Objective Measures Used to Qualify to Buy a Home –Are you financially ready?

1. **Make an objective decision as to whether it is better financially for you to rent or buy, by using one or all of the following websites and calculators:**
   a. **http://www.bankrate.com/calculators/mortgages/rent-or-buy-home.aspx**
   b. **http://www.myfico.com/crediteducation/calculators/Own-Or-Rent.aspx**
   c. **http://www.ginniemae.gov/rent_vs_buy/rent_vs_buy_calc.asp?Section=YPTH**

2. **How much house can you afford? The "old-school ball-park estimate" was that your home should not cost more than 2 ½ times your annual gross salary. Applying that method, if your gross annual income is $50,000, then you should look at houses that cost $125,000 or less. You can use the objective measures that mortgage lenders will look at when determining how much house you can afford. Lenders use two rules to estimate maximum affordability of housing: the front-end ratio and the back-end ratio. Or, just use one or all of the following calculators:**
   a. http://www.bankrate.com/calculators/mortgages/new-house-calculator.aspx
   b. http://www.myfico.com/crediteducation/calculators/Loan-Balance-Limit.aspx
   c. http://www.ginniemae.gov/2_prequal/intro_questions.asp?Section=YPTH

3. **The front-end ratio compares the total annual expenditures for housing (Principal, Interest, Taxes and Insurance, or PITI) with your gross annual income. Generally, this ratio should not exceed 25 to 29 percent of your gross annual income.**

Front End Ratio

(A) Total Annual Housing Costs (PITI)	(B) Gross Annual Income	(C) Front End Ratio (A/B)
Ex: 20,440	$73,000	20,440/73,000 = 0.28 or 28%

Another way of looking at this front-end ratio would be for you to figure out how much PITI you could afford. If a couple's gross annual income was: $73,000, multiply it by the maximum factor or 0.28: $73,000 X 0.28 = $20,440 (results in a total annual PITI). Divide $20,440/12 = $1,703 (your monthly maximum PITI).

4. **The back-end ratio compares the total of all monthly debt payments (for the mortgage, real estate taxes, insurance, plus car loans, credit card and other loan payments) with your gross monthly income. Generally, lenders require that monthly debt payments do not exceed 33 to 41 percent of your gross monthly income. Applying a back-end ratio of 38%, the same couple above could qualify for a loan that does not result in total monthly debt re-payments exceeding $2,311 ($6,308 X 0.38). This means that if the PITI total was $1,703, then the rest of their monthly debt re-payments should not be greater than $598: ($2,311 - $1,703 = $598) .**

Back-End Ratio

(A) Total Monthly Debt Re-payments (including PITI, auto loans, credit card, others)	(B) Monthly Gross Income	(C) Front End Ratio (A/B)
Ex: $2,311	$6,083	2311/6083 = 0.38 or 38%

(updated 16 June 2010)