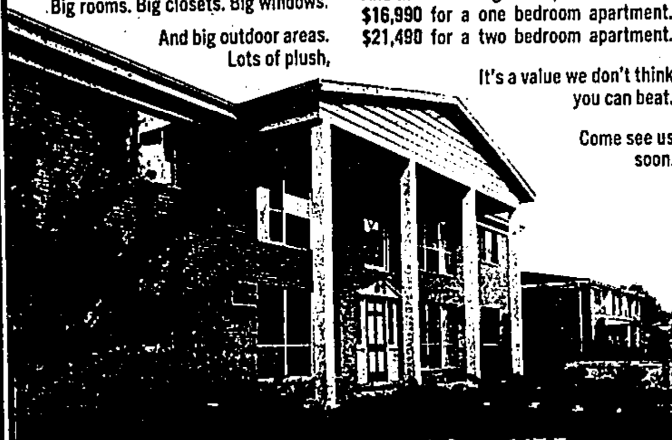

What Can You Afford?

In choosing a new home, the first thing a couple needs to consider is how much they can afford to spend. Since life styles differ, there is no flat rule to follow. However, most experts seem to agree that a couple with no unusual debts can usually afford a house that costs approximately two and one-half times their annual income. This provides a starting point, but when you get down to the nitty gritty, it's what the monthly payments will be that determines whether or not a couple can afford a particular house. Different lending institutions have differing formulas for figuring how much of a mortgage a couple can afford. The most conservative bank stated that a mortgage payment should not exceed one week's take home pay (after taxes). Another bank said it shouldn't exceed one week's gross pay (before taxes), assuming a good credit record and no large outstanding debts with the exception of maybe a car payment. A savings and loan company uses the following formula: Take total income. (Little or no consideration is given to overtime, since this can vary and even be cut suddenly to nothing at any time over the duration of a mortgage). Deduct income taxes and social security. Deduct debts of over a one-year duration. This gives net effective income. Housing expense shouldn't exceed 35% of net effective income.

A wife's income will be taken into consideration under certain circumstances. It depends on her age and the type of work she does. The lending institution tries to determine whether or not she will continue working for the duration of the mortgage. If a woman is a professional and has returned to the job market after having had all the children she intends to have, most lending institutions will count all her salary in making the determination on how large a mortgage a couple can handle. If a woman is a secretary or typist or some other type of office worker, and has all the children she will probably have, probably one-half of her income will be counted. Length of time on the job and salary level count here, too, in helping the lending institution determine whether or not she is likely to continue working. The earnings of a 19 or 20 year old new bride could not reasonably be figured into a 30-year mortgage. The lending institution would probably take them into consideration, however, in reducing the couple's debts. They would consider her a short-term worker and base the mortgage on her husband's income without deducting for the short-term debts her income would probably cover.

Don Wolfe, a Livonia real estate consultant, says that as a rough estimate, you can figure your monthly payment will be $10 per month for every $1,000 financed, including principal, interest, taxes, and insurance -- everything. For example, a $40,000 house with $10,000 down would leave you with a mortgage of $30,000 and a payment of $300 per month.

For a more exact figure consult the following table to determine how much a mortgage would cost you in monthly payments (not including taxes and insurance) at various rates of interest and durations. The figures are stated in dollars per month, to the nearest 10th of a cent, for each $1,000 of the mortgage.

Rate of Interest	25 years	30 years
5%	$5.846	$5.369
6%	$6.444	$5.996
7%	$7.068	$6.654
7 ½%	$7.390	$6.993
8%	$7.719	$7.338
8 ½%	$8.053	$7.690

For example, if your mortgage would be for $20,000 for 30 years at 7%, you would pay $6.654 times 20, or $133.08 per month.

Current mortgage rates range from 7% to 8 ½%, and there are several types of mortgage loans. Conventional mortgage loans, FHA mortgage loans, and VA-guaranteed mortgage loans are all made by private lending institutions, but the FHA and VA-guaranteed loans are insured against loss by federal government agencies, while conventional loans are made at the lender's own risk or insured by a private mortgage insurance firm.

Eight private companies now write insurance protecting lenders against default by a borrower, an activity once virtually monopolized by the FHA, and these private firms are taking over a huge amount of the market that formerly went to FHA. The savings and loan associations are very happy about it, since the service for loan processing can now be measured in days instead of months. The private firms have cut much of the red tape which ensnarls FHA-backed mortgages. Also, the private insurers now require a lower down payment than the FHA asks, and their insurance fees are markedly lower.

The Federal Home Loan Bank Board, which regulates federally chartered savings and loan compa-

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