

How much you should spend on your next home (example)

Read the full article at www.money-guide.com.au/2011/05/borrowing-calculator/ by Matt Hern (also at www.MattHern.com.au)

This process is how you calculate the MAXIMUM amount you should borrow to buy your next home.

This example is for salary and loan paid monthly

Calculating your maximum affordable repayment

Your net after-tax income	\$10,000 per month
Less:	
Regular saving for your financial independence goal	\$650
Regular saving for pre-retirement essentials	\$1,100
Repayment commitments on other existing debts	\$1,200
Irregular expenses	\$1,500
Regular essential and comforts	\$1,500
Impulses and indulgences	\$200

= Maximum affordable NEW loan repayment amount \$3,850 per month

(Note the above figures need to come from your actual budget of your lifestyle.)

Calculating your maximum affordable loan amount

Loan interest rate p.a.	7.10% p.a.
Loan term	30 years
Repayment frequency	Monthly

Therefore maximum affordable loan is: \$572,889 (PV formula)

Calculating your maximum purchase price

Your available deposit amount	\$50,000
% allowance for transactions costs (e.g. stamp duty)	3%

Therefore maximum affordable house purchase price \$604,747

Comment

If the type of home you really want to buy costs more than the above estimate you then need to make an informed trade off. Are you willing to cut other elements of your current lifestyle? Or are you willing to cut your expectations of future lifestyle like holidays, car upgrades and retirement?