## **Determining How Much You Can Afford**

Potential purchasers can save valuable time and energy when searching for a home by knowing what they can afford well in advance.

Generally, the rule of thumb when purchasing a home is to ensure that your monthly housing costs do not exceed 32 per cent of your gross monthly income, but many factors come into affect when financing a home.

The most important considerations when buying a home are your gross household income, your credit rating, your down payment and the current mortgage interest rate. Although the CMHC (Canada Mortgage and Housing Corporation) will insure mortgages with as little as five per cent down, most buyers contribute a down payment of 25 per cent of the total purchase price. Most lending institutions finance up to 75% of the purchase price in a conventional mortgage.

To determine the price of the home you will be able to purchase, there is a relatively simple formula to follow. Calculate your down payment and multiply it by four. For instance if your down payment on a property is $40,000, you will be able to purchase a home priced at $160,000.

After you have determined what you can afford, remember that your total monthly debt and monthly mortgage payment cannot exceed 40 per cent of your gross monthly income. This includes mortgage payments, taxes, heating expenses, car payments, personal loans, and credit card debts.

Your real estate professional can walk you through the basics in terms of determining what you can afford at the onset. For total peace of mind, it is recommended that you contact your financial institution to get pre-approved, prior to looking for a home.