Considerations When Buying a Home

To many of us, the American Dream is to own a home. With so many different variables, such as financing, insurance, and affordability, how does one go about purchasing a home? After all, it is not as easy as going to the local department store and comparing or pricing personal computers. For most people the purchase of a home will be the single largest investment of their life. Therefore, it is immensely important to educate yourself on the home buying process.

When considering the purchase of a home, there are several factors to consider. As with many other decisions in your lifetime, there are advantages and disadvantages to buying a home.

The Advantages

- Payments stay relatively the same depending upon the form of financing
- Tax credits
- Control over interior and exterior within stated city, subdivision, or association ordinances
- More storage space
- Savings in home equity as market value increases
- Improved credit rating
- Usually no restrictions regarding pets or number of occupants
- More privacy

The Disadvantages

- Less freedom to move
- Property taxes may increase to a rate that makes the home no longer affordable
- Money spent on home improvement projects
- Responsible for upkeep of the property (lawn maintenance, painting, snow removal, etc.)
- Neighborhood (or condo) association may require fees for general upkeep of common areas

How Much Can You Afford?

In determining how much to spend on housing, carefully calculate your home budget and current financial obligations. There are up-front costs like down payments, closing costs, moving expenses, and inspection fees and ongoing costs like utilities and maintenance to consider when calculating how much you can afford.

A general rule of thumb commonly used in real estate determines an affordable home is 2-1/2 times the total gross annual salary of the potential buyer(s). The buying power also depends on how much is available for a down payment. Lenders will generally follow these guidelines:

- The monthly housing costs plus any long-term debts should not exceed more than 36% of the monthly gross income

- The monthly housing costs (mortgage payment, property taxes, insurance, condo or cooperative fee, if applicable) should not total more than 28% of the monthly gross income

Use Conventional Means To Buy a Conventional House

If your credit history is tarnished or your income is low, you may qualify for a FHA or VA mortgage. Conventional loans require that mortgage payments, property taxes and home owner's insurance combined not be more than 28% of gross income and those payments, plus any other debt, not be more than 36% of your gross income - known as the 28/36 ratio. The less conventional FHA ratio is 29/41; the VA is more lenient: 41/41.

If you don't have enough money for a down payment on a house, Freddie Mac, a government-sponsored company, has special programs for low-and middle-income buyers with very little cash. Check with your local bank or mortgage broker. Fannie Mae has similar loans.