



**SMART  
MONEY  
CHOICES** 

**BUYING  
A HOME**  
Part 1



**SALARY  
FINANCE**



## STUFF HAPPENS

We'll all face many changes in our lives, often involving money.

Some will be welcome, like buying a home – the subject of this guide. Others will be more challenging. Some are planned and happen slowly, while others come suddenly and out of the blue.

### A HELPING HAND

To help you navigate these changes, we've produced a series of easy-to-read guides.

Each guide looks at a different, life-changing event, and sets out simply and clearly what you need to know and, more importantly, what you need to do to make smarter money decisions.

## SO, YOU'RE THINKING OF BUYING A HOME... NOW WHAT?

Buying a home is one of the biggest financial decisions most of us will ever make.

And because it's not something we do every day, the home-buying process can be daunting for both first-time buyers and existing homeowners alike.

Poor decisions could cost you thousands of dollars and good decisions save you similar amounts of money.

So, here in part one of this guide, we outline the issues to consider to:

- **decide if buying a home is right for you right now and, if it is...**
- **make your home-buying challenge easier**





## HERE'S WHAT'S INSIDE

If buying a home is right for you (whether you're a first-time buyer or you're moving), it'll be easier and less stressful if you follow an organized process.

Here are the steps we cover in part one of this guide, to help you on this journey.

### **JUMP TO:**

[Is buying right for you... right now?](#)

[The costs and risks of home ownership](#)

[The benefits of home ownership](#)

[Should you sell before you buy?](#)

[Coming up with your deposit](#)

[Understanding how much you can borrow](#)

[Factor in your other costs of home buying](#)

[Choosing a home - what really matters](#)

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A close-up photograph of a woman with dark hair and a young boy with light brown hair. They are both smiling and looking at each other. The woman is on the left, and the boy is on the right, leaning in to kiss her on the cheek. The background is softly blurred, showing warm, bokeh lights, suggesting an indoor setting with ambient lighting. The overall mood is warm and affectionate.

## **IS BUYING RIGHT FOR YOU... RIGHT NOW?**

The conventional wisdom for owning your own home is often reinforced with phrases like, 'you need to get on the housing ladder as soon as you can' and 'paying rent is like pouring money down the drain'...

But real life is not this simple – and while buying a home (or moving up the housing ladder) can offer significant benefits, it also presents financial risks.

Here are some key issues to consider, to help you decide if buying a home is right for you – right now.



## THE COSTS & RISKS OF HOME OWNERSHIP

### YOU'RE LIKELY TO PAY A LOT TO BORROW THE MONEY

Did you know that on a \$200,000, 30-year fixed rate mortgage at an interest rate of 4.5% you'll repay about \$364,814 in total?

That's nearly \$165,000 in interest that you'll pay to your lender. You might also think of that as 'money down the drain' as it's effectively rent on the money you borrow to buy your own home.

### YOU'LL HAVE TO COVER A LOT OF BUYING & SELLING COSTS

Be aware of all the upfront costs of buying a home, like: legal fees, mortgage fees and other closing costs.

Add in your ongoing costs of homeownership – like homeowners insurance and the potential costs to maintain your property – which could be considerable depending on the condition or age of the home you're buying. Water heaters, windows and roofs are expensive.

And, if you'll want to sell your home and move on in a few years' time (as many people do) you need to factor in your sales costs (like real estate commission and more legal work) as well.

## YOU COULD FACE A SIGNIFICANT RISK TO YOUR CAPITAL

You might like to think of your home as a place to live rather than an investment, but it's also only natural to hope that your home rises in value during the time you own it.

And, if you buy your home at a fair price you could do very well financially from home ownership. Certainly, the long-term history of US property prices is on your side.

However, to compare homeownership to renting (which allows you to move on at a much lower cost) you need to consider the financial risks if you have to sell your home after a short period of time. Clearly in this case, any upfront costs and falls in property prices will matter a lot.

The value of your home will need to have risen by several percentage points between the time you buy and sell it, just to cover those costs and make you better off than you would have been by renting.

Property prices are not guaranteed to go up every year and sometimes when property prices are at an all-time high, they can fall in value quite a lot, like happened in 2008.

Also, if your mortgage is going to be a high proportion of your home value, your risk of falling into negative equity\* in a property market downturn, is much higher too.

\*Being in negative equity (where the sale value of your home is less than you would need to clear your mortgage) is a stressful situation if you want to sell your home (for whatever reason) at that time.





