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10 Things You Absolutely Need To Know About Buying A Home

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Taxes

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- Before you agree to buy what you think might be your dream house, consider your long-term plans.
- The purchase price is just one piece of owning a house: be sure to consider all of the costs associated with your potential new home.

Ready to buy a home? Buying a home is one of the most significant financial decisions you'll make in your lifetime. From figuring out pricing to why you should consider a realtor, here are **10 Things You Absolutely Need To Know About Buying A Home**:

1. Use a trusted realtor. We all know that realtors get a cut of the sales price of a home which makes some buyers hesitant to use a realtor: they believe it drives up the overall cost. Keep in mind that the seller, not the buyer, pays the commission. Brooke Willmes, real estate agent at SPACE & COMPANY in Philadelphia, says that potential buyers should keep in mind that a listing agent (the agent representing the seller) doesn't protect your interests and "that agent would simply pocket both sides of the commission." That means that you're not saving money. A savvy realtor who works for you can protect your interests and guide you through the buying process - from negotiating a price to navigating home inspections.

2. Remember that a house purchase involves a contract. When you're buying a house, there are papers to sign. And more papers to sign. Many of those papers - which are actually contracts - look like "standard" home buying contracts with no room for negotiation. That isn't true. Contracts are meant to be negotiated. You don't have to sign a standard agreement. If you want more time to review your inspection, wish to waive a radon test or want to make a purchase subject to a mortgage approval, you can make that part of the deal. That's where a savvy realtor can help. See again #1.

3. Don't necessarily buy for the life you have today. Chances are that buying a house will be one of the bigger financial commitments you'll make in your lifetime. Before you agree to buy what you think might be your dream house, consider your long-term plans. Are you planning on staying at your current job? Getting married? Having kids? Depending on the market and the terms of your mortgage, you may not actually pay down any real equity for between five and seven years: if you aren't sure that your house will be the house for you in a few years, you may want to keep looking.

4. Think about commitment. I'm not talking just about your mortgage. When you get married, the laws of your state generally determine how your assets are treated - and ultimately how they're distributed at divorce. The same rules don't necessarily apply when you're not married. That means you need to think long term. When you buy a house with your significant other who is not your spouse, make sure you have an exit plan if things don't go the way you hope. It's a good idea to have an agreement in place with respect to titling, mortgage payments and liability, repairs and the like: it's best to get it in writing (and yes, I'd recommend getting a lawyer).

5. Look beyond paint. It's often the case that your dream house has that one room that you're already fantasizing about changing. Willmes says to remember that it's fairly inexpensive to fix cosmetic issues (a bit of paint or some wallpaper) but making changes to kitchens and baths can be expensive. She says, "People tend to focus on the cost of cabinets, appliances and counters but sometimes forget about the cost of labor which can double to triple the cost." That doesn't mean that you should give up on a house in need of a significant fix but you should factor in those costs when determining whether you can afford to buy.

6. Buy the house you know that you can afford. This can be different from the price that your mortgage company believes that you can afford. When my husband and I bought our first house, we were approved for a mortgage of about three times more than we ultimately ended up spending. Fresh out of law school and working for established firms, our finances looked good on paper. But we dialed back our expectations because we weren't convinced that our income and expenses would remain at those levels. We were right: two years later, we started our own business just as the economy turned south. The less expensive house meant that we could still make our payments even with less income in pocket. So what's the best ratio to use? Some lenders suggest that you can afford mortgage payments totaling about 1/3 of your gross income but others suggest closer to 28% for housing related costs including mortgage, insurance and taxes. There are a number of factors including your projected income, interest rates, type of mortgage and the market. Ask your mortgage broker to help you understand what's in play.

7. Don't fixate on the purchase price. The purchase price is just one piece of owning a house: be sure to consider all of the costs associated with your potential new home. That includes the cost of insurance, homeowner association fees and real estate taxes - depending on where you live, those can quickly add up. And it's not just home improvements that can cost money: maintenance costs dollars, too. It's a good idea to ask questions about upkeep for extras like swimming pools, fancy heating and cooling systems and out buildings. Finally, Willmes suggests that you make sure you're comparing apples to apples: a condo with a large fee that's priced low may be more costly than a higher priced one with lower fees while a cheap home with high taxes may cost you more a month than a more expensive one with lower taxes.

8. Consider your student loan debt. Following the housing crisis, lending laws tightened. Student debt isn't merely an annoyance: it's treated like real debt. Jason Griesser, a licensed Prospect Mortgage Branch Manager in PA, explains that a major revision to FHA guidelines in 2015 negatively affects many first-time homebuyers with student loan debt. Prior to this change, a borrower with student loans deferred for more than 12 months could discount that debt from their liabilities: now, for purposes of determining purchasing power, a borrower is charged with 2% of the outstanding balance of the student loan regardless of deferment status (in a non-FHA, or conventional loan, it's just 1%). If your student loan is in deferment and you're planning on buying a home, Griesser suggests enrolling in a properly documented income-based repayment plan so you have the documents your lender will need to properly assess your ongoing liability.

9. Don't get carried away by the home mortgage interest deduction. Many taxpayers are tempted to buy more house than they can afford by figuring that they'll save enough with the home mortgage interest deduction to make up for it. The mortgage interest deduction is only deductible if you itemize on your Schedule A: only about 1/3 of taxpayers claim the itemized deduction. You itemize if your deductions exceed the standard deduction: for 2015, the standard deduction rates are $12,600 for married taxpayers filing jointly and $6,300 for individual taxpayers (those rates stay put for 2016). Assuming that you do itemize, remember that your out of pocket will still be more than your tax savings (if you're in a 28% bracket, paying $5,000 more in interest will only "save" you $1,400 in taxes). And you can't count on the same level of savings forever: mathematically, the longer you own your house, the less you will owe in interest. That's good for building your equity but it means a smaller deduction come tax time.

10. You don't have to buy a house. There's no rule that says you have to buy a house by the time you're 35 - or ever. Buying a home is a big decision and while it can be a sound financial investment, it’s not for everyone. There is a lot to consider, including the housing market, interest rates, timing and your future plans. You might want more flexibility or mobility, or your career and family plans may be in flux. If you're not sure about a neighborhood, consider renting as a test drive: a realtor can help you with that, too (see again #1). Even then, you don't have to pull the switch: there are healthy rental markets throughout the country and in some areas, young professionals are choosing rentals over homebuying to preserve cash and remain mobile. That's showing in the stats: last year, the U.S. Census Bureau reported that the home ownership rate was 64.9%, not counting borrowers in risk of default. In contrast, ownership in 2010 was nearly 69% (downloads as a pdf): for purposes of context, a one-percent change in the ownership represents well over a million homeowners. For more on the decision to buy versus rent, check out my book, *Home, Sweet Rental: Busting The Hype Of Homeownership*, available on Amazon.

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From taxes to employee benefits to life insurance, here are 100 Things You Absolutely Need To Know About Money Before You're 35. #100MoneyTips

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Years ago, I found myself sitting in law school in Moot Court wearing an oversized itchy blue suit. It was a horrible experience. In a desperate attempt to avoid anythin... **Read More**