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Try Your Payment on for Size

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Before you shop for a new house, you might want to test out how it feels to live there. You can't actually move in, but you can sample what it would be like to pay a new mortgage. Deciding how much to spend on a new house has such a ripple effect on other aspects of your financial life, like whether you can contribute to a retirement plan, that experts advise carefully assessing the expenditure ahead of time.

Increasingly, it's up to home buyers to limit how much they spend. That's because mortgage lenders have grown much more liberal about how big a loan they'll provide. Borrowers can qualify for a mortgage with payments that gobble up nearly half of their pre-tax income, lenders say, especially when they have good credit. Before they start shopping for a house, buyers typically see a lender to be pre-approved for a certain mortgage amount, says Mike Ferrell, senior loan officer at Banc Group Mortgage Corp., Wheaton. Buyers sometimes ask for a pre-approval letter stating an amount that's less than they can actually obtain, so that they limit their shopping to homes in a certain price range. Experts have outlined some key considerations for determining your price point.

Leave breathing room – After paying new a mortgage payment -- including monthly charges for property tax and homeowner insurance -- a general guideline is that about 10 percent of your take-home pay should be left for discretionary spending, or available to stash in an emergency savings reserve, advises Cindy Menker, a financial planner with Contour Financial, Orland Park. That 10 percent wiggle room is after you've funded your retirement and other necessary savings plans, Menker says.

If you already have three months' salary in an emergency fund, you might do with less than 10 percent leeway, says Jim Blakenship, a financial planner in New Berlin, Ill. Still, different personal situations can dictate other spending parameters, planners agree. "If you think you might be in danger of a job layoff, you'll want more [breathing room]," observes Armond Dinverno, a financial planner with Balasa Dinverno & Foltz, Itasca.

Try a test run – Drawing up a budget that incorporates a new mortgage payment is a good idea, but first-time buyers and anyone who has had trouble saving should take it a step further and pay a new mortgage bill before actually taking it on, suggests Dru Bergman, interim executive director of the DuPage Homeownership Center in Wheaton. If someone is paying \$800 in rent and wants to take on a \$1,200 mortgage, for instance, then bank an extra \$400 for a couple of months, Bergman suggests.

Stretching exercises – Young buyers may hear friends and family repeat this old real estate maxim: Buy the best house possible now. It will appreciate in value faster, and you'll be less likely to incur the expenses of moving again. Buying a home is not only a financial decision but also a lifestyle one, says Dinverno. Young buyers certain that their income is on an upward track may make the lifestyle choice to cut back on extras to buy a better house, although it's typically stressful to skimp for long periods, Dinverno says. He also warns against curtailing 401k or retirement plan contributions to afford a house. At a minimum, contribute to a 401k in the amount that your employer will match.

An ARM, for the right reason – A wide variety of adjustable rate mortgages (ARMs) come with low starting interest rates, making the mortgage more affordable. Choose an ARM if you know you're going to move in a certain time frame, experts say. For instance, there's a "5-1" ARM that has a steady rate for five years, and then adjusts annually. But taking an ARM because you can't afford payments on a fixed-rate loan is a mistake you'll be forced to reckon with, Dinverno says.