

Can You Afford to Buy a House?

Be Sure to Factor in All the Costs

While the thought of paying a mortgage is more enticing than paying rent, it's important to understand all the costs involved in buying and owning a home as you determine whether you can afford to join the ranks of homeowners. Potential buyers sometimes forget to factor in the down payment and homeowners insurance, as well as the costs associated with closing the transaction, moving, purchasing major appliances, and home, landscape and pool maintenance, not to mention furnishings and design accessories once you move in. The days of calling up the landlord to fix your problems come to an abrupt halt when you're a homeowner. You'll be responsible for everything from malfunctioning appliances to leaky faucets to broken heating and air conditioning units and everything in between. And if you buy an older home, you'll probably eventually encounter costly repairs, such as replacing the roof or windows.

To determine whether you can afford to buy a home, you should do the following:

1. **Determine the property value of homes that interest you.** The property value (what the home is worth) is determined by comparing the prices of homes recently sold of similar size in the same neighborhood. I will be able to provide this information to you.
2. **Review different mortgage loan types and compare their required down payment amounts** to the money you have available. Down payments, based on a percentage of the value of the property and determined by the type of mortgage you select, typically range from three to 20 percent of the property value. Don't forget to factor in private mortgage insurance, a policy that allows mortgage lenders to recover part of their financial losses if a borrower fails to fully re-pay a loan. Mortgage insurance makes it possible to buy a home with as little as 3 percent down. Usually, the lower the down payment the higher the PMI, which typically will cost somewhere between \$40 and \$125 a month.
3. **Get an estimate of your closing costs**, including points (the dollar amount paid to a lender for obtaining a lower interest rate on a loan - one point is one percent of the loan amount), taxes, recording, inspections, prepaid loan interest, title insurance (a policy that insures a home buyer against errors in the title search; cost of the policy is usually a function of the value of the property, and is often borne by the seller) and financing costs from your mortgage lender or a real estate professional. These will generally add up to between 2 and 7 percent of the property value. You'll receive an estimate of these costs from your lender after you apply for a mortgage.
4. **Add the down payment requirements and the closing costs together** to determine the amount of money you'll need right off the bat. But you're not done yet.
5. **Think about the actual move.** Will you hire a moving company or rent a truck? Either way will cost you. The more stuff you have, the more it will cost.
6. **Property taxes.** Many lenders will require an impound account in which monthly payments for property tax (and often insurance) are paid together with the monthly mortgage payment. You can figure your average annual tax rate will be about 1.5 percent of the purchase price of your home.

In your final analysis of whether you can afford to buy a home, you'll want to weigh the costs with the financial benefits—a consistent mortgage payment (unlike rent, which can increase), the tax benefits (you can deduct, in most cases, mortgage interest, closing costs, and property taxes), and the all-important appreciation factor—the rate of increase in a home's value. And of course, you'll want to weigh perhaps the biggest benefit of all—having a place to call your own.