

# How Much Can I Afford On My Home Loan?

Borrowing money from the bank is not as easy as you may have thought. In many ways, you can not simply walk in and request a loan amount and obtain that unless you have made sure that you are making enough to borrow that amount from the lender. The ability to get the right loan amount at the right price is crucial to getting the home that you want, though. How much can you borrow? How much of a loan can you take on? What you may not realize is that you can find this information about before you even begin to consider talking to a lender.

## How To Find Out How Much You Can Borrow

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There are many factors that lenders have in place that determine how much you can afford to borrow. Unfortunately, it is less based on how well you think that you can handle the funds and more based on the facts about your financial situation. Your lender will take a good amount of facts and use them to rate you as a risk. What level of risk you are determines how low your interest rate is. Lenders use an interest rate to define just how much risk they are taking on, in other words.

A key way that they analyze risk is to use your credit score. The higher your credit score is, the less risk you are because you have been able to be a responsible borrower, have had enough history with lending and you are likely to continue these good habits on the loan they provide to you. A high credit score means that you are less likely to default on the loan they provide. This also means that they can offer you a lower rate of interest because you are a more secured borrower. On the flip side, when you do not have great credit, lenders increase the risk that they face and therefore increase the cost of lending to you. Now, they charge a higher rate of interest. You pay more for borrowing money from them.

## How Much, How Much?

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But, credit is not all that is taken into consideration in terms of getting a loan. Once your interest rate qualifications are considered and set, the next thing the lender needs to consider is just how much to lend to you. The question is, then, what else goes into determining how much can be lent to you? Once your interest rate is determined, they can determine how much of a monthly payment you can afford to pay. They will likely determine how much debt you have currently and how much of that has to be repaid on

a monthly basis. This helps to determine how much of your monthly income is left to repay the loan that you have.

You can use a mortgage calculator to help you to get the specifics for the loan that you are likely to obtain. This will give you a good estimate of how much of a loan you qualify for before talking to lenders. Here are a few examples to help you to see what will need to go into repaying your mortgage loan.

Let's say that you are likely to get an interest rate at about 6 percent. You know that you would like to borrow and have a term of 30 years to repay your loan, which is a typical mortgage loan term. You can choose other options including as short as 7 years and as long as 40 years. Here is how this would work out using a mortgage calculator to help you.

Interest rate: 6 percent

Term: 30 years

Annual real estate taxes for your area: \$3500

Annual homeowners insurance for your area: \$500

Your gross annual income: \$100,000

Your monthly debt obligations: \$1000

Your estimated highest monthly mortgage payment: \$1667

Your estimated highest loan amount that you can borrow: \$263,700

With this information, several things can be determined. First, based on your annual income, lenders will determine just how much money you have on a monthly basis to make payments with. Each lender has a maximum percentage that they are willing to loan to. You must make a certain amount of money per month to qualify for a loan. Yet, it does not stop there.

You also need to have debt obligations that are paid monthly considered. The goal here is to determine how much of the income you bring in is already going out to other debts such as car loans, student loans, personal loans, cell phones and other debt obligations that you are already paying per month. Do not forget, too, that a certain percentage is put aside for the estimated costs of things like food, utilities and as noted in the example, homeowners insurance and taxes that you will need to pay but may not be paying right now.

When you use a mortgage calculator that is designed to take your information and give you answers, you are able to see just where you stand and what the future holds for you. In the above example, you can see that you qualify for a loan that is considerably. If you only made \$80,000, you would only qualify for a home loan that was no larger than \$168,700, using the same factors for everything else. Perhaps you are lucky enough to be able to lower your monthly obligation to debts down to just \$250. With all factors the same as the example above, you would qualify for much more, up to \$316,420 loan.

When it comes to learning this information, use a [mortgage calculator](#) to help you. Change around the terms, interest rates and other factors to match the type of loan you are looking for as well as your current financial situation. When you do this, you are able to find the most affordable loan for your needs and you know what is coming before you start looking!