How Much Mortgage Can I Afford?

Getting a mortgage loan may very easily be one of the most misunderstood terms in Real Estate. Hence, most potential mortgage borrowers fail to take advantage of the perks and opportunities associated with mortgage loans.

In this article, we will be giving a compressive answer to an essential question within the Real Estate industry, 'how much mortgage can I afford'? If you want to learn more about that, then you are in the right place.

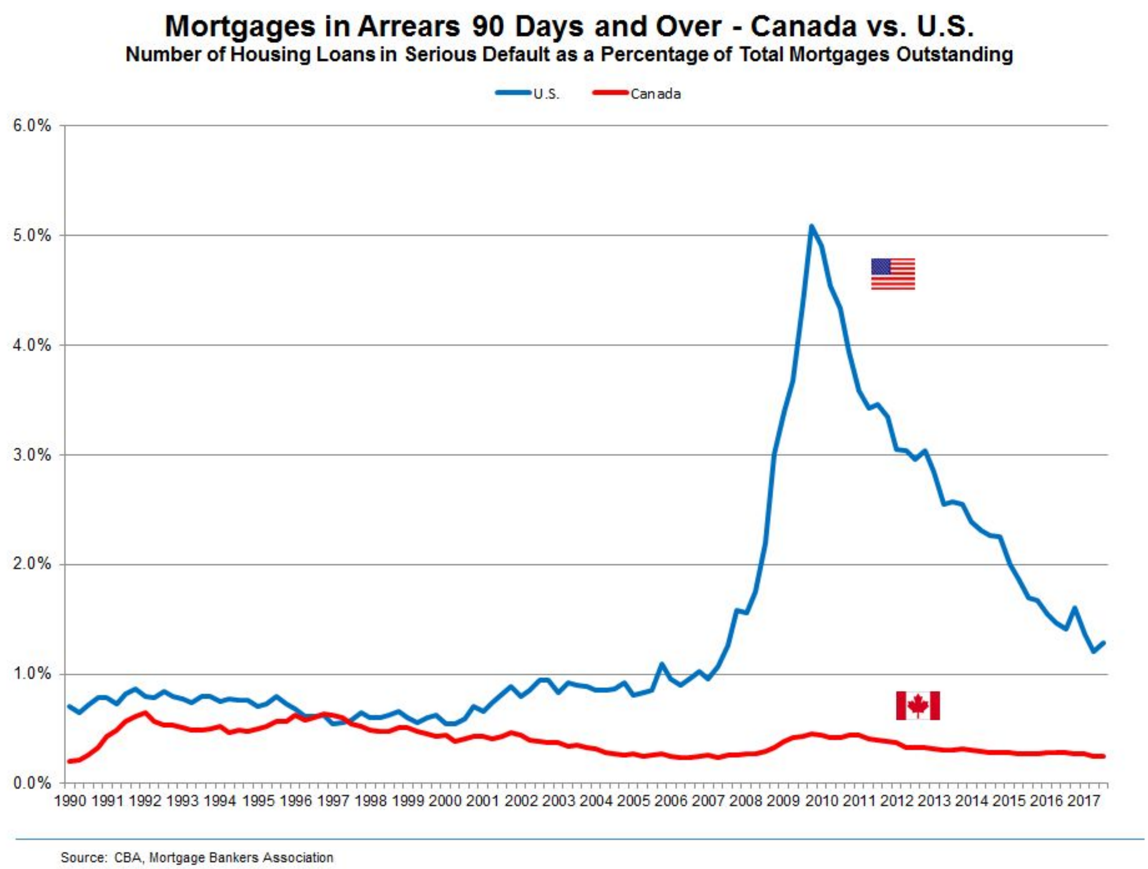
What Is a Mortgage Loan?

A mortgage loan (also referred to as mortgage) is a real estate or property-related loans. This mortgage loan may be used for two purposes.

The first being the use of a mortgage loan is to acquire the funds necessary for purchasing a desired property.

The second purpose involves a property owner who takes a mortgage loan for any purpose of his choicesing his property or house as the collateral for the loan. Taking such a loan is made possible through mortgage origination, a process that allows the lender the legal right to take over and/or sell the borrower's property should he/she fail to pay up the loan on the stipulated time.

This makes taking a mortgage loan a 50-50 situation for most people. There is a lot of risk involved with mortgages thus, making it important for one to be certain on how much of a mortgage loan he or she can afford.



Mortgage Eligibility: Who Is Worthy?

