

What can you afford?

In addition to having cash for the down payment and closing costs, you will want your house payment and other debts to be low enough so that you will be able to meet your obligations without any problems. Most mortgage lenders will want these debts and your mortgage payment to fit into what they call qualifying ratios. Most lenders will not allow you to spend more than 28% of your monthly gross income on housing expenses. Many other lenders will not allow you to spend more than 35% of your monthly gross income on all long-term debt. To help you calculate these two ratios, print this page and follow the simple steps below. This worksheet will show you exactly how lenders calculate how much they will loan to you.

1. Record your annual income before taxes (your gross income): \$ _____ Annual Gross
2. Divide line 1 by 12 to get your monthly gross income: \$ _____ Monthly Gross
3. Multiply line 2 by 0.28 to get 28% of your monthly gross: \$ _____ Monthly Gross x 0.28
4. Multiply line 2 by 0.36 to get 36% of your monthly gross: \$ _____ Monthly Gross x 0.36
5. Add up your monthly, long-term obligations
 - a. Child Support \$ _____
 - b. Auto Loans \$ _____
 - c. Credit Cards \$ _____
 - d. Professional fees \$ _____
 - e. Alimony costs \$ _____
 - f. Other loans/long-term payments \$ _____
 - e. Total Long-term obligations: \$ _____ Total
6. Subtract line 5. Item e. (total long-term obligations) from line 4 \$ _____ Monthly Allowance
7. Now, record the smaller of either line 3 or line 6: \$ _____ Smaller allowance
8. Estimate about 20% for taxes & insurance. This leaves 80% for payment of principal & interest \$ _____ Line 7x0.8
9. Divide line 8 by the monthly rate factor per \$1,000 from the Rate Factor Table below: \$ _____
(Be sure to use the current interest rate.)
10. Multiply line 9 by 1000 for your estimated mortgage amount: \$ _____ Est. Mortgage

Rate Factor Table	
Interest Rate	Rate Factor: 30 Year Mortgage
4.25%	4.92
4.5%	5.07
4.75%	5.22
5.0%	5.37
5.25%	5.52
5.5%	5.68
5.75%	5.74
6.0%	6.00
6.25%	6.16
6.5%	6.33
6.75%	6.49
7.0%	6.65
7.25%	6.82
7.5%	6.99
7.75%	7.16
8.0%	7.34
8.25%	7.51
8.5%	7.69
8.75%	7.87
9.0%	8.05

Types of Mortgages

There are numerous types of mortgages. The most common ones found in real estate in Florida are 30-year and 15-year fixed-rate mortgages and adjustable-rate mortgages, commonly called ARMs.

The 30-year fixed-rate mortgage gives the lowest monthly payment and this is what many home purchasers want. The drawback for this type of loan is that it takes a long time to build up any equity in the home. The secondary advantage, besides a lower monthly payment, for this type of loan is that, during the early years of the loan, most of the monthly payment is made up of interest. This interest is deductible from income tax, a fact that helps homeowners afford their payments with a little more financial comfort.

The 15-year fixed-rate mortgage is somewhat less common because the monthly payment is higher. The homeowners' equity builds up much faster with this type of loan. Comparing the 15-year with the 30-year fixed-rate mortgage, you will end up paying thousands of dollars less on the 15-year mortgage.

The Adjustable-rate mortgages are ones in which the interest rate changes periodically according to some predetermined index. Common ARMs will be adjusted once every year based on an index such as the 1-year Treasury note rate, Federal funds rate, or some other rate or index. The mortgage company will add a margin of one or two percentage points or more to the index rate. Adjustable-rate mortgages include a cap on the maximum amount the loan interest rate may change in one year (typically 2%) and a cap on the maximum amount the loan interest rate may be adjusted during the entire lifetime of the loan. Sometimes ARMs offer a fixed rate for a short period of years before they become fully adjustable. Some ARMs offer a conversion feature which allows them to be converted to fixed-rate loans.

Expert advice about the best loan for an individual takes into account the individual's plans. We will be happy to speak to you about your plans and advise you as to what type of loan we have seen other people with similar circumstances use successfully.