



## Work sheet: How much house can you afford?

### How much house can you afford?

To know how much house you can afford, you should understand your debt-to-income ratio. The standard debt-to-income ratios are the housing expense, or front-end ratio and the total debt-to-income, or back-end ratio.

Debt-to-income ratios
<p><b>Front-end ratio</b></p> <p>The housing expense, or front-end ratio, shows how much of your gross (pretax) monthly income would go toward the mortgage payment. As a general guideline, your monthly mortgage payment, including principal, interest, real estate taxes and homeowners insurance, should not exceed 28 percent of your gross monthly income. To calculate your housing expense, multiply your annual salary by 0.28, then divide by 12 (months). The answer is your maximum housing expense.</p> $\frac{\text{Annual salary} \times 0.28}{12 \text{ (months)}} = \text{Maximum housing expense}$
<p><b>Back-end ratio</b></p> <p>The total debt-to-income, or back-end ratio, shows how much of your gross income would go toward all of your debt obligations, including mortgage, car loans, child support and alimony, credit card bills, student loans, and condominium fees. In general, your total monthly debt obligation should not exceed 36 percent of your gross income. To calculate your debt-to-income ratio, multiply your annual salary by 0.36, then divide by 12 (months). The answer is your maximum allowable debt-to-income ratio.</p> $\frac{\text{Annual salary} \times 0.36}{12 \text{ (months)}} = \text{Maximum allowable debt-to-income ratio}$

Debt-to-income ratio examples		
Gross income	28% of monthly	36% of monthly
\$20,000	\$467	\$600
\$30,000	\$700	\$900
\$40,000	\$933	\$1,200
\$50,000	\$1,167	\$1,500
\$60,000	\$1,400	\$1,800
\$80,000	\$1,867	\$2,400
\$100,000	\$2,333	\$3,000
\$150,000	\$3,500	\$4,500

**Typical debt ratio requirements by loan type:**

**Conventional loans:**

Housing costs: 26 to 28 percent of monthly gross income.

Housing plus debt costs: 33 to 36 percent of monthly gross income.

**FHA loans:**

Housing costs: 29 percent of monthly gross income.

Housing plus debt costs: 41 percent of monthly gross income.