

How Much Home Do I Qualify For?

Income. Debt. Down Payment. Closing Costs. Two Years Income Tax Returns. Assets. Liabilities. IRAs. You want WHAT? Just what can I afford?

Buying a home in today's marketplace is a bit intimidating, and your new home purchase is likely to be one of the most important decisions you've ever had to make. Usually it's one of the single most valuable assets you'll own.

Where to Start

Before you invest hundreds of hours searching, to avoid any heartbreak, if you find yourself unable to qualify for your dream home, sit down with a lender. Your lender can perform a simple verbal pre-qualification in about twenty minutes and a full-fledged pre-approval in about 5 days.

Pre-qualification not only allows you to focus your search in the correct price range, saving a lot of wasted time and frustration, but it can also give you an edge when competing with other offers on a home that you find. If a seller is deciding between two offers- yours which has been qualified and another unqualified offer- they are much more likely to pick yours.

Pre-qualification will also give you leverage when negotiating with a seller in a non-competitive atmosphere; it essentially makes you a cash buyer.

The amount of home that you qualify for will be determined by three key factors: Your down payment, your ability to qualify for a mortgage, and closing costs.

The Down Payment

Whereas a current homeowner can rely on equity from their home sale, a first time home-buyer is limited to the money they can save.

The days of having to put 20 percent down on a home are in the past, although putting a large amount of money down definitely makes it easier to qualify for a mortgage and to get the lowest interest rates available. With the various programs that are available today, you can put as little as 3 percent down on a home.

Qualifying for the Mortgage

There are two basic guidelines that lenders use to determine what size mortgage you are eligible for:

Your monthly mortgage payment of principal, interest, taxes and insurance (PITI) should not exceed 30% of your monthly gross income.



Your monthly housing cost (PITI) plus other long-term debt should not exceed 38% of your monthly gross income.

Specifically, most lenders will consider 4 key factors to determine your ability to qualify for a home loan:

Income – This first element can include not only your gross monthly income and secondary income (commissions, bonuses) but also your history of employment, stability of income, education, even potential for future earnings.

Credit History - This encompasses your history of debt repayment, total outstanding debt, highest balance, and your highest monthly debt balance. **This is probably one of the very most important factors in determining the amount you can borrow and the favorable rate at which you can obtain. Do EVERYTHING to protect your credit score.** Remember, everything someone check your credit score with a bureau, it reduces your score. So next time, when you apply for a store credit card, paying for things by installment with one of those "No Payment Until 200X" scheme, you ought to know that they will reduce your score instantly. If you must get that new credit card, then wait a month or two for your credit score to climb back up before you apply for a mortgage.

Assets–Your assets consist of cash on hand, savings and checking accounts, CDs, stocks, bonds or any other type of liquid asset.

Property–The home you are planning to purchase will be appraised to determine the market value. The estimated value must be sufficient to secure the loan. Lenders will loan you no more than a certain percentage (usually 95%) of this value.

Closing Costs Keep in mind that in addition to your down payment, you will also be responsible for paying fees for the loan and closing costs. These will be required at the time of closing unless you qualify and choose to have these included in your financing.

Closing Costs generally will range between 2 percent and 6 percent of mortgage loan, depending on the loan and lender. You will be provided with a "Good Faith Estimate" of closing costs so you can know what to expect.

"Points," which are one time charges equal to one percent of your loan amount, may be required by your lender at closing.

Your closing agent will charge a fee at the close of the sale. We sincerely hope this information will help you gain a better understanding of the mortgage process.

We sincerely hope these tips and ideas are of value to you. If there is any way we can be of service, please contact our office.

We would consider it a privilege to be of service to you! If you would like a FREE consultation, call us at (503) 805-5173 or Toll Free 1-877-629-5825.

Warmly Yours,

A handwritten signature in dark ink, appearing to read "Max Sinclair". The signature is fluid and cursive, with a long horizontal stroke at the end.

Max Sinclair, M.B.A.; B.Comm.
Your Portland & Lake Oswego Real Estate Specialist

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