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ing How Much of a Home Mortgage You Can Afford: Liabilities & Fu

This is the third and final part in a series of articles explaining how you can figure out just what size home mortgage you can afford. The first part discussed the basic lender requirements and formulas for deciding how much to lend you. The second part concentrated on adding up your income and assets. This article will help you review your current liabilities and future debt to factor up how much you can really afford.

Liabilities/Future Debt & Fees

You mortgage lender will require you to state all outstanding debts in order to calculate your lending risk factor, but it will also be helpful for you to know all your financial obligations before signing on to a hefty mortgage. You should consider current liabilities as well as debts and fees you will encounter in the future.

First, add up all your outstanding debts on credit accounts. These might include student loans, car payments, business loans, and any personal loans or debt you owe. Also remember to figure in the balances on your credit cards. It is a good idea to use the total balances left, rather than what you have to pay monthly, to get a better idea of your financial pressures.

Second, there are several large fees associated with the home buying process. To see if you can really afford a certain amount of home mortgage, you should see if you have the resources for a good size down payment, usually 20% of the home’s value. If you can’t afford a 20% down payment you will have to have enough funds for private mortgage insurance (PMI) to insure your lender against the risk. PMI usually requires an upfront premium of 0.5% to 1% of your loan total, plus smaller monthly payments thereafter. So if your home loan is $200,000, your initial PMI premium would be between $1000 and $2000.

Another home-related cost will be a home owner’s insurance policy. You will be required to have one before the home sale closes and you can expect it to be around $300-500 yearly, depending on your home size and location.

If you are moving into a condo or co-op, you will likely have to pay an association fee that will go towards upkeep of the buildings, grounds, and common areas. Even if you buy a single-family home or town house, you may have to pay a fee for membership in the neighborhood homeowners’ association. Check into these possibilities and their costs to know if you will have sufficient resources.

Once you actually move into your new place, you have several expenses you’ll have to plan for. These include yearly property taxes, home repairs and maintenance, and monthly utility bills.

You should also take into account any future debt or expenses you will be incurring while in your home. Do you expect to have to pay for college tuition for a child in the coming years? Or are you planning to have another child in the near future? What about new cars or business venture? If you anticipate any of these expenses you should factor them into the home buying equation.

Once you have added up your total income and assets as well as your debts and liabilities, you should be able to get a better sense of the financial pressure you currently face and how much more debt burden you can reasonably handle by adding a new mortgage payment.