# THE BENEFITS OF HOME OWNERSHIP

## YOU COULD SAVE A LOT OF MONEY OVER THE LONG TERM

While you might fix your mortgage payments for periods of time, over the long term these payments will rise and fall with interest rates generally – but they won't increase year after year, in line with inflation like a rental payment.

Once you've repaid your mortgage, you'll be free of those repayments altogether – unlike rental payments which never stop.

So, all things being equal, you'd expect to pay out less to buy a home for life than to rent a similar property from a private landlord. After all, with your own home, you're not paying for the landlord's profit.

You might find that your monthly mortgage costs could be less than rental payments on a similar type of property – even if you have a relatively large mortgage as a proportion of your home value.

That said, such immediate savings situations are the result of super low interest rates – and you should not assume that low rates will continue for long.



## YOU COULD BUILD A LOT OF WEALTH IN YOUR HOME

The upside is you could build a great deal of wealth through home ownership. And for many people, their home is the most valuable asset they'll acquire in life.

By a combination of your home value rising and/or your mortgage debt being eliminated through your repayments, you could build up a sizeable amount of equity\* in your property over time.

It's up to you what you do with your equity. So, you could:

- Continue living in your home for very little cost once your mortgage is paid off
- Rent out your property for a time, to generate an income
- Extend your mortgage (or remortgage) to release some of the equity
- Sell your property and use the proceeds as you want – perhaps as a large deposit on your next home or, in later life, to buy a smaller home – using any remaining balance to boost your income
- Your equity is the value of your home minus any debts you owe on it.

## CONCLUSION

We suggest that you avoid any rule-of-thumb / 'common sense' guidance you hear.

And weigh up the costs, risks and benefits of home ownership, taking account of your personal situation now – and looking ahead to your future.





## SHOULD YOU SELL BEFORE YOU BUY?

### THIS SHORT SECTION IS FOR EXISTING HOMEOWNERS.

Many homeowners complete the transaction to buy their next home on the same day as they sell their existing one.

This avoids the risk of being out of the property market if prices are rising – and avoids the inconvenience of moving twice (first to a rental and then to their new home) in quick succession.

However, there can be advantages to selling your home in advance of buying your next one. It's certainly worth noting the pros and cons of this approach and these are [described here.](#)

# GET YOUR DEPOSIT TOGETHER

**THIS SECTION IS FOR FIRST-TIME BUYERS WHO NEED TO GET A DEPOSIT TOGETHER**

## **THE IMPORTANCE OF YOUR DEPOSIT**

In general terms, the bigger your deposit, the less risk you pose to mortgage lenders, so you'll be able to access a wider range of mortgages and lower interest rates.

Having a deposit of 20% of your home's purchase price could give you access to a much lower interest rate than if you only have a 10% deposit. And that difference is worth checking with your mortgage provider.

You could side-step the need for a larger deposit by tapping into state programs, tax breaks, federally backed loans, and other benefits for first-time home-buyers, but these may come with risks as well. So, look carefully before leaping into it.



## FIRST-TIME HOME-BUYER BENEFITS

Explore local, state, and national first-time home buyer assistance programs as you begin the home buying process.

Many state housing authorities combine closing cost and down payment assistance programs with mortgages that have favorable interest rates. Some states even offer tax credits you can use on your federal tax return.

**First-time home buyer grants** are available to low- and moderate-income borrowers through state first-time home buyer programs. These grants or forgivable loans typically don't require repayment. Approval standards vary by program and location but often include household income and home sale price limits.

**Down payment assistance** and closing cost assistance is often offered by local and state housing authorities. Just as for grants, approval standards vary. Keep an eye out for income and home sale price caps.



## CUTTING OUT WASTEFUL EXPENDITURE

If you're saving on your own – or with a partner – for your deposit, the task can seem daunting at first. But if you can find just \$6.60 per day (the price of two to-go coffees) you could save \$200 per month.

And, with a modest amount of interest paid on your account plus state and local first-time home-buyer benefits you may be able to build up a deposit fund in a few years.

# FIGURE OUT HOW MUCH YOU CAN BORROW

Unless you have the cash (or equity in your current home) to buy your new home outright, you'll need to know how much you can borrow on a mortgage before you go looking for your home. Real estate agents are unlikely to let you view properties unless they know that you have the capacity to buy.

## THE AMOUNT YOU CAN BORROW WILL DEPEND ON VARIOUS FACTORS INCLUDING:

- The amount you have available as a deposit (or, for existing homeowners, the equity in your current home)
- Your income, or incomes if you're buying with another person
- Your regular bills and other expenses (including lifestyle expenses) and how these could change in the future
- Your credit history
- The value and type of property you want to buy
- The type of mortgage you want (fixed or adjustable rate mortgage, the interest rate and term)
- Any other assets you could offer as security (like another property or investments)
- The lending criteria of the mortgage lender you approach – which can vary quite a lot.

