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What percentage of your income should go to a mortgage?

Story by Jennifer Bradley Franklin

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Key takeaways

- The traditional rule of thumb is that no more than 28 percent of your monthly gross income or 25 percent of your net income should go to your mortgage payment.
- The current mix of elevated interest rates, appreciating home prices and low housing inventory means that new homebuyers may have to devote substantially more to their monthly payments, however — as much as one-third of their income.
- To get a mortgage, borrowers also need to consider their regular, ongoing debts: Most lenders allow a debt-to-income ratio of up to 43 percent, but prefer 36 percent — meaning your monthly obligations should be around one-third of your gross income.

When you buy a home, it's important to know how much of your income you can reasonably dedicate to your monthly mortgage payment. Figuring this out can mean the difference between living comfortably while maintaining other financial priorities and being "house poor" — struggling to make ends meet month after month.

So, what percent of income should go to mortgage payments? There are a few different rules you can apply here, so let's dig in.

What percent of your income should go to your mortgage?

Every borrower's situation is different, but there are a few schools of thought on what percent of income should go to mortgage payments — plus some guidelines of how much of your take-home pay for a mortgage is appropriate.

28% rule

When you're calculating the percentage of income for mortgage payments, you might want to apply the 28 percent rule. It's the threshold many lenders adhere to, says Corey Winograd, loan officer and managing director of East Coast Capital, which has offices in 14 states.

"Most lenders follow the guideline that a borrower's housing payment (including principal, interest, taxes and insurance) should not be higher than 28 percent of their pre-tax monthly gross income," says Winograd. "Historically, borrowers who are within the 28 percent threshold generally have been able to comfortably make their monthly housing payments."

This 28 percent cap centers on what's known as the front-end ratio, or the borrower's total housing costs compared to their income.

Calculating exactly how much of a mortgage payment you would be able to afford under the 28 percent cap requires multiplying your gross monthly income by 28 percent. If, for instance, you earn $5,000 per month, you would multiply $5,000 by 0.28, which amounts to $1,400. That means that your monthly mortgage payment should be limited to $1,400.

$5,000 x 0.28 (28%) = $1,400 (maximum monthly mortgage payment)

36% rule

The 36 percent model is another way to determine how much of your gross income should go towards your mortgage, and can be used in conjunction with the 28 percent rule. This is less about the mortgage-percent of income breakdown and more about your income and your overall debt.

With this method, no more than 36 percent of your gross monthly income should be allocated to all of your debt, including your mortgage and other obligations like a student or car loan and credit card payments. This percentage uses the back-end ratio or your debt-to-income (DTI) ratio.

"Most responsible lenders follow a 36 percent back-end DTI ratio model, unless there are compensating factors," says Winograd.

Based on the 28 percent and 36 percent models, you can calculate how much of your monthly income should go to mortgage payments. Here's a budgeting example, assuming the borrower has a monthly income of $5,000.

- $5,000 x 0.28 (28%) = $1,400 (maximum monthly mortgage payment)

- $5,000 x 0.36 (36%) = $1,800 (maximum monthly debt obligation including mortgage payment)

Going by the 28 percent rule, the borrower should be able to reasonably afford a $1,400 mortgage payment. However, factoring in the 36 percent rule, the borrower would also only have room to devote $400 to their remaining debt obligations. Applied to your own financial situation, this may or may not be feasible for you.

43% DTI ratio

While mortgage lenders prefer your back-end DTI ratio not to exceed 36 percent, in many cases, lenders can accept a maximum of 43 percent — this is still within the range of what's known as a "qualifying mortgage" (the sort that Fannie Mae and Freddie Mac will back and purchase from a lender).

For conventional loans, the maximum can range from 43 to 45 percent (and sometimes higher), assuming you can meet other eligibility criteria around your credit score, cash reserves and other financial factors. For FHA loans, it's generally 43 percent, but also can go higher.

Calculating how much of a mortgage payment you would be able to afford under the 43 percent cap is similar to the 36 percent cap calculation above. Simply multiply your gross monthly income by 43 percent. If, for instance, you earn $5,000 per month, you would multiply $5,000 by 0.43, which equals $2,150. That means your maximum monthly debt obligation with your mortgage payment should be limited to $2,150.

$5,000 x 0.43 (43%) = $2,150 (maximum monthly debt obligation including mortgage payment)

Overall, though, the lower your DTI ratio, the higher your chances of getting approved for a mortgage, since too much debt can heighten the risk of default. The Consumer Financial Protection Bureau reports that borrowers with higher DTI ratios are much more likely to have difficulty keeping up with monthly mortgage payments.

