



## How Big of a Mortgage Can I Afford?

Not only does owning a home give you a haven for yourself and your family, it also makes great financial sense because of the tax benefits — which you can't take advantage of when paying rent.

The following calculation assumes a 28 percent income tax bracket. If your bracket is higher, your savings will be, too. Based on your current rent, use this calculation to figure out how much mortgage you can afford.

**Rent:** \_\_\_\_\_

**Multiplier:** x 1.32

**Mortgage payment:** \_\_\_\_\_

Because of tax deductions, you can make a mortgage payment — including taxes and insurance — that is approximately one-third larger than your current rent payment and end up with the same amount of income.

## Loan Types to Consider

Brush up on these mortgage basics to help you determine the loan that will best suit your needs.

**Mortgage terms.** Mortgages are generally available at 15-, 20-, or 30-year terms. In general, the longer the term, the lower the monthly payment. However, you pay more interest overall if you borrow for a longer term.

**Fixed or adjustable interest rates.** A fixed rate allows you to lock in a low rate if you hold the mortgage and, in general, is usually a good choice if interest rates are low. An adjustable-rate mortgage is designed so that your loan's interest rate will rise as market interest rates increase. ARMs usually offer a lower rate in the first years of the mortgage. ARMs also usually have a limit as to how much the interest rate can be increased and how frequently they can be raised. These types of mortgages are a good choice when fixed interest rates are high or when you expect your income to grow significantly in the coming years.

**Balloon mortgages.** These mortgages offer very low interest rates for a short period of time — often three to seven years. Payments usually cover only the interest, so the principal owed is not reduced. However, this type of loan may be a good choice if you think you will sell your home in a few years.

**Government-backed loans.** These loans are sponsored by agencies such as the Federal Housing Administration ([www.fha.gov](http://www.fha.gov)) or the Department of Veterans Affairs ([www.va.gov](http://www.va.gov)) and offer special terms, including lower down payments or reduced interest rates to qualified buyers.

Slight variations in interest rates, loan amounts, and terms can significantly affect your monthly payment. For help in determining how much your monthly payment will be for various loan amounts, use Fannie Mae's online mortgage calculators.