Buying a House Financials

Introduction

This is an exploration of Don buying a house the year after he turns 30. It is based on his long-range plan and makes the same assumptions, i.e.

Personal – He starts living with his future wife at 28 & they get married when he is 30.
Financial – He makes $40,000/year in his 1st job and by age 30 he makes $100,000/year.
His wife, who is 3 years younger than him, is making $40,000/year when he turns 30.

House Affordability

The bank would probably not take into account his wife's income because they are concerned she will quit working when they have kids. Thus he only used his $100,000/year salary for this analysis. Using the "House Affordability Calculator" (http://www.calculator.net/house-affordability-calculator.html) and the following parameters: (Annual Income: $100,000; Loan Term: 30 years; Interest Rate: 6%; Down Payment: 20%) the model provides two possible scenarios:

Acceptable – Debt to Income of 36%

Mortgage:	$396,000
House Price:	$496,000
Down Payment:	$100,000
Monthly Payment:	$ 2,400
Property Tax	$ 7,450

Safe – Debt to Income of 28%

Mortgage:	$310,000
House Price:	$385,000
Down Payment:	$ 75,000
Monthly Payment:	$ 1,850
Property Tax	$ 5,800

Down Payment

It is clear he will have to save a lot of money for a down payment if he is going to buy a house after he turns 30. He has assumed a $375,000 house, which means a down payment of $75,000 (20%). The down payment is driving the price of the house he can buy.

To save that much down payment he will need to save 10% of his income every year and his wife will also need to save 10% of her income in the 2-year period they are living together.