# BUYING A HOME: WHAT YOU CAN AFFORD

The best way to deal with buying a home is to match your financial capabilities with the home that meets as many of your needs as possible.

To see how much you can afford, you should take a close look at your financial situation. The vast majority of home buyers lack the funds required to buy a home without assistance from a bank or other financial institution (commonly called a “lender”). So, for most of us buying our fist home means combining our savings with money borrowed through a special type of borrowing arrangement called a “mortgage”.

Borrowing to purchase is not only acceptable, it’s desirable. Even people buying millions of dollars’ worth of real estate borrow to make the purchase.

**There are two types of costs in buying a home:**

- The amount of money you’ll need for the initial purchase; this consists mainly of the down payment and other costs such as legal fees and taxes; and
- The ongoing costs of paying back your mortgage, along with monthly operating costs for utilities, maintenance, insurance and annual property taxes.

**Costs of buying a home:**

- Down payment & Mortgage
- Legal fees
- Utilities
- Inspection fees
- Maintenance
- Taxes
- Insurance
- Property taxes

When lenders assess your ability to buy, they look at your ability to pay both types of costs in determining how much money they will lend you.

If you plan to borrow funds through a conventional mortgage, multiply the money you have available for a down payment by four. For example, if you have access to $40,000, you may be able to purchase a home with an appraised value of $160,000 ($40,000 x 4 = $160,000).

This assumes of course, that you have sufficient income to make the payments on a $120,000 mortgage (75 per cent of $160,000). Most lenders will not permit a borrower to take on a dept load the borrower can’t carry. That’s why reputable lenders “qualify” potential borrowers before issuing mortgages.

Most lenders say that your monthly housing expenses (mortgage payment and taxes), plus condominium maintenance fee, if applicable, would not exceed 30 per cent of your monthly gross family income.

This is called your Gross Debt Service (GDS) ratio. Some lenders will go as high as 35 per cent, depending upon a number of variables.

Lenders also use a second calculation in qualifying you for a mortgage. It’s called the Total Debt Service (TDS) ratio. Generally speaking, no more than 40 per cent of your gross family income may be used when calculating the amount you can afford to pay for mortgage payments and taxes plus other fixed monthly expenses.

These other fixed costs are your ongoing commitments and can include auto, student or personal loans, as well as revolving charge accounts. Again, the 40 per cent calculation may vary slightly among lenders.

By knowing exactly what you can afford, you can make your home purchase with confidence.