

TIPS TO PREPARE YOUR BUDGET BEFORE BUYING A HOME

It's nearly impossible to know what size home you can afford if you aren't fully aware of how much money you are earning and how much you are spending each month.

Start with your income: How much do you bring home after taxes and retirement plan contributions?

Next, look at your expenses: What are your necessary expenses? How much are you paying each month toward your debt? What additional expenses do you have that wouldn't be deemed "necessary?" How much money do you have left (if any)?

This will help you see how much breathing room is in your current budget, what expenses might be on the chopping block and the space you have for additional home and mortgage expenses when buying a home.

Consider the potential costs of being a homeowner

While rent payments are generally straightforward and predictable, the same can't always be said for homeownership costs. Your situation can vary depending on a variety of factors, but here are a few things you might need to prepare your budget for:

- ⇒ **Property Taxes:** The amount you pay will depend on the area in which you are purchasing a home. This amount can be subject to annual adjustment by the municipality or local taxing authority.
- ⇒ **Homeowners Insurance:** Lenders will require you to provide proof of coverage before closing. The amount you pay will depend on your level of coverage, your property and the location. Insurance costs can increase from time to time.
- ⇒ **Private Mortgage Insurance (PMI) or Mortgage Insurance Premiums:** If your down payment is less than 20% on a conventional mortgage, your lender will require you to carry private mortgage insurance. If you have an FHA loan, you'll be required to pay mortgage insurance premiums throughout the life of the loan.
- ⇒ **Homeowners Association Fees:** Fortunately, not all homes have a homeowners association to pay into. Purchasing a home with HOT-covered amenities could cost, on average, an additional \$200-\$400 per month.
- ⇒ **Maintenance Fees:** Also known as the pitfalls of being a homeowner. The costs that would normally fall to a landlord, like fixing broken plumbing or a heater, will now fall on your shoulders. Some suggest saving 1% of your home's value annually for maintenance.
- ⇒ **Utility Costs:** Unless your rent has included the cost of utilities, this is probably already an expense you're used to. However, if you're moving into a bigger home with less energy efficient appliances, you should be prepared to see an uptick.

Start living like a homeowner

If you want to avoid experiencing sticker shock after your home purchase is complete, start living like a homeowner now.

Consider your current rental or home-ownership costs and compare them to the costs for a home in your target price point. Can your current budget handle the difference? Are you still able to pay for your necessities plus shore up your financial future through short- and long-term savings? Or do you find yourself feeling desperate by the end of the month?

Not only will this allow you to get used to the change before the stakes are higher, but it can also help you save more money to put toward unexpected costs for your future home purchase.

Determine where to make adjustments

Does living like a homeowner make you a little wary for what's next? Now is the perfect time to create space in your budget by cutting back expenses and paying down debt.

Now that you know where your money is going, determine the unnecessary leaks. Maybe your monthly food bill is exorbitantly high. Or maybe your subscription services have gotten out of hand. If your priority is purchasing a home - and being financially comfortable in that home - work to cut expenses that are contradictory to that goal.

Next, tackle your debt. There are two big benefits to beefing up your debt repayments now: You can lower your monthly obligation and improve your chances of getting approved for a loan. It's a win-win.