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# mining How Much of a Home Mortgage You Can Afford: Income & A

This is the second part in an article series about figuring out just how much of a home mortgage you can afford. The first part explained the typical lender rules like the 28/36 ratio and the idea of shooting for a home price that is no more than about two times your annual salary. This article is focused on determining your total income and assets to find out the best price range for your next home mortgage.

**Income/Assets**

When trying to do the math on how much of a home mortgage responsibility you want to take on, you should definitely add up all your sources of income and your assets. Not only will your lender want to know this information when you ask for pre-approval, but it will help you determine just how much and which funds you are willing to tap into for your housing costs.

To add up your sources of income you should of course start with your gross yearly income from your job. Mortgage lenders do not trust income based on commission, bonuses or overtime pay as much as they do plain, old hourly or salary wages. So if a majority of your income is generated from these extras, you can determine your annual income best by averaging the last two or three years of your total income (normal wages and commissions, bonuses, and overtime pay.) This will help you to see the average amount you can expect to make.

If you are expecting a big raise or promotion in the next year or two, you may want to include that future income in your calculations, especially if you want to qualify for a bigger loan. To play it safe however, you should just use your past income history in the computations.

A side note in determining how much you can afford: if you are currently a two-income household, you should consider whether you plan on having two-incomes permanently, or if you may face the possibility of having only one in the near future. Based on what you decide, you may or may not want to have the second income included in the assessment of your loan application.

You should also take into account any dividends you receive yearly from financial investments, as well as any child support or alimony you currently collect each year.

In terms of assets, your mortgage company will want to know what sort of things you have that could be liquidated into cash if needed. This could include pulling money out of your Roth IRA account for a down payment or monthly home mortgage payments in times of emergency. You should look at the balance in your savings accounts also to determine your total assets.

If you are currently a homeowner, one of your greatest assets may be the amount of equity you currently have built up in your home. Once you sell your home, that equity could go far in contributing to your next down payment and/or closing costs.

Finally, add up the cash value of things like your life insurance policy, your pension plan, and any corporate savings plans you are involved with. While these are definitely assets of last resort, but your mortgage lender will want to factor them into your lending risk factor. For this reason, you may want to be more conservative in your price range than what your lender

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actually quotes you. This way you will give yourself a safety zone that will help prevent dipping into your long-term savings.

Watch for the last part of this article to instruct you in totaling up your liabilities and debts to estimate how much of a home mortgage you can truly afford.

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