

Loans and Mortgages

How Much Mortgage Can I Afford?

Keep in mind that just because you qualify for that amount, it does not mean you can afford to be comfortable with those monthly payments. You need to consider your particular circumstances and your future financial needs and goals.

How can I calculate how much mortgage I can afford?

As a rule of thumb, many people estimate they are able to afford a mortgage of 2 to 3 times their household income. For example, if your annual income is \$30,000, you might be able to afford a mortgage of \$60,000 to \$75,000:

$$\$30,000 \times 2 = \$60,000$$

$$\$30,000 \times 2.5 = \$75,000$$

$$\$30,000 \times 3 = \$90,000$$

Keep in mind that just because you qualify for that amount does not mean you can afford or be comfortable with those monthly payments. You need to consider your own circumstances and your future financial needs and goals.

What do lenders look at when deciding whether or not to finance a mortgage?

Lenders look at a debt-to-income (DTI) ratio when they consider your application for a mortgage loan. A DTI ratio is your monthly expenses compared to your monthly gross income.

Lenders consider monthly housing expenses as a percentage of income and total monthly debt as a percentage of income. Both ratios are important factors in determining whether the lender will make the loan.

What do lenders generally require?

Lenders usually require the PITI (principle, interest, taxes, and insurance), or your housing expenses, to be less than or equal to 25% to 28% of monthly gross income. Lenders call this the “front-end” ratio. In other words, if your monthly gross income is \$10,000 or \$120,000 annually, your mortgage payment should be \$2,800 or less.

$$\$10,000 \times 28\% = \$2,800 - \text{maximum monthly housing costs}$$

Lenders usually require housing expenses plus long-term debt to be less than or equal to 33% or 36% of monthly gross income. Lenders call this the “back-end ratio.” In other words, if your monthly gross income is \$10,000, the combination of your mortgage, \$2,800, and other long-term debt should be no more than \$3,600:

$\$10,000 \times 36\% = \$3,600$ – maximum total debt

If your debt-to-income exceeds these ratios, talk to your lender about your options.