



WHAT LOAN AMOUNT CAN I BORROW & WHAT HOME PRICE CAN I AFFORD

A lender will examine your income, employment history, debt, credit, and lending ratios to figure out your ability to repay a loan. The Housing Fund will consider your capacity to determine your eligibility for the Shared Equity investment, too. This worksheet will explain how lenders typically measure your "buyer capacity". You will be able to see roughly what amount you are able to borrow from a bank and what home price you are able to afford if you purchase through Shared Equity.

1. Your Gross Monthly Income

Your gross income is your income before taxes and deductions. Assistance payments such as Section 8, Social Security, and VA benefits count as income. For amounts to count toward your gross monthly income, it must be a regular, consistent, and likely-to-continue source of money.

If you are paid:	Calculate your gross monthly income by:	Example for a monthly income of \$2,250 (Annual income = \$27,000)
Weekly	total pay x 52 paychecks ÷ 12 months	$\$519.23 \times 52 \div 12 = \$2,250$
Bi-Weekly	total pay x 26 paychecks ÷ 12 months	$\$1,038.46 \times 26 \div 12 = \$2,250$
Semi-Monthly	total pay x 24 paychecks ÷ 12 months	$\$1,125.00 \times 24 \div 12 = \$2,250$
Monthly	total pay	\$2,250
I am paid:	My calculation is:	My gross monthly income =



4. Your Non-Housing Monthly Debt

The current debt you have and the payments you make each month on this debt could affect your ability to make your first mortgage payment. This is why lenders look at how much debt you have before they are willing to lend you more money. A good estimate of your current debt can be calculated from your current monthly payments. Fill in the following table and make sure to include any payments for: credit cards, car loans, school loans, personal loans, child support, medical payment plans, collections, and any other debt obligations.

Loan Type	Monthly Payment	Loan Type	Monthly Payment

Add together monthly payments
for NON-HOUSING MONTHLY DEBT: _____

5. Your Debt-to-Income Ratio (excludes housing)

Lenders would like to see that your debt-to-income ratio (excluding housing) is no more than 12% (below 8% is even better) before they are willing to lend you a mortgage loan. If your ratio is larger, lenders will likely give you a smaller mortgage loan, charge a higher interest rate, or require that you pay off some of your debt before they are willing to make you a loan.

$$\text{Non-housing Monthly Debt} \div \text{Gross Monthly Income} = \text{Debt-to-Income Ratio}$$

The Smith's Non-housing Monthly Debt is \$350. Their gross monthly income is \$3,000. Multiply answer by 100 to make into a percentage.

$$\$350 \div \$3,000 = .116 \times 100 = 11.6\% \text{ Debt-to-Income Ratio}$$

$$\underline{\hspace{2cm}} \div \underline{\hspace{2cm}} = \underline{\hspace{2cm}} \times 100 = \underline{\hspace{2cm}} \% \text{ DTI}$$

6. Your TOTAL Debt-to-Income Ratio or "Back End Ratio" (includes housing)

Your "Housing Ratio" only looks at the housing cost you can afford based on your income. Your "Debt-to-Income" ratio only looks at your non-housing debt based on your income. But your Total Debt-to-Income ratio combines them to consider what housing costs you can afford based on your income *and* your existing debt. The maximum that Shared Equity will allow to your Total Debt-to-Income ratio to be is 45%, but homeowners are much more likely to succeed when it is no higher than 40%. Lenders may approve you for higher ratios but this puts homeowners in risky financial positions.

$$\text{Non-housing Monthly Debt} + \text{Maximum Monthly PITI} = \text{Total Monthly Debt}$$

$$\underline{\hspace{2cm}} + \underline{\hspace{2cm}} = \underline{\hspace{2cm}}$$

$$\text{Total Monthly Debt} \div \text{Gross Monthly Income} = \text{TOTAL Debt-to-Income Ratio}$$

$$\underline{\hspace{2cm}} \div \underline{\hspace{2cm}} = \underline{\hspace{2cm}}$$



