



## How Much Can You Afford?

To get a quick idea of what you can afford to spend, multiply your annual gross income (before taxes) by 2.5. For example, if your annual household income is \$50,000, you might be able to qualify for a \$125,000 home. This is just a rough estimate - the actual number will vary based on factors such as your debt and credit history.

Mortgage lenders typically use the housing expense and debt-to-income ratios to more accurately determine how much you can afford to spend on your mortgage.

- **Housing Expense Ratio**  
Mortgage lenders recommend that your monthly mortgage payment should be less than or equal to a quarter of your monthly gross income. This percentage can change based on the type of mortgage you choose and sometimes the area in which you're looking to buy.
- **Debt-to-Income Ratio**  
You need to factor your other debts into determining an affordable monthly mortgage payment. Mortgage lenders look at whether your total debt is larger than 30-40% of your monthly gross income. Remember, debt is not just credit cards and student loans. It can also include alimony, child support, car loans, and housing expenses.

A mortgage lender, a housing counselor, or consumer credit counselor can help you better understand these guidelines. Before you talk to a financial professional, you can organize your financial picture by creating a budget. Don't forget that you also have to save for the down payment, closing costs, inspections costs, moving, and other related expenses.

This article was provided by the Colorado Association of REALTORS®. Additional information about buying and selling real estate is available at [www.coloradorealtors.com](http://www.coloradorealtors.com).