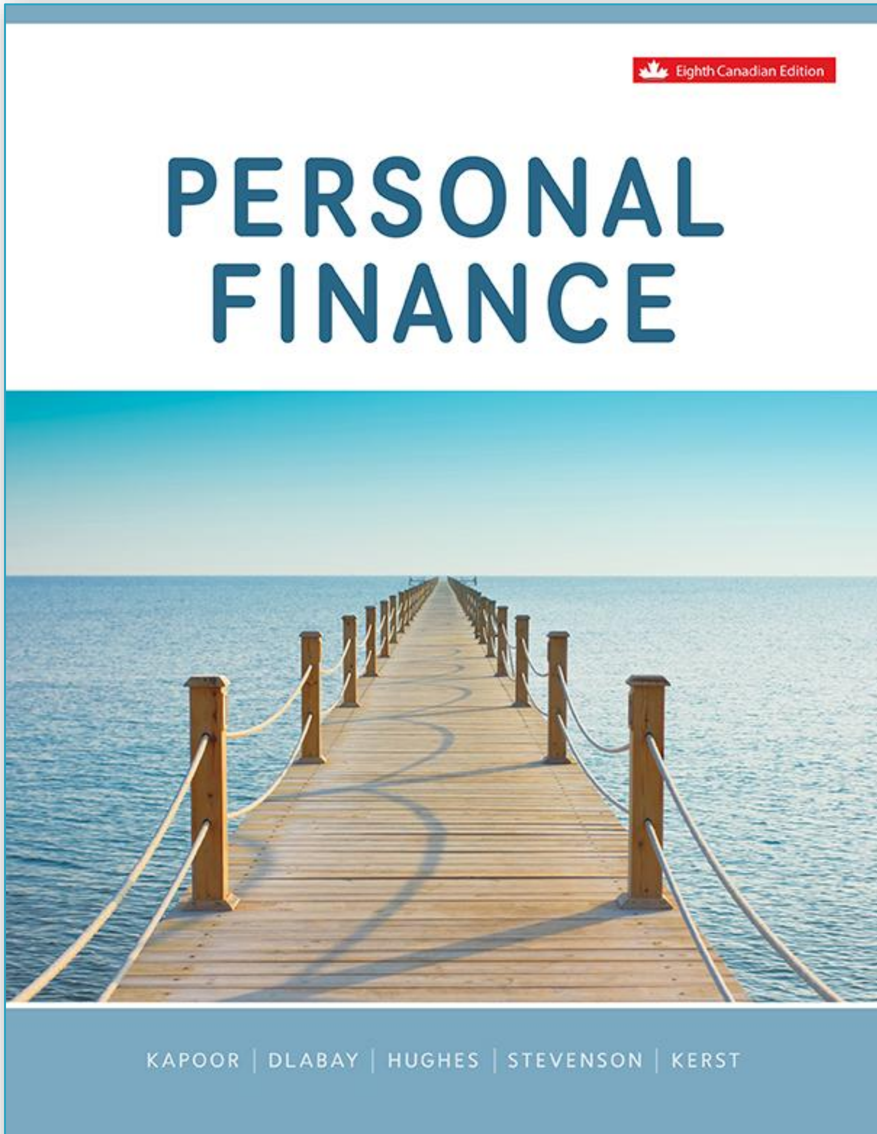

Chapter 7: The Finances of Housing

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The Home-Buying Process

- **Mortgage** is a personal loan used to purchase property
  - is a long term loan on a specific piece of property, such as a home or other real estate
  - Repaid over 15, 20, or 25 years
  - Available from banks, credit unions, trust companies or mortgage brokers
  - Must meet certain criteria to qualify
    - Income, other debts, amount of down payment, length of loan, current mortgage rates

The Home-Buying Process

Calculate Your Affordable Home Purchase Price

Gross Debt Service Ratio (GDSR):

- PI = monthly principal and interest payments on your mortgage
- T = monthly property taxes
- H = monthly heating costs
- D = monthly debt service payments
- GI = monthly gross income

$$\text{Gross debt service (GDS)} = \frac{\text{PI} + \text{T} + \text{H}}{\text{GI}} \times 100\,\%$$

- Most lenders recommend you spend no more than 32 percent of your gross income on shelter costs.

The Home-Buying Process

Calculate Your Affordable Home Purchase Price

Total Debt Service Ratio (GDSR):

- PI = monthly principal and interest payments on your mortgage
- T = monthly property taxes
- H = monthly heating costs
- D = monthly debt service payments
- GI = monthly gross income

$$\text{Total debt service (TDS)} = \frac{\text{PI} + \text{T} + \text{H} + \text{D}}{\text{GI}} \times 100\,\%$$

- Most lenders recommend you spend no more than 40 percent of your gross income on shelter and non-shelter costs.

The Home-Buying Process

Exhibit 7–7 Housing Affordability and Mortgage Qualification Amounts

	Example A
Step 1: Determine your monthly gross income (annual income divided by 12).	\$ 200,000 ÷ 12
Step 2: With a down payment of at least 10 percent, lenders use 32 percent of monthly gross income as a guideline for the GDS ratio, and 40 percent of monthly gross income as a guideline for the TDS ratio.	\$ 16,667 × 0.40 \$ 6,667
Step 3: Subtract other debt payments (e.g., payments on an auto loan) and an estimate of the monthly cost of property taxes, heating, and half of the condo fees if applicable.	– 1,000 – 1,000
(a) Affordable monthly mortgage payment	\$ 4,667

The Home-Buying Process

Exhibit 7–7 Housing Affordability and Mortgage Qualification Amounts

	Example A
(a) Affordable monthly mortgage payment	$ 4,667
Step 4: Divide this amount by the monthly mortgage payment based on current mortgage rates—a 6.5 percent, 25-year loan, for example (see last slide) and multiply by $1,000.	÷ $ 6.70 × $ 1,000
(b) Affordable mortgage amount	$696,567
Step 5: Divide your affordable mortgage amount by 1 minus the fractional portion of your down payment (e.g., a 25 percent down payment).	÷ 0.75
(c) Affordable home purchase price	$928,756

The Home-Buying Process

Exhibit 7–8 Mortgage Payment Factors (principal and interest factors per $1,000 of loan amount)

Term Rate	25 Years	20 Years	15 Years
4.0%	$5.26	$6.04	$ 7.38
4.5%	5.53	6.30	7.63
5.0%	5.83	6.57	7.88
5.5%	6.10	6.84	8.14
6.0%	6.40	7.12	8.40
6.5%	**6.70**	7.41	8.66
7.0%	7.00	7.69	8.93
7.5%	7.32	7.99	9.21
8.0%	7.63	8.28	9.48
8.5%	7.95	8.59	9.76
9.0%	8.28	8.89	10.05
9.5%	8.61	9.20	10.33
10.0%	8.94	9.52	10.62