

Let's look at an example based on a Monthly commitment.

Buyer 1: New car loan, credit card payment, student loan and makes \$48,000 per year.

Buyer 2: everything is the same, except the Buyer 2 has a Used car.

	Example 1	Example 2
Car Payment:	\$450	\$200
Visa Bill:	\$100	\$100
Student Loan:	\$150	\$150
Total Personal debt Monthly Commitment:	\$700	\$450
Monthly Income:	\$4,000	\$4,000
Debt to Income Ratio*:	x 41%	x 41%
Total Allowable Monthly Commitment	\$1,640	\$1,640
Personal debt/month -	\$ 700	\$ 450
House payment (PITI)**	\$ 940	\$1,190
Taxes -	\$ 100	\$ 100
Home owners Insurance -	\$ 40	\$ 40
PMI -	\$ 50	\$ 50
Monthly Mortgage Payment	\$ 750	\$1,000
Loan Amount***	\$125,000....	\$168,000
Purchase Price	\$129,000....	\$173,000

So as you can see, your monthly debt has a huge effect on what a lender is willing to lend you. In this case, the lender would lend you \$44,000 more dollars which will open up many more homes for you.

*A debt to income ratio is the ratio that a lender uses to determine the amount they will lend you for a home purchase. 41% is standard for an FHA loan. These ratios can go be higher and lower depending on your credit & loan type.

**PITI: This stands for Principle, Interest, property Taxes & Insurance

***Based on a 6% rate for a 30 year term