25% post-tax model

So much for gross income-based estimates. But how much of your net income — that is, your take-home pay — should go toward mortgage payments? Here, you can use the 25 percent post-tax model. This is another way to consider your debt load and what you can afford.

With this model, no more than 25 percent of your after-tax income goes toward your monthly mortgage payments. For example, if your monthly take-home pay (after taxes) is $4,000, that means up to $1,000 can be spent on your mortgage payment.

$4,000 x 0.25 (25%) = $1,000 (maximum monthly mortgage payment)

This net income model might be more viable to go by if something is notably affecting your take-home pay, like wage garnishment or aggressive retirement savings. It's also ideal if you want a real daily sense of your cash flow.

Mortgage payments, income and today's housing market

As we mentioned, these lending standards are traditional rules of thumb. But these are far from traditional times in the U.S. housing market.

While 30-year mortgage rates are starting to ease, prospective homebuyers are still dealing with high home prices and low housing inventory in many parts of the country, making affordability a continued challenge. The median mortgage payment nationwide was $2,219 as of May 2024, according to the Mortgage Bankers Association. As a result, that's eaten a lot into the percentage of household income needed to meet it.

35.5%

The percentage of a prospective homebuyer's median household income needed to purchase the average-priced home, as of August 2024.

Source: ICE Mortgage Technology

The second-quarter 2024 U.S. Home Affordability Report by AATOM, another real estate data analysis firm, found the portion of average local wages consumed by major expenses on median-priced, single-family homes was deemed unaffordable in about 80 percent of the 589 counties analyzed.

How do lenders determine my mortgage payment?

We've laid out some general rules, but lenders have their own ways of deciding what percentage of income for mortgage payments is appropriate. These are the major factors mortgage lenders weigh to determine how much mortgage a borrower can reasonably afford:

- **Gross income** – Your gross income is your total earnings before taxes and other deductions are factored in. Other sources of income, such as spousal support, a pension or rental income, are also included in gross income.
- **DTI ratio** – Your DTI ratio is your total monthly debt obligations divided by your total gross income.
- **Credit score** – Your credit score is a major factor lenders look at when evaluating how much you can afford. In general, the higher your credit score, the lower your interest rate, which impacts how much you can feasibly spend on a home.
- **Work history** – Lenders look for a stable source of income to ensure you can repay your mortgage. When you apply for a loan, you'll be asked to provide evidence of employment (such as a pay stub) from at least the past two years. If you work for yourself, you'll be asked to provide tax returns and other business records.

How to lower your monthly mortgage payments

If you're ready to buy a house but you think your mortgage-percent of income breakdown could get in the way, you have options. To work toward a lower monthly payment, you can:

- **Get a longer mortgage term –** Paying off your loan in 30 years rather than 15 breaks down the monthly payments into smaller sums.
- **Work on your credit score –** A better credit score means scoring a lower interest rate. And even a little downward movement in rates can go a long way toward lowering your monthly payments. You can use Bankrate's mortgage calculator to see for yourself.

- **Save up for a bigger down payment –** The more money you put down, the less you'll need to borrow for your mortgage. Plus, saving up for a down payment of at least 20 percent gets rid of the need for private mortgage insurance, which lenders consider as part of that monthly mortgage sum.

Other considerations for what you can afford

Costs of homeownership

Figuring out how much of your monthly income should go to a mortgage is a big piece of the affordability puzzle, but don't stop there. As any homeowner can attest, the expenses of owning and maintaining a home can add up well beyond the monthly cost of a mortgage. "HOA fees, utility payments and other expenses must be factored into the affordability calculation," says Winograd.

Other homeownership costs can include:

- Home maintenance, including a fund for emergencies or future replacement of things that wear out over time such as appliances, the roof and HVAC system
- Pest prevention
- Security systems

Mortgage type

The kind of mortgage you choose can also have a significant impact on how much home you can afford. To find a loan that's right for you, it's important to explore all your options, including conventional, FHA and VA loans. It's also smart to find a mortgage lender that understands your financial situation, needs and goals.

"An effective loan officer will spend the time to learn about a client's current and future financial picture to determine a suitable loan product, loan amount and loan terms," says Winograd.

Ultimately, the percentage of your income for mortgage payments is just one portion of finding the right home loan for you.

Bottom line

You can work with your lender to do the affordability calculations based on your income and the cost of the home you have in mind, and from there, evaluate whether you can reasonably afford it. Remember that when it comes to estimating what you can afford, there are guidelines you can follow, but ultimately it'll be based on your circumstances.

"There is no hard and fast rule because every borrower has a different story, a unique credit profile and varying debt obligations, all of which must inform the decision regarding the percentage of gross monthly income available for a housing payment," says Winograd.