

## What you *can* buy versus what you *should* buy:

It's good to crunch the numbers according to lending guidelines, but do not rely solely on these guidelines to dictate your personal budget. Every buyer is different. In the end, you know more than anyone what payments you can comfortably afford. Resist the urge to buy as much as possible. Instead, analyze your needs and consider your future finances.

Do you foresee your income decreasing or your expenses increasing over the next few years? Does your spouse plan on continuing in his/her job? Do you plan on building a family? Do you have children that will be going to college soon? Consider what life changes the next 5 years will bring and allow for them in your mortgage budget.

We can help...

Let us recommend reputable mortgage lenders in your area to get your budget under way. Once you have set a price range that you are comfortable with, we would be happy to help you with your search for that perfect home. We work daily with home buyers just like you and take pride in matching our clients with homes that compliment their lifestyles and their budgets. Call us today!

**Sasha Miletic, Broker**

**REMAX Preferred Realty Ltd., Brokerage**  
Independently Owned and Operated

6505 Tecumseh Road East  
Windsor, Ontario N8T 1E7  
519.962.9150 (direct)  
519.944.5955 (office)  
519.790.0110 (fax)  
info@SashaMiletic.com

For a *FREE* list of Bank Foreclosures, visit:  
[www.SashaMiletic.com](http://www.SashaMiletic.com)

Not intended to solicit property currently listed for sale.

Copyright © 2010 by Sasha Miletic all rights reserved. Reproducing any part of this report without obtaining written permission from Sasha Miletic is strictly prohibited.

# HOME BUYERS



## How to Calculate Your Mortgage Budget

# Buying a Home: *How to Calculate Your Mortgage Budget*

**B**efore beginning your search for a new home, it's important to set a realistic budget that you can stick to. Setting a budget before hand will not only help you to determine whether you are financially prepared for home ownership, but will also guide you in your property search, and help you viewing and bidding on homes that are ultimately out of your reach. While it is wise to consult your mortgage banker before shopping, calculating a sensible mortgage budget yourself is simple.

## 1. Calculate your total monthly income.

Add up all monthly income that you and your spouse receive before taxes and deductions. In addition to your salary, you can include income from your investments, pension, retirement, alimony or child support. As long as the income is regular and verifiable, it can be counted. If you receive bonuses or commission, use an average of the last twelve months. Also, if you have any debts that are being paid by someone else, a car loan that is paid each month by your child for example, you can include the monthly payment as income as long as you can show the funds coming every month from a checking account that you are not listed on. This will offset the debt when you calculate your debt to income ratio in step two.

## 2. Calculate your maximum debt to income ratio.

Your debt-to-income ratio is the amount of monthly debt, including your mortgage payment, that you have in comparison to the amount of monthly income you receive. It quantifies risk for an underwriter by revealing how leveraged you are. The higher the ratio, the higher risk you pose to a lender. The maximum debt-to-income ratio allowed for a conventional loan is 36%. This ratio is used to determine the maximum monthly debt you can safely carry. To calculate your maximum monthly debt, multiply your total monthly income by 36%.

$$\text{Monthly income} \times .36 = \text{Max monthly debt}$$

The following guide is based on principal and interest payments calculated with a 30 year amortization. Remember that taxes, hazard insurance, and mortgage insurance may be added to your monthly payment.

\$	5%	6%	7%	8%
600	111,800	100,000	90,200	81,800
800	149,000	133,400	120,200	109,100
1,000	186,300	166,800	150,200	136,400
1,200	223,500	200,200	180,200	163,700
1,400	260,800	223,500	210,200	191,000
1,600	298,100	266,900	240,200	218,300
1,800	335,300	300,200	270,200	245,600
2,000	372,600	333,600	300,200	272,900
2,200	409,800	367,000	330,200	300,200
2,400	447,100	400,300	360,200	327,500

## 3. Add up monthly debts

Tally up all of your commitments including all debts with more than ten months remaining and any alimony or child support that you are required to pay.

## 4. Calculate Maximum PITI.

Your monthly mortgage payment is referred to as PITI because it consists of pincipal, interest, property taxes, and insurance. However, if you choose to purchase in a neighborhood that carries an association fee, this fee will be divided by twelve and included in your monthly payment for underwriting purposes. To calculate your maximum monthly payment, or PITI, subtract the total monthly commitments (step 3) from the maximum monthly debt you calculated in step 2.

$$\text{Max monthly debt} - \text{monthly commitments} = \text{max PITI}$$

## 5. Use PITI to determine your maximum amount financed.

Now that you know your maximum monthly mortgage payment, you can calculate your maximum amount financed. This is the maximum mortgage balance you will be able to carry. Enter your maximum PITI into our online mortgage calculator as well as an interest rate typical of the current market. If you do not have access to our mortgage calculator, you can use the guide given here.

## 6. Arrive at your final, maximum purchase price.

Add your down payment (you will be required to put a minimum of 5% down) to the maximum amount financed to arrive at your final figure- the maximum purchase price. When all is said and done, this is the maximum you can purchase. It is advisable to limit your search to at least \$5000 less than this amount to allow for ad-on's or rolled-in expenses.

