

Calculate Your Total Budget

There is a good general rule that you can get a mortgage that's 2-3 times more than your gross income. Which means if you're earning about \$4,000, then, on average, you can get a mortgage of \$8,000-12,000. There are other expenses that we have, such as external debts, e.g; student loans, credit cards, cars and insurance, that makes it considerably hard to pay mortgages.

You can get a joint account with your partner (or family) to solve this, where you both can manage the expenses. You can pay for the mortgages, while your partner can take care of debts.

Take Account of Your Total Debt

The general rule is that your home's monthly mortgage payment, which includes tax, insurance, principal and interest, shouldn't cross 28% of your gross income annually. There are lending organizations and services that qualify 30-40% of front-end ratio but you should avoid that, as it creates imbalance in your financial handlings.

If you're earning pre-tax \$50,000 per year, then the 28% rule states that your expenses including mortgage shouldn't cross \$1,166. The debt-to-income ratio (DTI) of 28% is enough to pay for your mortgages while allowing you some flexibility to open a savings account.

Don't Forget Your Down Payment

How much you pay down determines the amount of monthly payments that you'll have to make. The higher your down payment, the lower the monthly payments. If you pay a down payment lower than 20%, then factor in the private mortgage insurance (PMI). This protects the lender from any harm if you ever default on the loan. Higher than 20% of down payment does not require PMI.

It's important to realize that the interest rates are always fluctuating. If you're saving for down payment, then it's possible that the rates are going higher. At which point, you'll have to pay more than previously decided.

Factor in the Closing Costs

Closing costs are the costs given to third parties to finalize the deal. These costs are usually 3-4% of the purchase price of your house. Closing costs are important in this process as they constitute; appraisal fees, house inspection, loan origination fees, credit reports, attorneys, insurance and taxes. If you're calculating the budget, make sure to add 4% of closing costs. For example, if the house is worth \$100,000, then additional 4% closing costs would make it \$4,000 which you would have to give along with the down payment of 20%. Your total would be \$24,000.

If you don't have the money for closing costs, don't compensate it with down payments. Keep them high. Higher down payments mean less money to pay. A good alternative would be to aim for a more affordable mortgage.

Remember the Additional Homeownership Costs

Getting a mortgage isn't the only issue, buying a house and maintaining it is also an equally big problem. You would need to add costs for maintenance, repairs and upgrades. You would need \$400, on average, for repairs. \$3,200 annually for maintenance (pest control and landscaping) and heavy upgrade costs for remodeling the interior. For example, a kitchen remodel can cost around \$26,000.

These expenses will come through, especially if you're a first-timer. If the costs are expensive, then you can always look at other houses.