As much as most of us would rather have a shot at a mortgage loan, there are certain eligibility criteria which you must meet in a bid to secure a mortgage.

These criteria are put in place by the lending institutions to automatically check the consumers financial profile to ensure that they have the capacity to repay the loan when due.

Below is a list of requirements which most lending institutions require from a potential borrower:

A Stable and Reliable Source of income

Anyone trying to acquire a mortgage loan must have a reliable and stable source of income. This doesn't necessarily mean that you must be a working class individual to enjoy the benefits associated with acquiring a mortgage loan. This is especially true since most mortgage establishments consider the following as alternative sources of income.

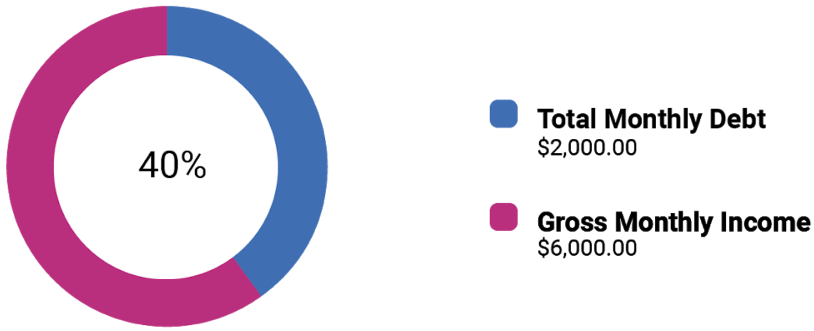
- Bonuses and commissions
- Self-employment income
- Alimony or child support
- ODSP
- Qualifying investment income
- Income from rental properties
- CPP, OAS
- Foster Care income
- Child tax benefits
- Spousal

- Child support

It is also important to note that a large majority of lenders will prefer to see proof of employment, as well as your stated income. This is because some mortgage applicants have been dishonest in the past regarding their income to gain an advantage over the lender. Some have lied in order to get access to mortgage loans beyond their reach.

To present, lenders now can go further to verify the authenticity of your income by calling your employer to verify your employment and income. They have systems in place to validate the bank statements which show transactions and deposits and they use Google maps plus various other means to ensure this information you have provided is correct. Non-verifiable sources of income are also considered by the lenders. They check business registrations and bank statements so if you're not depositing your cash income you can not use income that can not be seen. Be strategic when you know you are looking to get a mortgage loan and how much cash needs to be deposited.

Debt to Income Ratio



$$\text{Debt to Income Ratio} = \frac{\text{Total Monthly Debt}}{\text{Gross Monthly Income}}$$

Debt to Income Ratio

While having a good and steady source of income is great, it is not the only criteria that is considered. Your debt to income ratio is also considered. This is to ensure that you are not indebted to a point where you cannot pay off your mortgage. If you have a high debt to ratio, then you are more unlikely to get a mortgage loan, or a smaller threshold.

This is because your current ratio may indicate that you currently lack the capacity to handle a mortgage loan in that price range.

GDS

Your GDS ratio is simple to calculate. All you have to do is add all your debt obligations, and divide it by your own gross income. Whatever the result is your debt-to-income ratio.

It is also noteworthy that lenders calculate two types of debt service ratios. The second debt ratio is the TDS. TDS stands for "Total Debt Service" ratio.

While the GDS focuses on your debts and income, the TDS focuses on your debt, income and new mortgage loan. **A Fair or Good Credit Score**

Your credit score is perhaps one of the most important things a lender will check when confirming just how much of a mortgage loan you are eligible for. Your credit score is a chronicle of your performance as a borrower. Lenders would naturally check your repayment history to ascertain that you are a good borrower. There are a few factors that are used to check your credit score. These include:

Utilization ratio

This refers to the ratio of available credit you have used.

If you have a $10,000 credit card, the balance on your credit card will determine your utilization ratio. The lesser you use, the lesser your ratio. A lesser ratio is advisable for anyone who seeks a mortgage loan, especially larger loans.

Repayment History

This is simply a record of how long it took you to pay your bills and credit owed in the past and if you paid your credit on time. It is just as important as the utilization ratio.

If you have a history of late or delaying payments and/or missed payments, then you can be sure that your credit score will be affected

Duration of borrowing history

This takes into account how long your credit account has been open for. Typically speaking a lender requires you to have a two year history with the credit tradeline.

If you have been borrowing for a longer period of time (and have a positive repayment history), you are more than likely to have a good credit score.

