



How do I determine how much home I can afford?

A: The initial step taken by your agent when representing you in the search for a suitable home is to **financially qualify** you for both the price you can pay and the mortgage amount you can borrow. Your gross income and your savings set the parameters for both.

As a rule-of-thumb, the price and type of mortgage you qualify for as a buyer is estimated by applying ratios to your pre-tax gross income. For example, a ratio of five times your gross income indicates roughly the price of the home you qualify to buy when you have a 20% down payment.

Next, your agent needs to know the amount of cash you are able to bring together from all available sources to fund the purchase of a property. To determine how much cash you have for a **down payment** on the price and payment of **acquisition costs**, your agent prepares a **buyer's cost sheet**. The amount of funds you have available for a down payment is fundamental to the amount of mortgage available to you.

Together, your cash down payment and the amount of mortgage you qualify to borrow sets the **maximum price** you can pay for a home.

Your agent calculates the amount of mortgage available to you based on current fixed mortgage rates and any mortgage insurance rate you will be charged (around one percent) when your down payment is less than 20%. A dollar figure of 31% of your monthly gross income is used to determine the maximum mortgage payment you qualify to make.

The cost sheet prepared by your agent is a good-faith estimate which identifies and itemizes the acquisition and financing costs you will likely incur, as well as your source of funds for a down payment. Further, the estimate lists your estimated monthly principal, interest, tax and insurance (PITI) amount which together comprise your mortgage payment.

Going beyond this initial pre-qualifying stage and cost sheet review, your agent will arrange a consultation for you with a lender's representative. The objective of the consultation is to clarify the maximum dollar amount of purchase-assist financing lenders will pre-approve with your income, credit score and down payment.