

How Do I Know How Much House I Can Afford?

Buying a house — whether it's your first home or your fifth — is a major accomplishment and investment.

But before you start packing up boxes to move, you need to figure out how much house you can afford.

To figure that out, you'll need to take into consideration factors like your income and your debt. What you can afford also depends on the size and type of mortgage you have.

Here's what you need to know to determine how much house you can afford.

WHAT CAN I AFFORD?

Take into consideration your monthly income, how much money you have for a down payment and closing costs, your monthly expenses and debt payments, and your credit score. A common rule is to not spend more than 28% of your gross monthly income on housing expenses and that your total debt should not exceed 36% of your total income, [known as your debt-to-income ratio](#).

Keep in mind that as much as you can plan for expected costs — like [Home Owners Association fees](#) and the cost of homeowners insurance — there is a lot you can't plan for. The more savings you have, the better set you'll be.

How much house you can afford is also dependent on the size and type of mortgage you qualify for. A mortgage from Interra Credit Union can help make your dreams of being a homeowner a reality, and our [home affordability calculator](#) can help you get started with your homebuying process.

UNDERSTANDING YOUR MORTGAGE

In order to get a loan to buy a home, you should know what lenders will look out for. Lending decisions are usually based on three ratios: loan-to-value ratio, housing ratio, and debt-to-income ratio.

Your loan-to-value ratio represents the ratio of the loan amount to the home's value. Lenders usually want to see an 80% loan-to-value ratio. In other words, a 20% down payment is preferable.

The housing ratio is the percent of your income that goes toward housing expenses, and your debt-to-income ratio is your total debt payments plus housing expenses as a percentage of your income.

Your debt-to-income ratio and your credit score are two key factors used to decide if you qualify for a loan. The lower your ratio is, the better — that signals that it's easier for you to pay your monthly bills.

The amount of your loan will be capped depending on these ratios.

At Interra, we offer a variety of loan options to choose from including fixed rate mortgages and adjustable rate mortgages.

FIRST-TIME HOME BUYER LOANS

We offer a program that makes it easier for you to buy your first home. The conventional lending standard requirement for a down payment of a mortgage is 5% of the purchase price, but the Home Ready program allows for a down payment of just 3%.

This program has underwriting rules and income limitations to qualify, but our Interra mortgage loan experts can walk you through these limitations and help you find the best loan option for you.

CONSTRUCTION LOANS

If you're financing the building of your home, we offer one-time close construction loan products. Our construction loans are fixed rate or adjustable rate (ARM).

Construction loans require you to have a minimum credit score of 620 and the rate locked in at origination. Thirty year and ARM loans require a minimum of 10% equity and other mortgage loans for 10-, 15- or 20-year fixed rate require a minimum of 5% equity down. This amount can be satisfied with cash at closing, but also by the equity in the land value if you already own it.

TURN YOUR DREAM INTO A REALITY WITH INTERRA

When you're ready to buy a home, we're here to help at Interra Credit Union. Whether you're a first time or experienced home buyer, Interra has you covered.

You can [use our mortgage payment calculator](#) and talk with one of our mortgage loan originators to figure out what the best option for you is. We can help match you with a loan that meets your needs, like a first time home buyer loan or construction loan.

Learn more about our loan options by [visiting one of our branches](#) today or calling us at 574-534-2506.