

Buying within your budget

Biting off more than you can chew can leave quite a lump in your throat. The same goes for buying off more than you can afford, a mistake many people make when purchasing a home that exceeds their income level and resources.

Determining home affordability is a vital step, experts say, that should be undertaken early in the shopping process.

"Buying the correct house at the right price is so important for your long-term financial well-being that you can't afford to make an error," says Mike Kelly, founder, Money Mechanix, Garden Grove, Calif. "Every buyer is tempted to buy 'all the house they can afford.' But you must use some self-control."

In these credit crunch times, "it's definitely not a good idea to borrow so much that you're feeling too tight a financial squeeze," says Ted Mitchell, a senior public relations specialist at MetLife in Warwick, R.I. "Even if you think your earning potential is going to increase in the years to come, it's a good idea to take a good, honest look at how much money you're taking in, as well as what your expenses are and will be once you buy a house, before making such an important purchase."

"Many of the foreclosure horror stories you hear of today come from a lack of affordability for the overall house cost, not only the mortgage payment," says Rhonda Duffy, a broker for Duffy Realty in Atlanta. "Many of these stories include maintenance items that became a hazard or the fact that the homeowner had to make a decision to pay utilities instead of taxes or insurance."

David Dickey, the founder

and CEO of National Home Loan Advocates in Dallas, says that home shoppers must be realistic about financial feasibility, especially considering the fact that, "while lending standards have tightened, for many they are still loose enough that a consumer could find themselves in over their heads. Sitting down with someone other than a mortgage lender or real estate agent to perform a budget analysis is important. Most people underestimate how much money is required to maintain a home."

Kelly recommends crunching the numbers carefully and following proven fiscal formulas before signing any home purchase contract. He says your monthly mortgage payment should never exceed more than approximately 30 percent of your monthly take home pay.

The more expenses you have, "the more difficult it is to afford even the 30 percent," Kelly says. "Car payments, child support payments and, of course, credit card monthly payments all play into what you can actually afford."

Dickey points out, however, that 30 percent of income varies from family to family. "It certainly means different things to a family making \$60,000 a year vs. a family making \$250,000 a year in terms of net discretionary income," he says. The former could afford a mortgage payment of approximately \$1,250 or a loan of approximately \$165,000, while the latter could swing a monthly mortgage bill in the neighborhood of \$6,450 or a loan of about \$550,000.

In general, Duffy says that buyers should expect at least 38 percent of their net income to go towards their property. That

includes costs to cover maintenance, taxes and general upgrades required to keep a resale value intact.

The safest method of all, according to Kelly, is to use 30 percent of your take home pay, add 10 percent for incidentals and another 10 percent for the "oops, I forgot about that" category.

Of course, affording the down payment is the first essential step.

Louis Scatigna, author of *The Financial Physician: How to Cure Your Money Problems and Boost Your Financial Health*, takes a hardline approach to affordability. "If you can't put down 20 percent of the purchase price, you can't afford the house — period," he says. "Take the amount you can put together for a down payment and multiply it by five. The figure you get will be the maximum that you should pay to buy a house. For example, if you have \$40,000 for a down payment, you can afford a \$200,000 home."

In the end, Mitchell says to always remember the basics: Get a good idea about how much you can comfortably afford, have a solid credit history, don't get in over your head and do your research.

"Take the time to take a financial inventory of where you stand before contacting a real estate agent or even looking around," he says. "Because once you start looking around, you will invariably start to get excited about your possibilities, which may make you more impulsive. Having a clear understanding of your budget can help you to exercise more restraint."

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