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Housing Budget

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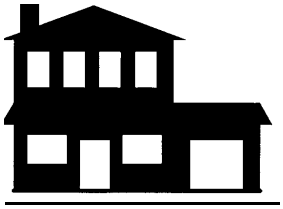

HOME OWNERSHIP
FACT SHEETS

Housing Budget

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Buying a house commits your family to a long-term debt and requires time and energy. How much each family spends on housing depends on many factors.

Three basic considerations that can help a family determine how much house they can afford are:
1. The amount of income earned by the family.
2. The family's living costs and other debt payments.
3. The total amount of housing expenses, including taxes, insurance, energy, furnishings, maintenance, and mortgage payments.

Because of rising prices and increased housing-related expenses, the old rule-of-thumb on how much to pay for a house no longer applies. Lenders usually follow two basic guidelines in determining how large a mortgage to grant: Principal, Interest, Taxes, and Insurance (PITI) generally should not exceed 25 to 29 percent of gross income. However, if there is no debt, the ratio may be higher. PITI plus other long-term debt generally should not exceed 33 to 41 percent of gross income.

Long-term debt includes car and installment loans, alimony, child support, and charge card balances that will take a length of time to repay.

The range the lender uses will depend on the size of the down payment and type of loan. Lenders will probably use the 29 percent and the 41 percent figures if you are paying 10 percent down. Federal Housing Administration loans use 29 percent and 41 percent.

These are general guidelines used by lending institutions. The prospective buyer should find out about these guidelines and then evaluate them in terms of the family: size, stage of life cycle, job stability, amount of savings, present spending patterns, and lifestyle.

To learn what your total housing costs might be, use this formula: Principal + Interest + Taxes + Insurance = Monthly Costs. For example, a homeowner may have:

$30 + $580 + $50 + $25 = $685.

[Note: Principal and interest figured on the first payment for a $70,000 for 30-year mortgage at 10 percent interest.]

Insurance costs generally include the homeowner's policy, which is required by most lenders. Other types of insurance are term life, title and mortgage insurance. Ask the lender about all of these.

Also keep in mind utility and maintenance costs. When shopping for an existing house, ask to see the utility bills for the last 12 months. Learn as much as you can about the condition of the house to see if repairs will need to be made. If you decide to purchase the house, it is a good idea to have the house inspected by a professional.

With a new house, monthly utility and maintenance costs can only be estimated based on similar houses in the neighborhood or those of a similar size, style, and construction.

When trying to decide if you are ready to buy a house, ask yourself the following questions:

✦Am I sure I want to buy a house?

✦Do I have steady income and stable employment?

✦Do I plan to remain in the area for the next several years?

✦Have I created a budget so that I know how much more I can realistically afford to pay for housing?

✦Do I have an established credit record or can I build a non-traditional credit history with records of payments to previous landlords and utility companies? If so, is my credit profile favorable? Do I pay bills on time or before the due date?

✦Do I have enough money saved for the down payment and closing costs? If not, can I enlist the aid of relatives or other agencies that might give or loan me money at a low-interest rate?

✦Have I been "pre-qualified" by a lender so that I know how much I can borrow based on my income and existing debt?

✦Is my existing debt low enough that it will not limit my ability to qualify for a mortgage? If not, can I pay down my debt before I attempt to buy a house?

✦Have I looked into the benefits and requirements of the numerous financing options that are now available to low and moderate income home buyers? If you can answer yes to all or most of these questions, you may be well on your way to owning your own home.

On the following page is a worksheet that will help you learn more about your housing budget.

Adapted from: Herman G., and Lloyd, J.H. *Should You Buy Or Rent?* North Carolina Cooperative Extension Service, North Carolina A&T State University

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YOUR HOUSING BUDGET

Monthly take-home pay		**$_____**
Monthly expenses for:		
Food	**$_____**	
Clothing and Personal Care	**$_____**	
Transportation	**$_____**	
Medical and Child Care	**$_____**	
Life and Health Insurance*	**$_____**	
Education	**$_____**	
Savings*	**$_____**	
Entertainment and Recreation	**$_____**	
Other regular recurring expenses, e.g., installment loans	**$_____**	
TOTAL		**$_____**

Monthly expenses for housing:

Rent/House Payment	**$_____**	
Utilities		
Heat	**$_____**	
Electricity	**$_____**	
Telephone	**$_____**	
Trash Collection	**$_____**	
Water	**$_____**	
Insurance	**$_____**	
TOTAL (Should not be more than 30% of your monthly take-home pay.)		**$_____**

***Omit if included as payroll deduction**

Adapted from: Check Point Housing, University of Arkansas Extension Publication, Ithaca, New York.