



How much HOME can you afford?



When you are ready to begin looking at various houses to find your dream home, you need to prepare all the necessary materials to present to the lender. Your lender will tell you exactly what you can afford so that you do not spend time looking at “too much” home. There are three key factors that you will need to consider when determining how much home you can afford.

These are: (1) the down payment; (2) your ability to qualify for a mortgage; and (3) the closing costs associated with your transaction.

Down Payment Requirements:

Many loans today require no down payment, however, you still must qualify for the loan. By putting 20% down or doing an 80% first mortgage and a 15% second mortgage you can avoid needing to have mortgage insurance.

Closing Costs:

Don't forget to think ahead. In addition to the down payment on your dream home, you will be required to pay fees for loan processing and other closing costs. These fees must be paid in cash at the time of the final settlement, unless you are able to include these in your financing. Typically, total closing costs will range between 2-5% of your mortgage loan. A more detailed schedule is included herein in the section detailing your closing.

Qualifying for the Mortgage:

Once you have calculated your PITI and Homeowner's Association Dues (this is your housing expense), add your minimum monthly payments to this number, car payment (only if it is more than 10 months), credit card payments, student loans, installment debt (boat, furniture, jewelry), alimony, child support, etc.. Total all of your debt and divide this by your gross monthly income (before taxes are taken out). This number should be less than or equal to 40%.

Qualifying factors:

Income: History of employment, stability of income, potential for future earnings, education, vocational training and background, and any secondary income such as bonuses, commissions, child support, etc.

Credit Report: History of debt repayment, total outstanding debt and total available credit. If you have concerns about your credit record consider contacting one of the major credit bureaus for a copy of your file. Equifax: 800-685-1111; Experian: 888-397-3742; Trans Union 800-888-4213.

Assets: Cash on hand, other liquid assets such as savings, checking, CDs, stocks, etc.

Property: The home you are buying must be appraised to determine that it has adequate value and is marketable to ensure it will secure the loan.

For more information contact:

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