Types of credit you have

If you have a mix of different credit cards meaning you have a multiple credit cards or “trade lines”, as well as a good payment history, then you are naturally on your way to a healthier credit rating.

Inquiries

This checks the frequency of inquiries you have on record. Anytime you get a new credit loan, or a company does a credit inquiry, you get a “hard hit” on your credit. This hard inquiry lasts for around 36 months stamped on your credit report. If you have too many inquiries within a short period of time, your credit score would be impacted negatively hence, affecting your potential mortgage approval with specific lenders.

A soft inquiry does not impact your credit rating. A soft inquiry is when you sign up for a credit monitoring program and check your credit rating personally. A bank may also do a soft inquiry if you have a credit product or loan product with them.

Consequently, all of these factors will play a role in your credit rating. Your collective score will determine if you have good credit or blemished credit and this will also play into you which bank you can use for mortgage loan.

Below is a table that shows the range of credit scores and the different remarks they get

Score Range	**Remark**	**Consequence**

300- 597	Poor	Almost impossible to get a mortgage yet still possible
580- 679	Fair	Will qualify for a mortgage with varying terms
680- 739	Good	More reasonable mortgage loans with good terms and conditions available. Primary banks will consider this profile *Certain restrictions apply and full underwriting still required
740- 799	Very Good	With this you should get your mortgage on a gold platter, and reasonable terms. *Certain restrictions apply and full underwriting still required
800- 850	Excellent	With this, you can get the best of mortgage loans possible as well as the best of terms.

The better your credit score, the easier it is to get a great mortgage loan with wonderful terms and conditions.

A Down Payment

A down payment is the last financial hurdle which you must cross to qualify for a mortgage loan. If you are trying to buy a property and require a mortgage loan, you must have a down payment in place.

To clarify the difference between a deposit and downpayment is money paid 0 upfront to secure the house or property by the potential buyer is considered the deposit.

The down payment differs from the deposit as it is the financial requirement to qualify for the mortgage loan. The percentage for a downpayment may differ from one lender type to another. Meaning a bank may require a lesser of a down payment based on your credit profile and income than an alternative lender. For example the down payment requirement for a homebuyer with excellent credit and verifiable income would be 5% down. A homebuyer with blemished credit and/or non verifiable income would require a minimum of 20% as their down payment.

The reason why down payments are taken so seriously is because it ensures that the borrower has ownership claims on the property being purchased.

Apart from the financial requirements, there are a few other requirements which you must meet to be eligible for a mortgage loan.

- An appraisal

This appraisal is simply to evaluate the overall value of the house/property. With this, the lenders have an exact value for the house you plan to buy and also can they will be able to confirm the homebuyers down payment requirement based on the property location and type of property.

- Inspections and Surveys

This is just to keep you and the lending institution on a safe side. An inspection is carried out to ensure that the property is what it is said to be in terms of value.

- Necessary Documents

No one ever wants complications after moving into their new home. Nevertheless, it is good to be prepared in case of occurrences. There are two basic documents required by lenders due to the possibility of such instances.

The first is the title insurance which can be used to ascertain and show exactly what you bought and any additional information that may be needed. The other is the homeowner’s insurance which is proof that you have acquired insurance for the home you are planning to buy. This protects the lender in the instance that something devastating happens to the property.

- Additional Costs

There would be other additional costs that you would need to cover. These costs account for about two to five percent of the total amount needed to purchase the house known as closing cost.

Mortgage Affordability: How Do I Know My Limits?

When it comes to mortgage loan affordability, there are a lot of factors that need to be considered. You are buying a house, not ice cream. So it is really important that you weigh all options on every side possible. The most important question is not how much you can borrow or what's the best rate but rather but how much you can afford?

