you may be able to have a higher. For example, some lenders may allow borrowers with a higher credit score to have slightly higher DTI ratios. And some loans allow for higher DTIs, such as FHA loans, which allow up to 43% or higher in some cases.

Get Pre-Qualified

Getting Pre-Qualified for a mortgage is an important step in determining how much home you can afford. During this process, a lender will assess your finances to determine how much they are willing to lend you. This number can help you shop within your means, but remember that just because you qualify for a specific amount doesn't necessarily mean you can afford it. The pre-qualification process typically takes your income and debts into account, but it doesn't include your personal savings goals or spending habits. A lender's assessment is important, but ultimately you have the final say in what you're comfortable spending on your next home.

More Factors that Affect Your Affordability

Income, debts and down payment are big factors when it comes to calculating your affordability. But there are other factors to be aware of, too. Believe it or not, the interest rate you get could make a big difference in how much home you can afford because a lower interest rate could significantly lower your monthly mortgage payment. Your personal savings goals or spending habits can also make a big impact on your affordability, so remember to consider these when setting your home shopping budget.
