

## **Buying a Home**

**What it is:** Buying a home is a big decision and makes financial sense for many families. If you are planning to live in one place for at least a few years, then owning a home could be a good way to build some equity. Property taxes and the interest portion of your mortgage payments are tax deductible. Paying off your mortgage may be a form of "forced savings," too and a portion of each mortgage payment increases your equity. On the other hand, if you are planning to move within a year or two you may end up losing money due to transaction costs.

**How it works:** Set a budget and start your Housing Fund. What can you realistically afford to pay toward a mortgage each month? Write down your monthly expenses – car payment, credit card bills, groceries, entertainment – everything. Total the amount up and you have your non-housing expenses. Subtract your non-housing expenses from your take-home pay. Be sure to include an amount that gives you some breathing room for financial emergencies – flat tire, medical need, or price changes. THEN: what is left?

It is important to know what you can afford before you visit a lender. Remember, also, that there are closing costs that can range from \$5,000-10,000 or more, depending on the house. Be sure to visit [www.annualcreditreport.com](http://www.annualcreditreport.com) to check your credit report and fix any inaccuracies 4 to 6 months before you visit a lender. Your credit score will help determine the APR for your mortgage.

**Why it matters:** Being pre-approved before looking at homes tells the realtor that you are serious and gives you some leverage for a loan. Pre-approval means that the lender is willing to give you a loan. Knowing what you can borrow means you can start shopping for homes in your price range.

**Who should care:** What type of loan is best for you? Do you want a fixed or adjustable loan? How long do you need to take out the loan? Is it a conventional or government-backed mortgage? How long will you stay in the home will be a factor too. If you qualify for a

government-backed loan, you will have the option of making a smaller down payment. Be sure you clearly understand the terms of any loan before signing on the dotted line.

**For more information**

- Federal Trade Commission [www.FTC.gov](http://www.FTC.gov)
- Consumer Financial Protection Bureau at [www.consumerfinance.gov](http://www.consumerfinance.gov)
- Iowa State University Extension and Outreach website at [www.extension.iastate.edu/humansciences/](http://www.extension.iastate.edu/humansciences/)
- Iowa State University Extension and Outreach has a fact sheet on *Buying a Home PM1460*.
- Iowa State University Extension and Outreach Home Buyer Education course [www.extension.iastate.edu/humansciences/homebuyer](http://www.extension.iastate.edu/humansciences/homebuyer)