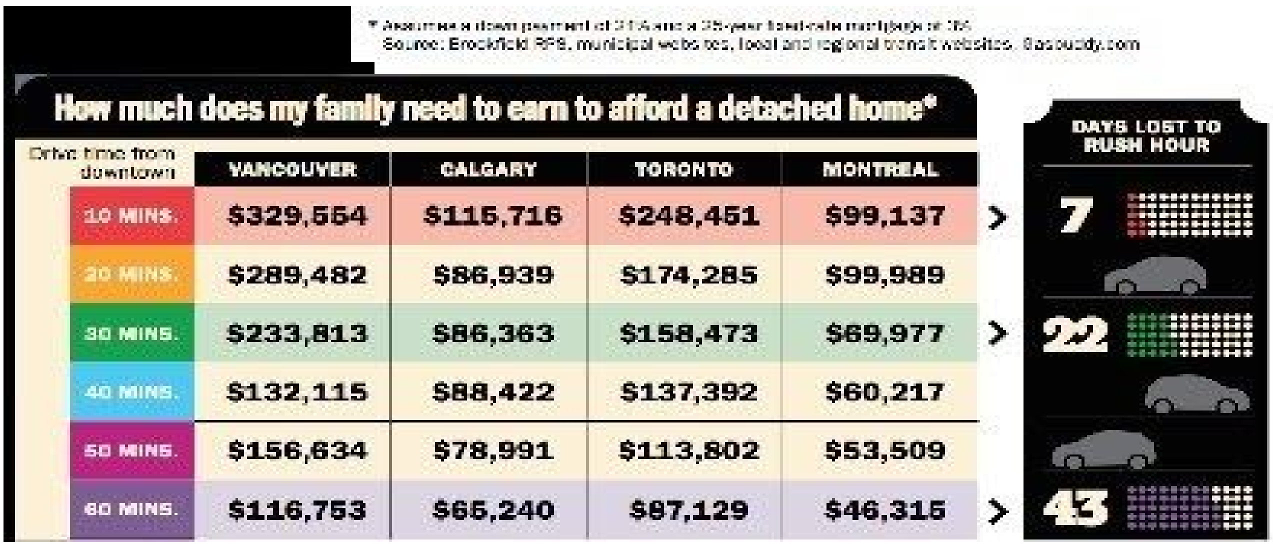
The Lenders Factor

One of the first things you should consider is the lenders requirements. There are a lot of things the lenders consider when it comes to mortgage. There are percentages to be met as well as multiple criteria. If your lender or mortgage broker doesn't think you can afford it, then you should try again when your financial situation improves or you have your required down payment or try purchasing a less expensive property.

Listen to the lenders and mortgage brokers. They've been in the business long enough to know who qualifies and who doesn't and for good reason.

Your Financial Situation

This is very important. What would be left of your income if you were to take a mortgage loan? You have to really consider if your income can cover up all your expenses. Check the percentage of your income that your bank end ratio is going to consume. If it's too high, then you should try something lower.



Source: Brookfield RPS, municipal websites, local and regional transit websites, Gasbuddy.com

How much does my family need to earn to afford a detached home*

Drive time from downtown	VANCOUVER	CALGARY	TORONTO	MONTREAL
10 MINS.	$329,554	$115,716	$248,451	$99,137
20 MINS.	$289,482	$86,939	$174,285	$99,989
30 MINS.	$233,813	$86,363	$158,473	$69,977
40 MINS.	$132,115	$88,422	$137,392	$60,217
50 MINS.	$156,634	$78,991	$113,802	$53,509
60 MINS.	$116,753	$65,240	$87,129	$46,315

Another factor to consider is your net income over your gross income. Your net income is your take-home income, and that is the stated source of income from which your mortgage would be deducted from.

While you may still be able to pay your mortgage from the net income, you may end up 'house poor'. You really do not want that as you would most likely loathe having a house in the first place. It is advised that a mortgage shouldn't take more than **25 percent** of your [take-home income](). This would keep you on a safe side.

If your income is likely to grow, then you may be at an advantage. Nevertheless, it is advisable to stay safe, and work with what is visibly achievable.

Also, you should check your credit score and endeavor to tell yourself the truth. If you have a bad credit score, you are more likely to get a mortgage loan with a higher interest rate. You do not want to put yourself at risk financially. It is advisable you avoid any such pitfalls. Hence, rather than getting a mortgage, try to better your credit score and your financial situation. Sometimes it only takes a few months to make a significant difference.

Other Factors

Even if you have been told by a lender that you can afford a particular mortgage loan, you also have to consider a lot of other options. Buying a house may lower your expenses, but not take out all your expenses. You still have to pay your tax, take care of personal needs, eat and day-to-day expenses. You might still have kids and dependents under you or are planning to start a family. You would want to factor all these expenses in when looking at getting a mortgage loan.

Also, the house you are buying will incur its own expenses in maintenance fees, utility fees, furniture as well as a host of other things. You must take all of this into consideration while trying to ascertain the amount of mortgage you can afford.

In conclusion, getting a house will be the biggest investment you make in your life. You must therefore be careful in making decisions that affect this big decision. Talk to a mortgage broker, a lending institution and also speak to yourself, frankly.