The Smiths have a credit card with a monthly minimum payment of \$30, a car payment for \$120/month, and an education loan payment of \$200/month

$$\$30 + \$120 + \$200 = \$350 \text{ Non-Housing Monthly Debt}$$

The Smith's Non-Housing Monthly Debt is \$350. Their Maximum Monthly PITI is \$1,050.

$$\$350 + \$1,050 = \$1,400 \text{ [Total Monthly Debt]}$$

$$\$1,400 \div \$3,000 = .466 \times 100 = 46.6\% \text{ TOTAL DTI}$$

The Smith's ratio is too high. I will decrease their Maximum Monthly PITI by \$100 from \$1,050 to \$950 and recalculate their Total Debt-to-Income Ratio.

$$\$350 + \$950 = \$1,300 \text{ [Total Monthly Debt]}$$

$$\$1,300 \div \$3,000 = .433 \times 100 = 43.3\% \text{ TOTAL DTI}$$

If your TOTAL Debt-to-Income Ratio is higher than 45%, then decrease the amount you entered in the "Maximum Monthly PITI" by \$50-100. Do this until your Total DTI Ratio falls between 40-45%. Write down the PITI that worked below:

My "Monthly Affordable PITI" is: \$ _____



7. Your Maximum Affordable Loan Amount & Home Price

Based on the PITI amount that you can afford monthly, the table will tell you the mortgage loan amount and the cost of a Shared Equity home you could afford. This table is only an estimate. Find the PITI total that is closest to yours- but not over- your "Monthly Affordable PITI"

Monthly PITI amount I would need to afford:	\$667	\$704	\$740	\$778	\$808	\$889	\$962
Principal & Interest	\$473	\$503	\$532	\$562	\$592	\$651	\$711
Taxes	\$95	\$99	\$103	\$108	\$112	\$121	\$129
Insurance	\$64	\$67	\$70	\$73	\$76	\$82	\$87
Program Fee	\$50	\$50	\$50	\$50	\$50	\$50	\$50
My Down Payment	\$1,100	\$1,150	\$1,200	\$1,250	\$1,300	\$1,400	\$1,500
Total Mortgage I would need:	\$78,900	\$83,850	\$88,800	\$93,750	\$98,700	\$108,600	\$118,500
Shared Equity Investment	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
Cost of Home	\$110,000	\$115,000	\$120,000	\$125,000	\$130,000	\$140,000	\$150,000

The table assumes a 30-year, 6% fixed-rate loan and a 1% down payment to estimate the mortgage and PITIO amounts

The Smiths' Monthly Affordable PITI was \$950. Based on the table, they are able to afford a home between \$140,000-\$150,000 through Shared Equity. They would only be able to afford a home around \$105,000-110,000 without Shared Equity

What maximum home purchase price can you afford with Shared Equity?

\$ _____

What mortgage loan amount will you likely qualify for?

\$ _____

Take Home Points

This exercise is supposed to help you get a general idea of your buying capacity

How Can I SAFELY Increase my Buying Capacity?

- Decrease your debt
- Increase your down payment
- Improve your credit score
- Increase your income
- Buy through Shared Equity

Shared Equity increases your buying power. If you buy without Shared Equity, you can only afford to purchase a home that costs much less. Plus, you will need a larger down payment. It is important to remember that....

- Just because you CAN get a mortgage loan for a certain amount, doesn't mean you SHOULD
- Just because you CAN purchase a home for a certain amount, doesn't mean you SHOULD

It is often wise to take out a smaller mortgage loan and purchase a less expensive house. Be honest with yourself about what you can REALLY afford and account for all the costs of homeownership that you aren't used to having as a renter.



What's the difference between buying with & without Shared Equity?

Let's answer this question with an example. Remember the Smith family? We calculated the loan amount they could safely borrow and the home price they could afford. Well, let's look at the Smiths' outcomes if they bought homes with and without Shared Equity.

