

How much home can I afford?

Home shoppers know to consider the impact that a new home will have on their household budget and that is called keeping your eye on the ball.

Unfortunately, most shoppers are keeping their eye on the wrong ball.

The proper way to answer the "How Much Home Can I Afford" question is to think in terms of monthly payment and not in terms of a home's listed sale price.

When a shopper considers affordability in terms of purchase price, he negates the monthly payment impact of:

- Real estate taxes
- Condo/management fees
- Homeowner's insurance
- Mortgage insurance (if applicable)
- Downpayment

A hypothetical \$300,000 home could have a combined payment as low as \$1,800 or as high as \$3,000, depending on the factors listed above.

In addition, mortgage rates change daily, so that can swing the payments either direction, too.

A smarter way to answer "How Much Home Can I Afford" is to determine a target monthly payment and then work backwards.

This way, each home is considered for its overall holding costs (i.e. mortgage, taxes, related fees) instead of its sticker price.

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