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Five Financial Tips

When you are considering buying a house

Advantages to owning a home:

- Over time, you will likely build equity, eventually owning a significant asset if you pay off your mortgage. This may reduce your housing costs over time.
- Mortgage interest is currently deductible for federal income tax on debt up to $750,000.
- State and local taxes, including real estate property taxes, are deductible for federal income tax up to $10,000.
- Note: You don't benefit from deductions if they total less than the standard deduction.

Make sure you uncover all ongoing costs of owning your home. These can include:

- Neighborhood association fees
- Trash pickup costs
- Utility bills
- Mowing the lawn, pool service, and other maintenance costs
- Homeowners insurance
- Real estate taxes
- Unexpected repairs
- Private school costs (if you choose not to send your children to the public schools in your district)

1 Are you ready to buy a house?

Answering the following questions can help you determine if you are ready to buy a home. If any of the answers are "no," you may want to consider waiting.

- Am I planning on staying in the area for the next three to five years, as opposed to moving or relocating?
- Can I afford maintenance and repairs that the property may need?
- Am I willing to lose equity if the housing market goes down, recognizing that I also have the potential to build equity over the long term?
- Do I know my current credit score, which will affect the interest rate of my loan?
- Do I have an emergency fund of three to six months of living expenses?

2 Determine how much house you can afford

- How much do you feel comfortable paying each month for mortgage payments, taxes, and insurance?
- Meet with a lender to get preapproval for a loan, but take the amount a lender says you can afford with a grain of salt. It's most important that you feel comfortable with the overall cost of the home and your total monthly payment. Many experts recommend keeping mortgage payments below 28% of your gross monthly income.

3 Save for a down payment and closing costs

Down Payment
How much you have to pay up front on a home can vary widely by region and the type of mortgage. Ideally, you want to put down at least 20% of the home purchase price to avoid having to pay private mortgage insurance (PMI).

If you don't have 20% saved now, set a target time frame (say, 18 months) to save for your down payment and adjust your budget to set aside enough to help you hit that target. If you can't avoid PMI, be sure to include it in your calculation of monthly costs.

Closing Costs
There are a variety of costs in real estate transactions, such as title insurance, inspections, lender fees, and transfer taxes. Some of these fees are typically paid by the buyer (or shared with the seller) when the transaction is finalized (called closing). In addition, a lender will usually require prepayment of a portion of annual taxes and insurance (called escrow). Your lender must provide a good faith estimate, which will give you a good idea of what expenses you may need to cover before or during the closing. Closing costs can be significant, so make sure to plan ahead.

4 Shop for mortgages and understand the pros and cons of each

A small difference in your interest rate can mean thousands of dollars in savings over the life of your loan, so make sure to get estimates from two or three lenders. You will need to choose between a fixed rate or an adjustable rate mortgage.

- Fixed rate mortgages give the borrower the same interest rate for the life of the loan, which means you'll owe the same amount each payment. These mortgages are typically offered in 15- or 30-year terms.
- Adjustable rate mortgages typically offer a low initial interest rate, but the rate will fluctuate—up or down—after three, five, or seven years, depending on the term. The interest rate may change annually for the length of the mortgage. Your monthly payment will change as the rates increase or decrease.

Your choice will depend on factors such as how long you plan to stay in the home and the difference in the rates. You need to consider both the initial rate and how high it could potentially go. Be careful not to overextend yourself based on an initial rate that could change.

Ask to compare the total interest payments for the life of the loan on a 15-year versus 30-year mortgage. You could potentially save a significant amount by choosing at 15-year mortgage.

5 Review your insurance coverage

Homeowners insurance
Homeowners insurance is required by your lender while you have a mortgage on the house, and you want it even if you have no mortgage. It typically covers property damage, bodily injury, and liability for personal injury.

To protect your family, consider an umbrella liability policy to protect your family, if you don't already have one.

Life and disability insurance
Make sure you have adequate coverage in the event that you (or your partner) die or are unable to work. This is especially important when you take on a large debt, such as a mortgage.

You can often get this type of insurance at reasonable rates through work. Consider supplementing employer-based coverage with **term life insurance** to cover your mortgage and other debts, as well as to replace your income. You can determine the "term," which is the length of time your policy is in effect. If you die during the term you select, a benefit is paid to your beneficiary.

Disability insurance provides income to help support you and your family if you are unable to work due to illness, incapacity, or injury. Adequate short- and long-term policies are usually very affordable through employer plans. If you're self-employed or your employer does not offer these policies, be sure to find another source of coverage.

Your financial professional can help

A quick conversation with your financial professional can ensure that you start the homebuying process on the right track.

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