

How does a lender determine the maximum mortgage I can afford?

73 The three primary areas lenders examine in determining the size of mortgage you can handle include your monthly income; non-housing expenses; and cash available for down payment, moving expenses and closing costs.

The most common way lenders interpret these variables to estimate your mortgage capacity is the Percentage Method. Most lenders feel a family should spend no more than 28 percent of its income on housing costs, including the mortgage, insurance, and real estate taxes. In addition, these housing costs plus your long-term



debts (car loans, child support, minimum credit card payments, student loans, etc.) shouldn't exceed 36 percent of your income. Some mortgage companies, including **ERA**® Mortgage, have relaxed ratios to help you purchase the home of your dreams.

Although it is not a standardized method, you can also use the Multiplier Method formula as a general rule of thumb to determine how much home you can afford. Most lenders' guidelines allow a family to carry a mortgage that is two to three times its gross annual income (income before taxes and expenses are taken out). The amount of down payment and the type of mortgage (fixed or variable rate) will determine the precise ratio used by the lender.

To get an idea of how much home you can afford, use the Sample Housing Cost Worksheet on this page, or contact **ERA** Mortgage to receive a free pre-qualification in minutes.

Sample Housing Cost Worksheet

MONTHLY INCOME

Take-Home Pay: _____
 Other Reliable Income Sources: _____
Total Monthly Income: _____

MONTHLY EXPENSES

Food, Household Items: _____
 Car or Other Loans: _____
 Credit Cards: _____
 Clothing: _____
 Medical Expenses: _____
 Life Insurance: _____
 Other Insurance (Auto, Health): _____
 Telephone: _____
 Commuting: _____
 Education: _____
 Savings: _____
 Entertainment: _____
 Other Expenses: _____
Total Monthly Expenses: _____
 Total Monthly Income: _____
 Less Total Monthly Expenses: _____
MONTHLY INCOME FOR HOUSING: _____

What are the steps involved in the loan process?

74 When you apply for a mortgage, you will need to furnish information regarding your income, expenses and obligations. It will be very helpful, and save time, if you have the following items available:

- Two most recent pay stubs from your employer
- W-2s for the last two years
- Last two months' bank statements
- Long-term debt information (credit cards, child support, auto loans, installment debt, etc.)