Household Size	4
Gross Annual Income	\$36,000
Gross Monthly Income	\$3,000
Monthly Affordable PITI for Household	\$950
Monthly Debt	\$350

Because the Smiths have a slightly high debt-to-income ratio of 12% ($\$350/\$3,000$), the amount they can afford on their PITI payment, or housing costs, is less. While the traditional Housing Ratio is typically 35% for families with little debt, for the Smiths, they can only afford a Housing Ratio of 32%. So what are the Smiths' options for buying a home?

SCENARIOS	1. If the Smiths bought a home WITHOUT Shared Equity...	2. If the Smiths bought a home WITH Shared Equity...	3. If the Smiths bought the same cost home WITHOUT Shared Equity...
Shared Equity Investment	\$0	\$30,000	\$0
Purchase Price	\$118,000	\$148,000	\$148,000
Homeowner's Contribution (down payment & mortgage loan)	\$118,000	\$118,000	\$148,000
Mortgage Payment	\$700	\$699	\$879
Interest Rate	6%	6%	6%
Property Taxes	\$102	\$127	\$127
Homeowner's Insurance	\$68	\$86	\$86
Mortgage Insurance (PMI)	\$80	\$0	\$80
Homeowner's Association	\$0	\$0	\$0
Shared Equity Program Fee	\$0	\$50	\$0
PITI Subtotals	\$950	\$947	\$1,172
Back-end Ratio	43%	43%	51%
Would it be affordable?	Yes	Yes	No
Is it a low-risk investment?	No	Yes	No
Conclusions	... they would have to purchase a home of less value to afford payments	... they would increase their purchasing power & still be able to afford payments	... they wouldn't qualify for the mortgage loan safely or be able to afford payments



Why Should I Consider Sharing Appreciation & Buying with Shared Equity?

Let's think about the pros and cons of each home buying scenario for the Smiths

Scenario 1. Buying a cheaper home WITHOUT Shared Equity

Con: Cheaper homes are often smaller, in worse condition, and have old equipment. This means that the Smiths will likely have more costs on repairs and equipment purchases (HVAC units, water heaters, etc.)

Con: Cheaper homes are often located further away from town, which means the Smiths may have higher transportation costs

Con: Cheaper homes are often located in neighborhoods with more problems and less amenities, such as higher crime, upkeep, or good school districts. The homes in these neighborhoods sometimes appreciate more slowly. The Smiths could make less money from appreciation.

Con: Because of these disadvantages, the home may be harder to sell, so the Smiths could find themselves in a bind if they need to sell in a certain time frame.

Pro: The home will be affordable to the Smiths

Pro: The Smiths get to keep all of the appreciate that is made on the house.

Scenario 2. Buying a more expensive home WITH Shared Equity

Con: The Smiths do not get all the appreciation at resale because Shared Equity invested in the home, too.

Con: The Smiths will have to follow the agreement they signed with Shared Equity

Pro: Shared Equity staff will offer support and extra services to the Smiths. They will prevent dangerous or bad loans for purchase or refinancing, they will provide advice and referrals for home-related decisions, and homeowners will have access to Home Improvement Loans through The Housing Fund.

Pro: Shared Equity homes are high-quality and in good condition. If the Smiths use Buyer Initiated Shared Equity, then they could receive help financing needed rehabilitation.

Pro: When the Smiths are ready to sell, Shared Equity will either buy the home at its appraised value, or help the Smiths find a buyer. This may protect them from losing money while selling under pressure and could save they realtor fees.

Scenario 3. Buying a more expensive home WITHOUT Shared Equity

Con: It is unlikely that the Smiths will qualify for a mortgage loan to purchase a home of this value. If they do, they will need a large down payment and private mortgage insurance (a monthly bill).

Con: If they do get a mortgage loan, the loan may have some bad aspects to it, like adjustable rates, high interest loans, large penalties for refinancing, etc. This will lessen the equity they make from owning.

Con: If they get a loan, the Smiths will be cost-burdened by their mortgage. They will be very vulnerable to defaulting and foreclosing. Plus, they may have trouble affording maintenance.

Pro: A home of this Value will likely be located in a better neighborhood.

Pro: Assuming that they can keep up with the mortgage, the Smiths get to keep all of the appreciation.

