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The Quick Formula to Determine Your House Payment

credit.com By Scott Sheldon | Credit.com – Mon, Feb 25, 2013 6:00 AM EST

As you shop for a house and consider taking out a mortgage, determining your house payment can no doubt be a time-consuming process — running calculations, getting updated payment scenarios from your mortgage company, and determining whether or not you can qualify. What you might not realize is that there's an easier way to calculate a house payment using simple math. Being able to quickly assess the house payment is crucial for key decision-making.

First, though, here are some terms you need to understand in order to do the calculations:

House Payment or PITI

Principal — The principal balance being paid down over time as the result of an amortizing mortgage such as a 30-year fixed rate.

Interest — The amount of the payment that goes toward interest on a monthly basis during the loan repayment.

Taxes — The monthly property taxes built into the house payment, often termed an *impound* or *escrow* account.

Insurance — The amount of the mortgage payment going toward hazard/fire insurance collected by the lender each month.

DTI — Debt to Income Ratio

The percentage of your total monthly debt against your monthly income, expressed as a percentage for qualifying. (PITI + monthly liabilities) ÷ monthly income.

The Basic House Payment Calculation Most Lenders Won't Share

For every $100,000 borrowed, expect a monthly mortgage payment of $725 per month. This $725 per month represents a full house payment comprised of principal, interest, property taxes and fire insurance.

- Borrowing $100,000? PITI will be approximately $725 per month
- Borrowing $200,000? PITI will be approximately $1,450 per month
- Borrowing $300,000? PITI will be approximately $2,175 per month
- Borrowing $400,000? PITI will be approximately $2,900 per month
- Borrowing $500,000? PITI will be approximately $3,625 per month

Most lenders will want the payment you are taking on to be no more than *45% of your total monthly liabilities including a proposed house payment*. (*This does vary from program to program, but the general consensus is a 45% debt to income ratio.)

As an example, let's say you want buy a home for $350,000. You want to know whether or not the payment is affordable and whether or not you'll meet your lender's debt ratio thresholds.

As we know, a house for $350,000 using half of the $725 per month in PITI generates a monthly payment of approximately $2,537.50 per month. Assuming no other monthly debts, using a 45% debt to income ratio, you'll need $5,638 per month in income to offset the house payment in order to qualify.

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How Monthly Liabilities Apply

Using the above example, let's say you're trying to weigh how much house payment you can afford with other monthly obligations: A car lease payment for $300 per month and $80 per month in credit card payments. Assuming our example income of $5,638 per month, in order to purchase that same house for $350,000, the monthly income would have to be $6482 per month adjusting for total monthly liabilities (determined house payment + other debts) ÷ monthly income. The other choice is to reduce the purchase price to $300,000, with effectively $380 per month in other debts, which influences borrowing power by $50,000.

*Mortgage Tip: take 45% of your monthly income less monthly liabilities. This is the maximum house payment you can qualify for, then simply equate what the monthly payment is relative to how much you can borrow based upon using $725 per month for every $100,000.

Other Factors

- Monthly mortgage insurance affects your house payment. With a less than 20% down payment, the borrower will typically have to pay monthly mortgage insurance to offset the risk of defaulting on the mortgage.
- Down payment/equity if any, will positively influence your borrowing power.
- Meeting the lender's minimum credit score required for financing, as most lenders require at least a credit score of 620. If you don't meet the minimum, you may have to get to work on building your credit score, and wait until you meet or exceed the minimum requirements before you apply for a home loan.
- Assets/reserves — Generally, you'll need at least two months of PITI saved in the bank to meet the reserve requirement.

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