

How Much Can You Afford To Finance?

One of the hardest calls to make when it comes to buying a home is how much you want to spend. The larger the mortgage you take out, the bigger the payments will be. Of course, there is more to the cost than simply the amount of the mortgage, as interest plays a big role as well. How much can you afford to finance? Consider these important factors.

How Is Your Credit?

If you have great credit you are likely to qualify for the lowest interest rates. This means that you will be able to take out a larger loan, since the same monthly payment will get you more. More of the money you spend each month goes to principal, meaning you will also pay it off more quickly.

People with credit problems will find that a larger amount of their monthly payment has to go to interest since they will get higher rates. This means that the amount you can afford to finance is actually lower.

Look At Other Expenses

Take a look at all of your monthly payments and debts that need to be paid off. Try to be realistic about what you can really afford to pay. While a mortgage company may qualify you for a larger loan, that doesn't mean you can afford it in reality. Take into consideration your lifestyle and the extra things on which you like to spend money. Are you willing to give them up to pay a bigger mortgage?

The items you pay for monthly may be static in some ways and may fluctuate in other ways. You need to have a realistic idea of what you spend each month on average to be able to determine what you can afford to finance for your mortgage.

Don't Forget Closing, Taxes, And Insurance

When calculating a monthly payment, don't forget to add in your homeowner's insurance and your property taxes. Once these are added in, you might want to consider financing a smaller amount in order to get the monthly payment down to a manageable amount. Once these two are added in, it can push your payment above your comfort level.

You will also be paying closing costs that are in some part based on the amount financed. The more you finance, the larger these fees are likely to be. It's important to remember this when you consider how much you can actually afford to finance on your new home.