00:00:10:00 - 00:00:36:09

Speaker 1

Welcome, my name is Andrew Baron, and this is Well… It Depends! The podcast where I address financial decisions that can't be answered with a simple yes or no. In this episode, I ask the question, How much home can I afford? But before we begin a short disclaimer, this is being recorded on March 12, 2024.

00:00:36:09 - 00:00:59:21

Speaker 1

The contents of this podcast are strictly for informational purposes only, and nothing such should be taken as investment, tax or legal advice. It's important to consult with the professional before making any financial decisions as the strategies discussed may not be simple for you specifically.

00:00:59:21 - 00:01:04:06

Speaker 1

Getting into it. How much home can I afford?

00:01:04:08 - 00:01:47:21

Speaker 1

Well… It Depends! This question is top of mind for first time homebuyers, upgraders and downsizers alike. So, let's get into the nitty gritty about home affordability and the factors, that can tip the scales, one way or another. Before we start dreaming about walk-in closets and open floor plans, the first step is to assess your overall financial health. Home affordability is more than just how much a lender is willing to give you, but instead considers how much debt you can comfortably take on without compromising your lifestyle and other financial goals.

00:01:47:21 - 00:02:07:22

Speaker 1

Traditional wisdom says that your home cost should not exceed 3 to 5 times household income. Assuming you make a 20% down payment and have moderate levels of other debt. However, as is always true on this podcast, it depends.

00:02:08:01 - 00:02:15:18

Speaker 1

It depends on your income stability, your savings goals, your lifestyle, and your other financial commitments.

00:02:15:18 - 00:02:24:13

Speaker 1

When discussing home affordability, you may hear the term DTI or debt to income ratio.

00:02:24:15 - 00:02:49:14

Speaker 1

This is your monthly debt payments divided by your household monthly gross income. Many lenders prefer a DTI at or below 36%, with 28% going towards housing costs. However, it depends. If you have significant savings, some lenders may be more lenient.

00:02:49:14 - 00:02:54:08

Speaker 1

Home affordability is more than just the mortgage payment.

00:02:54:10 - 00:03:27:15

Speaker 1

You also need to factor in taxes, homeowner's insurance, maintenance and potentially homeowner's association fees. And let's not forget utilities and unexpected repair costs. When you factor all this in, it can alter the cost of home affordability significantly. So when you ask yourself how much home can I afford, you need to remember it's not only the sticker price, but the ongoing costs of turning a house into a home.

00:03:27:15 - 00:03:50:08

Speaker 1

Home affordability. It’s more than just numbers on a spreadsheet. It's about how you live your life. Do you love to travel? Are you planning on starting a family? Or are you a foodie who enjoys to frequently dine out? Each of these lifestyle choices can ultimately affect how much home you can afford to buy.

00:03:50:08 - 00:04:11:19

Speaker 1

And then there's the flexibility consideration. Life can change. You could be offered a dream job opportunity in another city. Decide to go back to school or start your own business. The more income you have tied to your house, the less flexibility you have to pivot.

00:04:11:19 - 00:04:23:02

Speaker 1

Interest rates can have a dramatic effect on your buying power with lower interest rates, allowing you to buy a more expensive home for the same monthly payments.

00:04:23:04 - 00:04:35:22

Speaker 1

But interest rates fluctuate based on economic factors out of your control. While low interest rates may save you thousands over the lifetime of the loan, predicting them can be a gamble.

00:04:36:05 - 00:05:14:10

Speaker 1

To recap, I emphasized that it's more about just how much a lender is willing to give you, but instead balancing your mortgage with your lifestyle, future plans and the hidden costs of home ownership. I also discussed the debt to income ratio, the need for financial flexibility and the impact interest rates can have on home affordability. In essence, it's about your overall financial health and personal circumstances.

00:05:14:12 - 00:05:21:11

Speaker 1

So, to answer the question how much home can I afford? Well… It Depends!

Speaker 1: Andrew Baron, CFP®, EA