If I Buy Using Shared Equity, How Will Splitting the Appreciation Work?

Let's see what would happen for the Smiths if they bought a home through Shared Equity

Purchase

Original Value of Home:	\$140,000
Shared Equity Investment:	-\$30,000
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Homeowner's Contribution:	\$110,000

[down payment	\$1,400]	
	mortgage loan (6%, fixed-rate)	\$108,600		

Resale

7 years pass. The Smiths paid their mortgage in full, on time, each month.
Market appreciated at 2%/year.

The Smiths keep all the value for improvements because they paid for or put in the work

New Value of Home:	\$161,000
Original Value of Home:	-\$140,000
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Total Appreciation:	\$21,000
Value Added by Permitted Capital Improvements:	-\$1,000
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Appreciation to be Shared:	\$20,000
The Smiths' Percentage of Appreciation:	x 50%
The Smith's Appreciation Share:	\$10,000

If the Smiths sold before 3 years, their percentage would be 25%. If they sold after 30 years, their percentage would be 100%

Equity Gained by the Smiths

The Smiths Appreciation Share:	\$10,000
Value Added by Permitted Capital Improvements:	+ \$1,000
Down Payment:	+ \$1,400
Principal Paid off First Mortgage:	+ \$11,250
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Total Equity Gained from owning Shared Equity:	\$23,650



If I Buy in the Market, Would My Financial Returns be Much Better?

Let's compare the financial outcomes for the Smiths if they bought a home under Scenario 1 & 2.

Scenario 1 Buying in the Market

Purchase

Homes Original Value:	\$110,000
Shared Equity Investment:	\$0
Required Down Payment:	\$5,000
Mortgage Amount:	\$105,000
Interest Rate:	7.00%

Scenario 2 Buying through Shared Equity

Homes Original Value:	\$140,000
Shared Equity Investment:	\$30,000
Required Down Payment:	\$1,400
Mortgage Amount:	\$108,600
Interest Rate:	6.00%

The home's value is less in Scenario 1 because the Smiths do not have a Shared Equity investment. They can only buy a house for the amount they qualify for with a mortgage lender.

In Scenario 1, the lender will require 3-7% down, but in Scenario 2, the lender counts the Shared Equity investment as money down, so the Smiths only need 1%. Because the Smiths have less down in Scenario 1, their loan is considered high-risk so their lender charges a higher interest rate than in Scenario 2.

Resale

In both Scenarios, 7 years have passed and the Smiths paid their mortgage in full, on time, each month

Appreciation Rate:	1.5%	2.0%
Home's New Value:	\$122,000	\$126,000
Capital Improvements Value:	\$1,000	\$1,000
Total Appreciation:	\$12,000	\$16,000
Share of Appreciation:	100%	100%
Principal Paid off Mortgage:	\$9,300	\$9,300

Appreciation Rate:	2.0%
Home's New Value:	\$161,000
Capital Improvements Value:	\$1,000
Total Appreciation:	\$21,000
Share of Appreciation:	50%
Principal Paid off Mortgage:	\$11,250

In Scenario 1, the home is probably located in a neighborhood that will appreciate more slowly than in Scenario 1. Even if the appreciation rate is the same, the home in Scenario 2 will yield more money from appreciation because it is worth more, but the Smiths only get 50% of the appreciation. They have paid off more principal in Scenario 2 because they got a better interest rate.

Equity Gained by the Smiths

In both Scenarios, the Smiths would also get back their down payment

Scenario 1

Buying in the Market

Appreciation Amount:	\$12,000	\$16,000
Principal Paid:	\$9,300	\$9,300

Scenario 2

Buying through Shared Equity

Capital Investments Value:	\$1,000
Appreciation Amount:	\$10,000
Principal Paid:	\$11,250

Equity Gained	\$21,300	\$25,300	\$22,250
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Differences in the homes' original values, interest, and appreciate rates really affect the equity made by the Smiths. Sharing 50% of the appreciation seems like a lost opportunity at first glance, but these illustrations show how that is not often the case for homebuyers who can't afford more than a low cost home.

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