

Module 4 Workbook

How Much House Can You Afford?

The numbers lenders use to calculate your maximum loan, and how to figure out what you should actually borrow before a lender tells you what you can. Use this workbook with Module 4 online at yourmortgagetoolbox.com/learn/how-much-can-you-afford/ or in a class led by an instructor. Type directly into the shaded boxes on screen, or print it and write by hand.

Name

Date started

Instructor or class (if any)

How to use this workbook

1. Read or attend each lesson, then fill in the matching page.
2. Use real numbers from your own situation where asked. Nothing here is submitted anywhere. It stays with you.
3. Take the self-assessment quiz before you check the answers online.
4. Finish with your action plan. That plan is the real goal of this module.

Lessons in this module

Lesson	Topic	Done
4.1	Total Monthly Payment: The Full PITI Picture	☐
4.2	How Lenders Calculate What You Can Borrow	☐
4.3	Pre-Qualification vs. Pre-Approval	☐
4.4	The Income Needed Calculation	☐
4.5	Rent vs. Buy: A Financially Honest Comparison	☐
Quiz	Self-assessment (7 questions)	☐

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LESSON 4.1

Total Monthly Payment: The Full PITI Picture

Every homebuyer's first question is some version of: What will my payment be?

Key ideas

Key idea	In my own words
Breaking Down PITI	
Why State Matters More Than Most Buyers Realize	

The point: Never evaluate affordability based on principal and interest alone. A \$2,100 P&I; payment can become a \$2,800 total payment or a \$3,200 total payment depending on your state, county, and insurance situation. Always run the full PITI calculation.

Worksheet A: Run it in the Total Mortgage Payment & Cash to Close Calculator

Open the Total Mortgage Payment & Cash to Close Calculator at yourmortgagetoolbox.com and run your own numbers. Record what you find.

Scenario I ran (price, down payment, rate, etc.)	
Result I want to remember	
What surprised me	

Notes

How Lenders Calculate What You Can Borrow

Lenders don't just look at income. They look at the relationship between your income and your debts, and between your income and your proposed housing payment.

Key ideas

Key idea	In my own words
The Two Qualification Ratios	
What Counts as Income	
What Counts as Debt	

The difference between can borrow and should borrow: Lenders will approve you up to the maximum your ratios allow. That doesn't mean you should borrow that much. Your maximum approval is calculated on gross income; your actual budget runs on net (take-home) income. A payment that consumes 45% of.

Worksheet B: How this applies to me

What applies to my situation

One question I still have

One action I will take

Notes

Pre-Qualification vs. Pre-Approval

These two terms are often used interchangeably by buyers, but they're very different.

Key ideas

Key idea	In my own words
Pre-Qualification	
Pre-Approval	
Full Underwriting Approval (Credit Approval)	
What You'll Need for Pre-Approval	

Between pre-approval and closing, don't: Apply for any new credit Close any existing credit accounts, even ones you don't use. Closing a card reduces your available credit and can drop your score. If it's the account with your highest credit limit, the damage can be significant enough to cost you.

Worksheet C: How this applies to me

What applies to my situation

One question I still have

One action I will take

Notes

LESSON 4.4

The Income Needed Calculation

Most affordability discussions start from income and work forward to home price.

Key ideas

Key idea	In my own words
How the Calculation Works	
The Impact of Down Payment on Income Requirements	
Self-Employed Borrowers: The Write-Off Trap	
Co-Borrowers	

Self-employed rule of thumb: Start planning two years before you want to buy. Show enough taxable income on both returns to support the PITI payment on the home you're targeting. One year of strong income won't fix two years of aggressive deductions.

Worksheet D: Run it in the Income Needed Calculator

Open the Income Needed Calculator at yourmortgagetoolbox.com and run your own numbers. Record what you find.

Scenario I ran (price, down payment, rate, etc.)	
Result I want to remember	
What surprised me	

Notes

Rent vs. Buy: A Financially Honest Comparison

"Renting is throwing money away." You've heard this. It's not quite right.

Key ideas

Key idea	In my own words
The True Cost of Buying	
The True Cost of Renting	
The Break-Even Horizon	

The wealth-building case for buying: Homeownership is one of the most accessible forms of leveraged investing available to ordinary households. You put down 5–20% and control an asset that may appreciate on its full value. A \$400,000 home that appreciates 5% in a year gains \$20,000 in value. That's.

Worksheet E: Run it in the Rent vs Buy Calculator

Open the Rent vs Buy Calculator at yourmortgagetoolbox.com and run your own numbers. Record what you find.

Scenario I ran (price, down payment, rate, etc.)	
Result I want to remember	
What surprised me	

Notes

Module 4 Quiz

Type the letter of your answer, or write it in by hand. Then check your results online at yourmortgagetoolbox.com/learn/how-much-can-you-afford/ or ask your instructor for the answer key.

1. PITI stands for: My answer

- A. Payment, Interest, Title, Insurance
 - B. Principal, Interest, Taxes, Insurance
 - C. Principal, Income, Taxes, Interest

2. Two buyers purchase the same-priced home with the same loan amount and rate. Their monthly payments could still differ significantly because of: My answer

- A. Their credit scores
 - B. The day of the month they close
 - C. Property taxes and insurance rates in their respective states

3. The back-end DTI ratio includes: My answer

- A. Housing payment plus all monthly debt obligations
 - B. Housing payment only
 - C. Net income minus housing payment

4. Pre-qualification is different from pre-approval because: My answer

- A. Pre-qualification involves verified income and a credit check
 - B. Pre-qualification is based on self-reported information with no verification
 - C. Pre-qualification is only available to first-time buyers

5. Which action should you avoid between pre-approval and closing? My answer

- A. Paying down a credit card balance
 - B. Reviewing your Loan Estimate carefully
 - C. Opening a new credit account or taking on new debt

6. Lenders calculate income qualification using: My answer

- A. Your gross (before-tax) monthly income
 - B. Your take-home (net) monthly pay
 - C. Your adjusted gross income from last year's tax return only

7. Buying a home generally beats renting financially when you: My answer

- A. Plan to stay short-term in a high-cost market
 - B. Plan to stay long enough to pass the break-even horizon (typically 3–7 years)
 - C. Have a higher income than the average buyer in your area

My score (out of 7)

Topics I want to review

PUTTING IT TO WORK

My Action Plan

Pick the three or four actions that matter most for you. Be specific: what, how much, and by when.

Next 30 days

31 to 60 days

61 to 90 days and beyond

My Module 4 readiness check

- ☐ I can explain: Total Monthly Payment: The Full PITI Picture
- ☐ I can explain: How Lenders Calculate What You Can Borrow
- ☐ I can explain: Pre-Qualification vs. Pre-Approval
- ☐ I can explain: The Income Needed Calculation
- ☐ I can explain: Rent vs. Buy: A Financially Honest Comparison

Questions for my housing counselor or loan officer

Next: continue with the next module at yourmortgagetoolbox.com/learn/, and try the calculators at yourmortgagetoolbox.com to run your own numbers.

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