REPORT: BUYING YOUR FIRST HOME

Have you been considering purchasing a home? Your *first* home? With interest rates low, many renters are starting to think about purchasing a home of their own. And while simple rental cost vs. mortgage cost comparisons can be very attractive, buying a home is a serious commitment with many factors to consider. So before you make a final decision, ask yourself these questions:

How long you plan to live in the home?
Selling a home costs money. If you may potentially have to move in the short term, the value of your home may not have enough time to appreciate in order to cover the associated costs. The length of time it will take to cover those costs depends on various economic factors. Average appreciation tends to sit at around 5% per year, although in today's market it is trending much lower than that. Even at 5% appreciation per year, you should plan to stay in your home at least 3-4 years to cover your associated costs. Always keep in mind that the real estate market can be particularly volatile; dramatic swings up and down are not uncommon, and you should be prepared to adjust accordingly.

How long will the home meet your needs?
What features do you require in a home to satisfy your lifestyle now? What about five years from now? People tend to remain in homes longer than they initially intend, primarily due to the work and expense associated with moving. Therefore it's worth considering a home that allows for room to grow. Could the basement be turned into a den or an extra bedroom? Could the attic be turned into a master suite or an activity room? Having an idea of what you'll need will help you find a home that will satisfy you for years to come.

What is your financial health - your credit and home affordability?
Is now the right time financially for you to buy a home? Would you rate your financial picture as healthy? Is your credit good?

While you can always find a lender to lend you money, people with poor credit tend to pay far more to borrow than those with good credit. Some experts say you should refrain from borrowing as much as you qualify for because it is wiser not to stretch your financial boundaries. The other school of thought says you should stretch to buy as much home as you can afford, because with regular pay raises and increased earning potential, the big payment today will seem like less of a payment tomorrow. In any case, the best advice may be to stick within your comfort zone. Purchasing a house involves many up-front and ongoing costs, and the stress of worrying about those costs often outweighs the satisfaction that may come from owning a slightly nicer home.

To determine how much home you can afford, talk to a lender or go online and use a home affordability calculator. Good calculators will give you a range of what you may qualify for. Then call a lender. While some may say that the "28/36" rule applies, in today's home mortgage market, lenders are making loans customized to a particular person's situation.

The "28/36" rule means that your monthly housing costs can't exceed 28 percent of your income, and your total debt load can't exceed 36 percent of your total monthly income. Depending on your assets, credit history, job potential, and other factors, lenders can push the ratios up to 40/60 or higher. And while we're certainly not advocating you purchase a home utilizing the higher ratios, it is important for you to know your options.

Where will the money for the transaction come from?
Typically, homebuyers will need some money for a down payment as well as closing costs. However, today's market does offer a broad range of options. If your credit isn't stellar but you have managed to save 10-20% for a down payment, you may still appear to be a very good financial risk to a lender. High-ratio mortgages can be a good option for those who haven't managed to save a large chunk of money, but naturally, these have additional costs associated with them.

What are the ongoing costs of home ownership?
The ongoing costs of home ownership might add up to much more than you might think. They include home and yard maintenance, repairs and improvements, taxes and insurance. All of these costs add to a monthly house payment. If you buy a condominium or townhouse, a monthly homeowner's association or maintenance fee will be required. If these additional costs are a concern, you can make choices to lower or avoid these fees. Be sure to make your Realtor® and your lender aware of your desire to limit these costs.

If you are still unsure if you should buy a home after making these considerations, you may want to consult with an accountant or financial planner to help you assess how a home purchase fits into your overall financial goals.