Use an online mortgage calculator to get an initial estimate of how much you could borrow. And then search online and seek advice from a mortgage broker to understand your options.

A good mortgage broker should be able to find the best mortgage terms for your personal situation.

Your aim at this stage is to find the best terms (for your situation) on a mortgage that you could comfortably afford. And then, obtain a preapproval to help your real estate agent guide you towards homes you can afford.

## FACTOR IN OTHER HOME BUYING COSTS

On top of your mortgage deposit, you'll need money for the other costs of buying your home such as:

- **Closing costs.** Lender and third-party fees at the close of a real estate transaction.
- **Property taxes.** Taxes are typically collected 1-2 times a year depending on your state and county. Your real estate agent can share this information with you before you buy.
- **Homeowners insurance.** Insurance varies by region, and in some cases may be built into your mortgage payment. You may also be required to purchase additional hazard insurance if you're in a high risk area for floods, earthquakes, or other natural disasters.
- **HOA, co-op, or condo fees.** If you're buying in a planned development or condo building you likely will have a monthly payment on top of your mortgage to pay for improvements for the complex.
- **Moving costs and renovations.** You may have to spend additional money upfront to make your house a home such as renovations, decorating, and furnishing costs.

Try to cover these expenses with your savings (rather than taking on additional debt), and keep in mind other fixed costs like utilities and transportation.



# CHOOSING A HOME - WHAT REALLY MATTERS

## 1. How will the location affect the size of your home?

- If you're considering various locations, search online to get an idea of how prices vary in each area. You may have to decide what's more important: the type and size of home you have or your location?
- For example, for a given budget, the home you'll get in a great neighborhood in a major city will be much smaller than what you could buy in the suburbs. And, home prices vary greatly state to state.

## 2. How will the location affect your cost and quality of life?

- Factor in your travel costs and the cost to your quality of life and health of time spent commuting to work.
- Owning a larger home away from a city you work in is of limited value if you end up sitting in traffic (or on a train) at 7am and again at 7pm most days.
- Living costs and leisure activities might cost more in areas with higher average home prices.



### 3. Factoring in the family dimensions

- If you have a young family (or are planning one) you need to factor in childcare costs, which vary enormously across the country.
- Property prices in popular school districts can cost significantly more than those just outside. So, you might need to forego some of your other home requirements if this is a priority.

### 4. How many rooms do you need – and how big must they be?

- How many bedrooms do you need for yourself and your family (if you have one)?
- Do you need a lot of storage space in your home? Would an attic or basement meet your needs in this area?
- If you work from home, perhaps you need a separate and quiet office space.





## 5. What are the 'must-have' features of your home?

- Do you need a large kitchen, a utility room, a real fireplace?
- How much natural light is enough (or too much) for you?
- And what about the external appearance of the property?

## 6. Watch out for ongoing costs of older properties

- Old, historic homes might have character, but can you afford to maintain one?
- **Be sure to avoid flood (and other) natural risks to your home**  
Some homes can appear to offer great value for money, but you need to be sure that you're not exposed to risks from the elements, such as flood damage in low-lying areas.





### **7. Consider what man-made disturbances are acceptable**

- Trainlines, flight paths and busy roads may be worth considering when choosing your location.

### **8. Don't overlook outdoor space**

- Do you enjoy gardening or are you prepared for the time it will take to maintain a garden or landscaped yard?
- If you want play areas for your children, is the availability of local parks more important?

### **9. Do you need a parking space on your property**

- Is a parking spot non-negotiable?

## NEXT STEPS

When you've got an idea of the area in which you'd like to buy and you have your list of requirements, you'll make better progress with your online searches and in discussions with real estate agents in your target local area.

We suggest that you do talk to local agents for their deep local knowledge. And, that you view several properties and ask the hard questions, based on your requirements and other issues you identify while viewing.

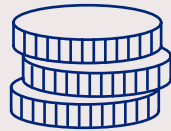
In the second part of this guide, we explain what you need to know and do, from making an offer to moving in.



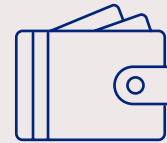
# BUYING A HOME - CHECKLIST



**Is buying right for you... right now?**



**Should you sell before you buy?**



**Get your deposit together**



**Work out how much you can borrow**



**Factor in your other costs of home buying**



**Consider government support options**



**Find your ideal area and property**