

First-Time Home Buyers Money Guide

How Much to Budget to Buy an Affordable House

Buying that first home can be a great adventure. But before pounding the pavement, be sure to crunch the numbers! Check this basic home-buying overview to help estimate affordability.

By Miche Collins



Buying a home can be an emotional experience. But before falling in love with that charming English Tudor or the Ranch with a view, it's important to do a little left-brain calculating, too. After all, nobody wants to experience the foreclosure process first-hand or wind up "*house poor*," with a spacious, but sparsely furnished mansion, graced with sheet-covered windows, peeling wallpaper or a scattering of lawn chairs where the sofa should be.

Whether it's a stepping-stone starter home or a fabulous find that's already a dream home by most standards, the path to home ownership begins with a pen and paper.

Count the Cost

Unless a new home buyer has just won the lottery, inherited a fortune from the proverbial rich uncle or is independently wealthy, buying a house requires the verification of a few important fundamentals. This includes a steady income, a down payment typically ranging from 5% to 20%, closing costs to cover loan settlement fees, and enough in savings to cover these and other expenses.

Home buyers are also advised to have at least three months' worth of house payments set aside in savings. Ask a REALTOR or lender about first home loans, first home buyer programs, and

other affordable options, such as Federal Housing Authority (FHA) loans that may require a lower down payment or other features that make it easier to qualify for a mortgage.

Gaze into the Crystal Ball

Consider future plans before taking the leap. Buying a home is a sizable investment and commitment of time and money. To make it worth the effort and expense, experts recommend staying in a new home for a minimum of three or more years. This helps to build equity, recoup upfront costs, and avoid other expenses and hassles associated with buying, selling and moving within a short time span.

Find the Personal Affordability Factor

Buying a house means there's a lot to consider, but it's worth taking the time to downsize the house hunt on paper. Will it be the stately Victorian, the cozy condo or the starter-home bungalow? The answer depends not just on personal style, needs, neighborhoods and preferences, but affordability. This involves not only the selling price, but also the home buyer's personal affordability profile. The next step lists a number of ways that home buyers can estimate the cost, for them, of buying a house.

Understanding the Jargon. Expect a Little Alphabet Soup!

As in any field, the real estate industry has its own jargon. From APR, ARM, FICO, FHA and FSBO to Fannie Mae, Freddie Mac and more, you can decode acronyms and unfamiliar terms via this handy real estate [glossary](#).

PITI and PMI are two terms it's good to know upfront. When assessing how much house a home buyer can afford for that first home loan, lenders consider the buyer's income, debts and other financial obligations. This may include car loans, child support or other payments, and "PITI," which is an acronym for: Principal, Interest, Taxes and Insurance. PITI represents estimated monthly house payments, including principal, interest, property taxes and homeowners insurance.

Lenders may also collect private mortgage insurance (PMI) if a buyer's down payment is less than the preferred 20%. This covers the risk of mortgage default in the event of missed payments or unforeseen financial problems that a new home owner may encounter.

Multiply, Divide and Conquer

Planning ahead can help avoid becoming financially overextended. Experts recommend that home buyers pay 20% of the selling price as a down payment and budget 25% of gross monthly income for monthly PITI house payments.

A ceiling of no more than 28% of gross income per month is considered the maximum to avoid getting into financial trouble when buying a house.

To estimate the 28% monthly payment maximum, just multiply the buyer's gross yearly salary by .28 and divide it by 12 for each month of the year. This will provide the maximum monthly amount, although this should be considered a ceiling, not a target. Or, those interested in buying a house may prefer to use an on-line calculator such as the one at: LendingTree.com. These are just estimates, but they'll provide a ballpark range to narrow home choices.

It's wise to weigh these and many other factors before moving ahead with the search for a new home. The "to do" list can range from getting pre-qualified for a home loan to considering whether to use a buyer's agent to saving for a down payment, closing costs and other expenses. But when it's taken a step at a time while realistically assessing the affordability factor, too, dream homes really can come true!

Learn more:

[Home affordability calculator](#)