

Step 1

Determine Your Budget

How much house can I afford? Determine your budget at the very beginning as it serves as your guide as you move through the process.

A better question for most of us is how expensive a home can we afford to build? If you are like most people, you want the most home you can afford.

On the other hand, you may be able to afford much more home than you really want or need. Everyone's situation, of course, is unique. Most people already have some suspicion about how much they want or can afford to spend.

If you want as much as you can afford, but don't know what that figure is, start from the end and work backwards...determine what cash you can or are willing to put into your home and how much you can afford in monthly payments to cover whatever money you need to borrow.

Figuring out how much home you can afford isn't all that difficult. If you take your monthly payments (house payment, car loan, charge cards, etc. - not utilities, food, entertainment) and divide it by the sum of all your monthly income, the number you come up with should not exceed .33 to .36, depending on the percentage of the cost of the home you are planning to borrow (80%, 90%, 95%?). Another typical guideline is that the total monthly house payment should not exceed 25% of your stable monthly income.

By knowing your income, your monthly debt obligations, and how much cash you are going to put up, a lender or real estate agent can use their knowledge of current insurance rates, property taxes, and standard amortization (payment) tables to help you work backwards to find out how much home you can afford (total price). If all this sounds complicated, it isn't. Let's put it in perspective. It can all be done in an afternoon on the phone or in a few minutes online. You know what your income is. Sit down and add up your monthly payments for long-term obligations and decide how much cash you may be willing to put into your new home.

