

## How Much House Can You Afford?

Advance preparation is key when getting ready to buy a home. You need to decide how much to spend on your home and which type of mortgage will work best for you, as well as understand the settlement process.

Before you visit a sales office, model home or open house, you should take advantage of the many sources that can help you get prepared, and take some steps to ensure you're in the best possible financial situation:

- Figure out what you can comfortably pay on a monthly basis. Write down all your monthly expenses including loan payments, utilities, insurance, credit cards and don't forget food, clothing and entertainment expenditures. When determining the monthly payment you can afford, remember that in addition to the monthly principal and interest, you will also be paying into escrows for property taxes, hazard insurance and possibly mortgage insurance or a home owners/condominium association assessment. Many real estate-focused websites have mortgage calculators that are a great way to figure out what your monthly payments would be based on current interest rates and down payment amounts.
- Pay down your debts. Debt that you carry on your credit cards will limit the amount of a loan a lender will be willing to give you. Lenders typically want to see a total debt service ratio that is less than 40 percent of your monthly income.
- Attend a home buying seminar or talk to a credit counselor who does not work for a lender. The U.S. Department of Housing and Urban Development (HUD) offers free housing counseling and seminars. Visit [www.hud.gov](http://www.hud.gov) or call HUD's interactive voice system at: (800) 569-4287 for more information.
- When you have done your research, visit a lender and find out what loans would be available to you. Then, get pre-approved. This will tell you how much money the lender is willing to loan you, and you will know what price range you should be shopping in. Pre-approval also enables you to quickly make an offer when you find a home, and is attractive to sellers who are considering multiple offers. A lender's pre-approval would still be subject to a final verification of your credit and a satisfactory appraisal.