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Mortgage Project
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Mortgage Project

I was turned down by the lenders because of the extremely low down payment that I made. With the cost of my dream home being \$324,900, a down payment of \$5,000 would only be about 1.5% of the overall asking price. Most lenders will only accept a down payment of 20% or higher, so if the down payment falls below 20%, the mortgage lender may require private mortgage insurance so that they are sure to receive a full repayment of their loan. Another reason I was denied the loan is that I do not make nearly enough money each month in order to pay my monthly mortgage for my dream home. They would have known by using a percentage method called PITI 38% or 33%. The latter, 33%, calculates how much you will spend on your principle, interest, taxes, and insurance each month. The greater, 38%, includes other debts that a home buyer may be continuing to pay off alongside everything included in 33% PITI. For me, the lenders would use 38% PITI to calculate if I would be able to afford to live in my dream home because I have student debt that I will need to pay for each month that other home buyers do not have to pay each month. Along with these factors, my credit score is pretty bad because I owe so much on my credit card. I most likely have also gotten behind on a few of my bill payments and have been paying the monthly minimum on it. To see how a mortgage lender might calculate my housing affordability I followed the chart from exhibit 7-6 in the textbook.

My Current Housing Affordability Estimate

\$42,000	.....	Annual Gross Income
÷ <u>12</u>	.....	Conversion to Months
\$3,500	.....	Monthly Gross Income
× <u>.38</u>	.....	38% PITI
\$1,330	.....	After 38% PITI
- \$200	.....	Monthly Student Loan Payment
- \$400	.....	Monthly Car Payment and Insurance
- 100	.....	Monthly Taxes
- <u>75</u>	.....	Monthly Insurance
\$555	.....	Affordable Monthly Mortgage Amount
÷ <u>7.34</u>	.....	Mortgage Payment Factor for a 30 yr mortgage w/ 8% interest
75.61		
× <u>1,000</u>	.....	Conversion back to Thousands
\$75,613.08	.....	My Affordable Mortgage Amount
÷ <u>0.985</u>	.....	My 1.5% Down Payment
\$76,764.55	.....	Price Before Down Payment I can Afford

Conclusion

Clearly, I cannot afford my dream home at this time. For now, I need to work on knowing my affordable price range and fix my finances before reapplying for a mortgage loan. To start, I should work to raise my credit score to at least 620, because 560 is a really bad score. I also need to work on paying off my credit card debt and begin paying my bills on time each month. I should also work to pay off my student loan debt by paying more than the minimum amount each month in order to pay it off quicker. Then I should work to save up for a larger down payment of around 20% or higher. After completing my future housing affordability estimate (below), I need to be looking at houses that are \$100,000 or less because I will not be able to afford anything more than that. With this lower price range, I will need about \$16,000-20,000 to make a healthy down payment. The only way I will be able to do this is if I track my spending and create SMART goals for myself. For example, it would make more sense if I lived with roommates in a rental home or apartment rather than on my own. This way I can save money on my living expenses. Since I am single, I do not need anything big; I cannot afford a big home anyways.

My Future Housing Affordability Estimate

*Does not include 38% PITI because I will have paid off my student loan debt. Therefore I used
33% to calculate my PITI.

\$42,000	.....	Annual Gross Income
÷ <u>12</u>	.....	Conversion to Months
\$3,500	.....	Monthly Gross Income
× <u>.33</u>	.....	33%* PITI
\$1,155	.....	After 33% PITI
- \$400	.....	Monthly Car Payment and Insurance
- 100	.....	Monthly Taxes
- <u>75</u>	.....	Monthly Insurance
\$580	.....	Affordable Monthly Mortgage Amount
÷ <u>7.34</u>	.....	Mortgage Payment Factor for a 30 yr mortgage w/ 8% interest
79.02		
× <u>1,000</u>	.....	Conversion back to Thousands
\$79,019.07	.....	My Affordable Mortgage Amount
÷ <u>0.8</u>	.....	My 20% Down Payment
\$98,773.84	.....	Price Before Down Payment that I can Afford