

### **Fin 5413: Chapter 8 Problem – How much house do I qualify for?**

Remember to show your work!

You currently earn \$48,000 per year and have stellar credit. You have saved \$16,000 that can be used for down payment and closing costs (you can use any excess cash you have to make a larger down payment than your loan requires). You have a car loan with payments of \$375 per month, and no other debts. Closing costs, excluding points on the loan are expected to run 2% of the loan amount.

Annual Property taxes will be 2.5% of the value of the house  
Annual Hazard insurance will be 0.75% of the value of the house

Loan rates are (30 year term) (PMI is built into the loan rates):

80% LTV – 6.5% with one point  
90% LTV – 6.75% with two points  
95% LTV – 7.25% with one point

What is the maximum amount you can pay for a house (to the nearest \$10,000) using each of the 3 loan alternatives. You may want to set this up on a spreadsheet as its takes trial and error (or goal seeking) calculations. You need to check:

1. You have to have enough cash to close the loan
2. You have to qualify for the monthly payments under the 28/36 (front end/back end ratio) guidelines.

Or, if you prefer:

Show that the maximum house you can afford is:

If you want an 80% loan, the maximum house you can afford is: \$ 71,425.

If you want a 90% loan, the maximum house you can afford is: \$117,645.

If you want a 95% loan, the maximum house you can afford is: \$120,410.

Show what constrains you to these amounts.