

How Much Home Can I Afford?

Find that magic number here

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How much house can I afford? Long before you start asking yourself what type of house you want—condo or house? Craftsman or ranch?—you should ask yourself this pragmatic question. After all, it's no secret that your dream home can quickly turn into a living nightmare if you're struggling to save for a down payment or wonder how you'll afford your monthly payments.

And while lenders these days are less likely than ever to loan you more than you can easily manage, and require a substantial down payment, you should take charge of coming up with an affordable figure for your down payment and mortgage payment for your own sake.

Don't rely on others, like a mortgage calculator, to do this critical step for you. Plus, it's helpful to know how much house you can afford, so that you can shop within your price range—because nothing's more of a downer than finding your dream home, only to discover after the fact that it's out of reach. You'll also have a good grasp of how much of a down payment you'll need.

All of this means that it's good to determine from the get-go what home price you can afford, including what the mortgage payment would be and how much you need for a down payment. We're on the case! Here's how to find that magic number for you.

How much house can I afford?

One of the most basic equations you can use to figure out home affordability is your debt-to-income ratio. This is essentially a way for you (and lenders) to compare your monthly income with how much you owe—and how a house can fit into that picture.

As a general rule, your debt-to-income ratio should remain below 36%, says David Feldberg, broker and owner of Coastal Real Estate Group in Newport Beach, CA.

Here's how to figure it out: Calculate how much your monthly payments toward debt—that's things like car payments, credit cards, and student loans. Then divide that amount by your monthly income.



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Let's say, for instance, that every month you're paying \$500 to debts and pulling in \$6,000. Divide \$500 by \$6,000 and you have a debt-to-income ratio of 0.083, or 8.3%. That's well below 36%, but then again, you don't own a home yet.

Once you know your income and debt, you can plug those numbers into a home affordability calculator to see how much house you can afford while still remaining below that 36% debt-to-income ratio.

Let's take the aforementioned example, where you make \$6,000 a month and pay \$500 in debts. Now let's assume you've got around \$30,000 for a down payment and can get a 30-year fixed-rate mortgage at a 5% interest rate. So this will put you in the ballpark of affording a home worth \$248,800. What does this amount to for a monthly payment?

To know that, you'll want to factor in more than just your monthly mortgage payment. There are other expenses, including property taxes and mortgage insurance. Add those in, and a mortgage calculator will reveal you'll be paying about \$1,573 for the privilege of owning this house.

How to calculate how much home you can afford

Of course, these numbers will change with a homeowner's circumstances, as will how much house you can afford, how quickly you can save for a down payment, and how much you'll be able to spend on a monthly mortgage payment.

Let's say you were given a raise and now make \$8,000 per month. Take those same numbers above (a down payment of \$30,000 on a 30-year fixed interest rate mortgage at 5%) and you'd be able to afford a home worth

\$274,600, with a monthly mortgage payment of \$2,073. Or let's say you make \$8,000 per month and are able to whittle your debt in half, down to \$250 per month. That would mean "how much house" you can afford is in the area of \$313,100, with mortgage payments of \$2,201 per month.

As you can see, when you're trying to figure out how much house you can afford, the details matter, so be sure to take all of them into account. In other words, don't look at just your salary, or just how much your monthly mortgage payments will be.

Factor in student loan debt, mortgage insurance, down payment, and other expenses related to buying a house or your monthly bills. The clearer the picture you have of your financial commitments, the easier it will be to figure out how much house you can afford without getting in over your head.