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How much should I borrow for my mortgage?

Before deciding on an amount, consider the following

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Image Credit: Virendra Saklani/Gulf News

The first logical step of buying a house would be to determine your budget. Financial institutions would be happy to lend if the applicant meets the eligibility criteria with a good debt-burden ratio (DBR) and a credit score. Usually, they offer 70-80 per cent of the property value as a loan amount, but at the end of the day, it would be the borrower who decides whether to opt for the maximum finance provided by the bank. It's not advisable for a borrower to pick a number blindly for the financed amount, as home mortgage is a long-term financial commitment. Before deciding how much to borrow, go through this list:

Monthly income

Financial institutions check the DBR in addition to the credit score to avoid risks. A low DBR emphasises a person's capability to pay back the loan. Calculating your DBR yourself prior to applying for a mortgage will help gain a clear perspective on the loan amount that can be approved. Determining your monthly instalment affordability will go a long way to decide the loan amount you can borrow. Just make sure that your monthly installment doesn't sweep out a major part of your monthly income.

Additional expenses


Apart from the 20-30 per cent down payment and maintenance costs, the buyer needs to bear some additional expenses like closing costs, early settlement fees, property taxes, etc. The closing costs involved are the registration fee, land department fee, mortgage registration, estate agency fee, valuation costs, etc. In case of clearing the loan before the end of tenure, 1-3 per cent of the outstanding loan amount will be charged as an early settlement fee. So, the early settlement charges will depend on the loan amount you borrow. This itself can make a big dent on your finances and hence worth keeping in mind as one of the principal deciding factors.

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Future commitments


It is advisable not to neglect your future plans while deciding the mortgage amount. Even though initially you can fit your mortgage instalments perfectly into your monthly budget, it is important to make a decision by keeping the future in mind. If you are going to have kids or your kids will start going to school in the next few years, then it would be a burden at that point of time as a mortgage is a long-term financial plan. Although it's inevitable that your income would increase with time — but let's not plan with the bright side in focus. You must consider unexpected events like job loss, fluctuations in income etc. Planning for the worst, while hoping for the best is an age-old safe way to make sure you don't lose out in the long run. Plan effectively so that despite unplanned downturns, your mortgage payments should not bother you much.

Maintenance costs

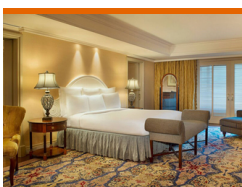
It doesn't end with getting a mortgage and purchasing a house. Ownership involves several costs like electrical repairs, leaking pipes, broken window, pest control and much more. If you were a tenant prior to this new ownership, your landlord might have been bearing these costs. But once you own a property you would be in charge of paying for these. Make sure you do a regular inspection and be prepared financially to bear these costs. It's essential to set some funds aside for the maintenance of the house. So while deciding the mortgage amount keep these costs in mind as well, as it should affect your monthly ongoing expenses. A home mortgage is a long-term financial commitment. At the end of the day, it must be a comfortable payment rather than making the loan holder stressful when paying monthly instalments and this is only possible by taking proper steps right from the initial phase, which starts with deciding how much you should borrow.

— Nikhita Devi is a senior financial analyst at MyMoneySouq.com. The views expressed here are her own.


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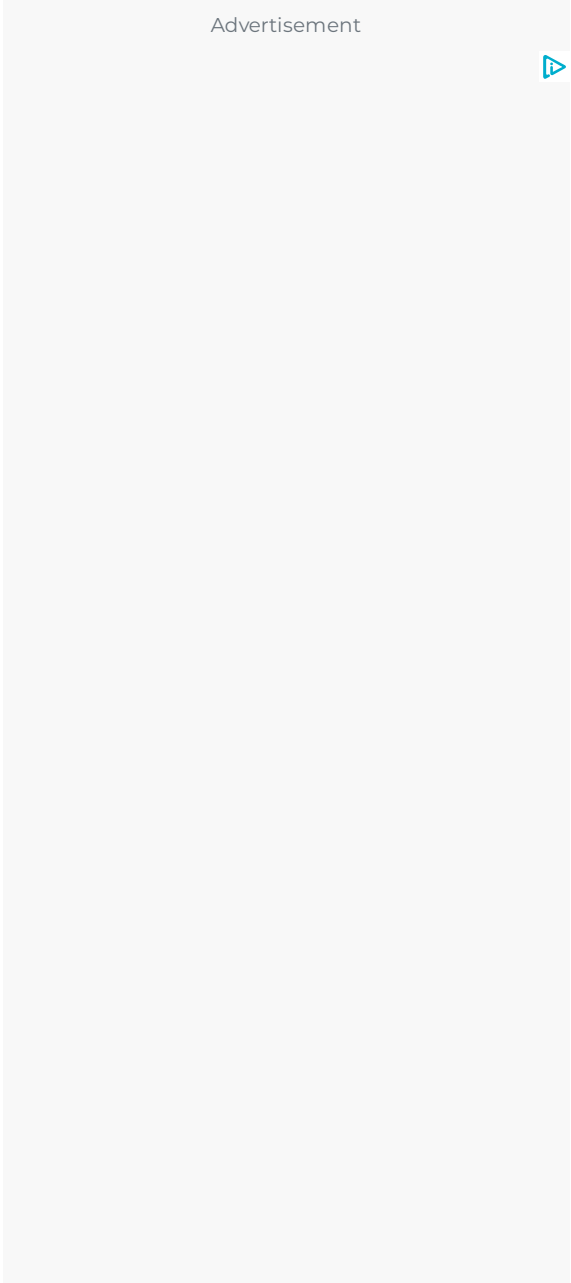
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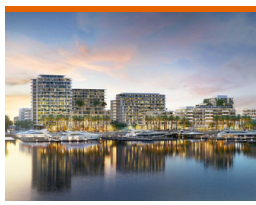
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