How Much House Can I Afford?

The 28-36 Rule

- Your willingness to pay a loan (typically determined by your credit score)
- Your ability to pay the loan back

In order for you to answer these questions, you need to take into consideration several factors, like your **salary, debts, credit score, and the actual costs** of buying a home. Something to help put all these numbers into perspective is the **28-36 Rule**.

How Does the 28-36 Rule Work?

Your Maximum Household Expenses (PITI) should not exceed **28% of your gross monthly income** (before taking out taxes and deductions). For example, if you make $70,000 a year and divide it by 12 months, your monthly gross income is $5,833. Multiply that by 28%, and your monthly PITI should be less than $1,633.

PRINCIPAL: The part of a mortgage payment that pays down the amount borrowed
INTEREST: Percent rate charged by creditors for lending you the principal
TAXES: This is your property tax
INSURANCE: This is your homeowners insurance (and if necessary, your private mortgage insurance, or PMI)

Debt-to-Income Ratio DTI

Your total debt, or Debt-to-Income Ratio (DTI) **should not exceed 36 percent of your gross monthly income.** Your debt determines, in part, how much of a mortgage loan you can afford. Lenders calculate your debt-to-income by dividing your monthly debt by your gross monthly income.

This is a general guideline lenders consider. It's not a requirement to receive a mortgage. Banks and lenders typically consider debt made up of the following:
Car loans, Education/Student loans, Home equity loans (ex: second mortgage), Outstanding credit card balance