

# Buying a home

comfortably and affordably



## What makes up a monthly mortgage payment?

A monthly payment isn't just the principal and interest payment on your loan, but also taxes, insurance and, depending on your down payment amount, PMI or private mortgage insurance. Below is an example of what a monthly mortgage payment might look like.

EXAMPLE

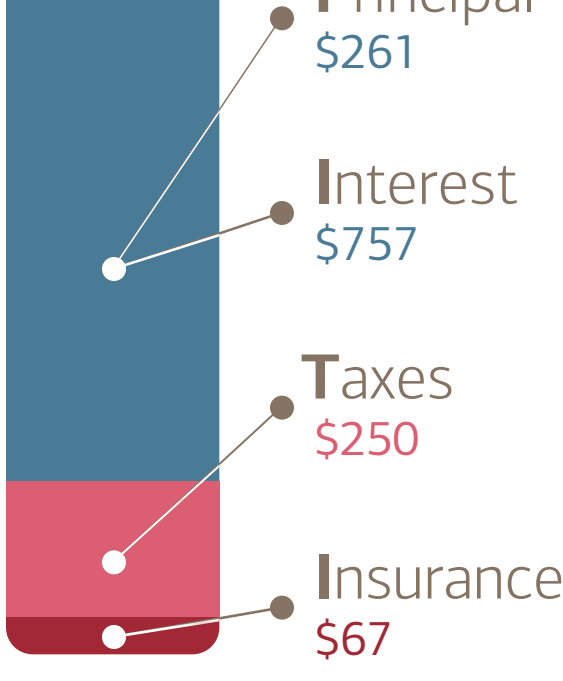


### P.I.T.I.

Principal. Interest. Taxes. Insurance.

Loan details: 30-year fixed, 4.54% APR\*

Home price	20% down payment
\$250,000	\$50,000
Loan amount	Monthly payment
\$200,000	\$1,335

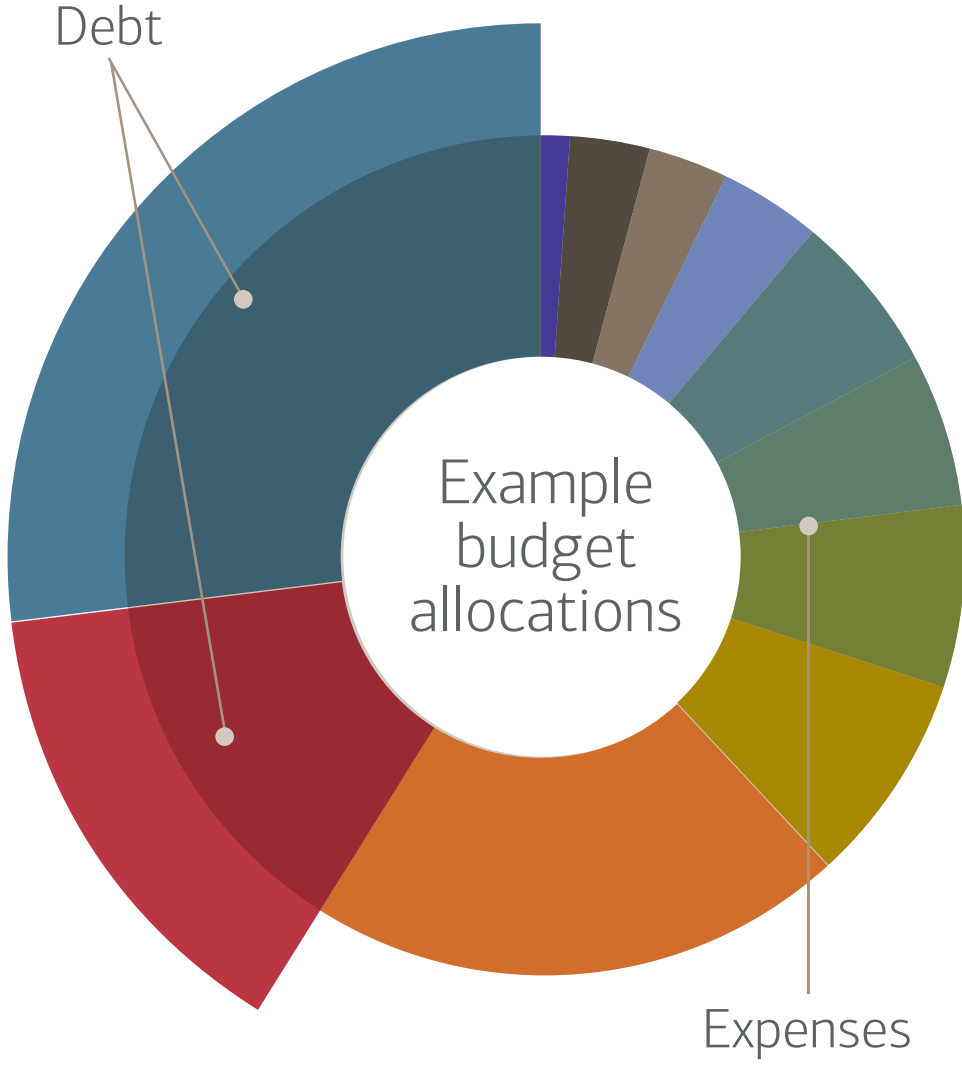


\*These numbers are not representative of current rates and serve only as an example.

## What's a comfortable monthly mortgage payment?

Before you fall in love with a home, and even before you start looking at homes, take the time to put a budget together. Even if you've been prequalified for a mortgage loan amount, check to make sure what mortgage payment will fit comfortably within your lifestyle without putting any other financial plans on hold.

Monthly budget*	
Mortgage:	27%
Personal debt:	14%
Food:	21%
Transportation:	8%
Savings:	7%
Insurance:	6%
Utilities:	6%
Clothing:	4%
Health care:	3%
Personal care:	3%
Misc. items:	1%



\*Example allocations based on net monthly income.

## Setting a budget



Once you have a budget set, you can better estimate what a comfortable monthly mortgage payment would be. Follow these three steps to set a budget.

### Step 1:

**Know your income and expenses**—Add up your monthly expenses and deduct that amount from your net monthly income.

### Step 2:

**Set your priorities**—If you need more room in your budget to save, it's helpful to separate your expenses into "need to have" and "like to have." categories.

### Step 3:

**Track your spending**—Keep track of where your money goes each month and balance your budget.

28%

### Mortgage payment ratio

It's not about the maximum amount you can borrow based on your income, it's about what you can comfortably afford. For a starting point, take whatever you make each month, before taxes, and multiply that by 28%. That's how much a manageable monthly payment might be for you, including taxes, insurance and PMI.

Income may include:



Your income



Co-borrower income



Rental income



Investment income



Trust funds

EXAMPLE



\$5,000

Gross monthly income

x

28%

Industry average

= \$1,400

Max. monthly mortgage

36%

### Debt-to-income ratio

A good benchmark is to spend no more than 36% of your gross monthly income on your total debt, including your mortgage payment and other debt like car payments and credit card payments. If you are paying more, you may have to lower your mortgage payment.

Debt may include:



Monthly debt payments

\$400

+



Monthly mortgage payment

\$1,400

EXAMPLE



\$1,800

Monthly debt payments

/

\$5,000

Gross monthly income

=

36%

Debt-to-income ratio

## Calculating affordability

To figure out your budget and how much home you can afford, use our Affordability Calculator on:

BetterMoneyHabits.com

Home price:

\$ 2 5 0 , 0 0 0

\$1,335 monthly payment

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