

How Much Home Can I Buy?

Through the years the first question a buyer asks me still remains the same: “How Much Home Can I Buy”? The second is “How Do I Get Started?”

Buying a home today can be intimidating, and your new home purchase will likely be the most important decision you will ever have to make - certainly one of the single most valuable assets you will own.

Where to Start

Before you invest hundreds of hours searching for a home - and to avoid heartbreak - you should sit down with a lender and find out how much home you can buy. Your lender can pre-qualify you for a home loan in about 45 minutes. Pre-qualification has several benefits. It not only allows you to focus your search in the correct price range, it can also give you an edge when competing with other offers. If a seller is trying to decide between two offers and yours has been qualified and the other hasn't, the sellers are more likely to pick yours. Pre-qualification will also give you leverage when you're negotiating with a seller; it essentially makes you a cash buyer.

A Down Payment

A first time home buyer is limited to the money they can save. The days of having to put 20 percent down are a thing of the past. While putting a large amount of money down definitely makes it easier to qualify for a mortgage, it also allows you to receive the lowest interest rates available. With the various loan programs available today you can now get 100% financing with no money down.

Qualifying For A Mortgage

There are two basic guidelines that lenders use to determine the size of the mortgage you are eligible for:

1. Your monthly mortgage payment of principal, interest, taxes and insurance normally should not exceed 33 to 36% of your monthly gross income, but some loan programs will go as high as 55%.
2. Your monthly housing cost plus other long-term debt should not exceed 42 to 45% of your monthly gross income, but some loan programs will go as high as 55%.

Most lenders will consider employment history, stability of income, education, potential future earnings and these 4 key factors to determine your ability to qualify for a home loan:

Income – Can include not only your gross monthly income but commissions and bonuses.

Credit History – Includes your history of debt repayment, total outstanding debt, highest balances and your highest monthly debt balance.

Assets – Consist of cash on hand, savings and checking accounts, CDs, stocks, bonds or any other type of liquid assets.

Property – The home you are planning to purchase will be appraised to determine its market value. The estimated value must be enough to secure the loan.

Keep in mind that in addition to your down payment, you will possibly be responsible for paying loan fees and closing costs. These will be paid at the time of closing unless you qualify and choose to have them included in your financing.

Jokingly it has been said to me that “lenders want to know everything including your shoe size.” While purchasing my own home I have felt the same way, but keep in mind that the more information the lender has, the better this enables him or her to find just the right loan for you. If you ask most REALTORS® we will probably all agree that pre-qualifying for a loan is the first move to make while searching for a home.

The percentages provided in this article were furnished to me by Josh McWilliams of Eve Bank 256-609-8168
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