Home Economics
Patience and Preparation Pay Off

A 13 percent jump in home prices over the last year has a lot of people kicking themselves for not getting into the market earlier. And while everyone wants to get in on the ground floor, the first step in buying a home is getting a firm grip on real homeownership costs. You have to ask yourself, "How much home can I afford?"

It's a balancing act. Home affordability is based on how much of your income is currently being spent on monthly debt. It's known as the debt-to-income (DTI) ratio and most lenders are going to want it to be less than 36 percent, including the mortgage for which you're applying. FHA lenders may consider a higher percentage, but the rule of thumb is only around one third of your income should be committed to servicing debts. Anyone with a DTI of 20 percent or less is in great shape. There are countless online DTI calculators, but you'll need to gather some data for them to use.

First, you'll need to determine your gross monthly income. This only includes regular and recurring documentable income. If it doesn't show up on your tax returns, it doesn't count.

Then you'll need to add up your monthly debt load. This includes all your monthly payments like credit cards, car loans, personal debts and ongoing expenses such as child support or alimony. For revolving debt, use the minimum monthly payment. With that information, you can work up a rough estimate of your DTI, at least close enough to have a ballpark range of how much you can borrow. Conventional wisdom is to start shopping for houses priced at about 2.5 times your annual income. But the cost of homeownership doesn't end with the mortgage. Don't forget taxes, insurance and maintenance.

Buying a home is the single largest financial commitment that you will most likely ever make. Down payment and closing costs are up-front expenses you'll have to take into

consideration. If you’re not planning to stay in a home at least three to five years, you may not recover those costs.

Then, there’s the loan term. Thirty years? Twenty? Fifteen? Those options will have an impact on your interest rate and your monthly payment. A 15-year mortgage will have a lower overall cost than a 30-year, but the monthly payment is going to be higher since the loan repayment term is only 180 months on a 15-year term vs. 360 months on a 30-year term. A number of lenders offer mortgages that require only a small down payment. For a conventional loan, 20 percent down is the norm. It’s a good idea to pre-qualify for your mortgage before you start shopping. Meet with a lender who can help you establish realistic mortgage expectations and start your search in the price range in which you’re most likely to succeed. It will help at the negotiating stage if the sellers know you mean business and have already lined up your financing.

With the number of loan programs available today, there are lots of options and variables, but armed with some basic information you can make the move into homeownership confidently and successfully.