



How much of my income is available for a mortgage?

Try this simple formula to determine how much of your income is available for a monthly mortgage payment:

Step One: Add all the monthly payments on your outstanding debts (rent or mortgage payments, home insurance, real estate taxes, car payment, student loans credit card payments, alimony payments, etc.).

Step Two: Divide the amount in Step One by your GROSS monthly income (income before deductions/taxes). This ratio may not exceed 36% of your GROSS income. This is a conservative number and banks and mortgage lenders may, in some cases, go up to over 40%. However, we feel that 36% is usually a good percentage to shoot for, if not even a lower percentage. Banks use your gross monthly income, but of course, everyone does have to pay taxes. Therefore, staying at 36% or under will usually put most people in a safe debt-to-income position.

Lenders will also follow this same basic formula when looking at your projected mortgage payment and existing debts.

Example:

Debts:

Mortgage - 1,200
Car payments - 500
Student loan - 200
Real estate taxes - 120
Homeowners insurance - 104
Credit card 1 - 100
Credit card 2 - 150

Total monthly debts: \$2,374.00

Gross monthly income: \$7,083.33

Debt ratio: 34%