How much house to buy?

(Continued from Pg. 9)

mate your monthly payment for a particular home? Again, a rule of thumb. Your monthly payment for principal and interest will be about $8 for every $1,000 borrowed. For example, the monthly payment for a nine per cent, 30-year, $48,000 loan would be about 48 x $8, or $384. (Actual amount is $386.22). Add this to an estimate of monthly taxes.

• How can you estimate what the taxes will be on a new home? Property taxes are equal to the millage rate times assessed valuation. Rates vary from area to area, but average about $55 to $60 per $1,000 assesed valuattion for Detroit area suburbs. Assessed valuation, while theoretically 50 per cent of the value of the property, generally averages about 45 per cent of the sale price of a new home.

Thus, a new $60,000 house in Troy will have an assessed value of about $27,000, since Troy's tax rate is about $58 per $1,000 valuation, the taxes will be about $58 x 27, or $1,566 per year. This breaks down to a monthly figure of $130.50. If you know where you plan to buy, call the assessor's office and ask them for their estimate.

• Should you stretch to buy the biggest home you can afford? Or, should you stay conservative? You should probably stay conservative if your future income is fixed, unknown, or subject to large fluctuations, such as persons existing on straight commissions. But, if you have a reasonable expectation that your real income will remain steady or increase in the future, you are probably better off stretching right up to your limit.

The monthly payment that looks so large to you now, will not increase nearly as fast as inflation, and money used as a down payment on a thoughtfully purchased home in a good location, will show a far better net return on investment than in a time savings account.

Remember, you don't make many house purchases in a lifetime; if you buy less of a home than you are qualified to buy now, you may be sorry later.

Age gap eliminated

(Continued from Pg. 4)

in earlier years. Payments would increase gradually yearly for five or 10 years, depending on what variation of the plan is selected, then level off for the remainder of the life of the loan.

Assuming a 30-year, $35,000 loan at 8.5 per cent interest, the monthly payment for the first year would be $223. This would be under a variation of the plan calling for a three per cent annual increase in payments for 10 years. The first-year monthly payment would be $46 less than the payment made on a loan requiring the same monthly payment for the duration of the loan.

The monthly payment would increase three per cent to $230 the second and three per cent each succeeding year through the 10th year. In the 11th year, the monthly payment would level off at $300.