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How Much Home Do I Qualify For?

Income. Debt. Down Payment. Closing Costs. Two Years Income Tax Returns. Assets. Liabilities. IRAs. You want WHAT? Just what can I afford?

Buying a home in today's marketplace is a bit intimidating. And your new home purchase is likely to be one of the most important decisions you've ever had to make. Usually it's one of the single most valuable assets you'll own.

Where to Start

Before you invest hundreds of hours searching--and to avoid any heartbreak if you find yourself unable to qualify for your dream home--sit down with a lender. Your lender can perform a simple verbal prequalification in about twenty minutes and a full-fledged prequalification in about 5 days.

Pre-qualification not only allows you to focus your search in the correct price range, saving a lot of wasted time and frustration, but it can also give you an edge when competing with other offers on a home that you find. If a seller is deciding between two offers--yours who has been qualified and another unqualified offer, they are much more likely to pick yours. Pre-qualification will also give you leverage when negotiating with a seller in a non-competitive atmosphere; it essentially makes you a cash buyer.

The amount of home that you qualify for will be determined by three key factors: your down payment, your ability to qualify for a mortgage and closing costs.

The Down Payment

Whereas a current homeowner can rely on equity from their home sale, a first time homebuyer is limited to the money they can save. The days of having to put 20 percent down on a home are in the past, although putting a large amount of money down definitely makes it easier to qualify for a mortgage and to get the lowest interest rates available. With the various programs that are available today, you can put as little as 3 percent down on a home.

Qualifying for the Mortgage

There are two basic guidelines that lenders use to determine what size mortgage you are eligible for:

1. Your monthly mortgage payment of principal, interest, taxes and insurance (PITI) should not exceed 25 to 28% of your monthly gross income.
2. Your monthly housing cost (PITI) plus other long-term debt should not exceed 33 to 38% of your monthly gross income.

Specifically, most lenders will consider 4 key factors to determine your ability to qualify for a home loan:

Income – This first element can include not only your gross monthly income and secondary income (commissions, bonuses) but also your history of employment, stability of income, education, even potential for future earnings.

Credit History -- This encompasses your history of debt repayment, total outstanding debt, highest balance, and your highest monthly debt balance.

Assets – Your assets consist of cash on hand, savings and checking accounts, CDs, stocks, bonds or any other type of liquid asset.

Property – The home you are planning to purchase will be appraised to determine the market value. The estimated value must be sufficient to secure the loan. Lenders will loan you no more than a certain

percentage (usually 95%) of this value.

Closing Costs

Keep in mind that in addition to your down payment, you will also be responsible for paying fees for the loan and closing costs. These will be required at the time of closing unless you qualify and choose to have these included in your financing.

- Closing Costs generally will range between 2 percent and 6 percent of the mortgage loan, depending on the loan and lender. You will be provided with a "Good Faith Estimate" of closing costs so you can know what to expect.
- "Points", which are one-time charges equal to one percent of your loan amount, may be required by your lender at closing.
- Your closing agent will charge a fee at the close of the sale.