Approaching Homeownership as Part of a Bigger Financial Plan

Homeownership comes with plenty of perks: It lets you put down roots, invest in your own future, and it can pay off at income tax time; but is your “big picture” financial plan ready for the responsibility? There are realities to owning a home you didn’t have as a renter, so you will need to be sure you are ready.

Too often, people buy homes in a vacuum, without considering how that purchase is going to affect other aspects of their lives. This can be a big mistake, and therefore you must recognize that owning a home holds very important implications for the rest of your financial plan.

Although an excellent goal for anyone seeking financial independence, owning a home is not the final goal of a financial plan. In fact, how you handle issues of homeownership may well determine whether you achieve financial success for the long-term.

So, whether you just want to start building equity instead of renting or are looking to expand your investment portfolio, the first time you think about becoming a homeowner is the moment you should start financial planning.

You need to be financially prepared so your dream of buying a home does not derail your other financial goals. Before you can address you and your real estate agent determine how much house to buy, you will want to develop a thorough financial review with a trusted financial advisor.

Build a Comprehensive Financial Plan with a Trusted Financial Advisor

Buying a home is one major financial decision that also affects your education savings, retirement savings, life insurance, career changes, investment strategy, and more. The simple process of creating a financial plan should be the beginning of a long-term plan to buy a house and to keep it

Most home buyers will start with a real estate agent or mortgage loan officer when thinking about buying a home. However, even the best real estate agents and mortgage loan advisors are not necessarily experts on broader financial issues or 100% aware of the impact a home purchase will have on your financial future.

A real estate agent wants to help you find a home that fits your lifestyle and doesn't want to waste time showing your properties above your price range. A mortgage loan advisor is a great resource for you to learn about different loan programs, payments options, and how to qualify for a mortgage. However, like real estate agents, they are primarily concerned with how much you can afford from a mortgage qualification standpoint

A financial advisor is there to make sense of your major financial goals (including real estate investments), and then develop a realistic timeline and plan of attack to reach those goals. A financial advisor wants you to make the best financial decisions possible so that you will remain a client of theirs for the next 30, 40, or 50 years of your life, leading you towards a path of financial independence according to your needs and lifestyle.

The best financial advisors do work hand-in-hand with a mortgage loan advisor to develop accurate monthly payment and down payment/closing costs. When these two (or more) professionals work together, it also makes for a smoother pre-approval process and success in managing the cost of homeownership.

A financial advisor can help you:

- Set realistic financial goals like homeownership, a healthy retirement and more
- Honestly assess your current financial situation by examining your assets, liabilities, income, insurance, taxes, investments and estate plan
- Develop a realistic, comprehensive plan to meet those financial goals by addressing any weaknesses and capitalizing on financial strengths
- Put your plan into action and monitor its progress so you stay on track to meet goals as life changes the circumstances around you…ie: changing stages of your life, markets and tax laws

Comprehensive financial planning should include other professionals in providing services that encompass buying a home, making investments, saving for retirement or a child's college tuition and estate planning. It is vital that you and your trusted advisor look at the whole picture and how all the elements can work together most beneficially.

Your advisor can't adequately provide estate planning recommendations without knowing your individual retirement needs, since it will have an effect on the remaining size of their estate as well as dictate various tax planning strategies. Likewise, an advisor needs to know your retirement needs to help formulate an investment strategy in your 30s and 40s.

It is a continuous, life-long process that requires active involvement and input from your and other industry experts to achieve progress with life goals like becoming a homeowner, managing risk, securing retirement, transferring assets between generations, and achieving/maintaining sustainable income. Importantly, it helps ensure decisions made to create wealth will better reflect the individual's values.

In addition to your grand financial plans you will want to address the finances surrounding buying your home.

Financial Planning for Homeownership

The most important elements of the financial planning you will want to put in place before you consider buying a home are developing a budget and starting to save, but you may also need to address your credit and debts, then plan for the cost of maintaining a home.

Preparing Your Credit and Financial Statements

When you are ready to consult a lender to find out if you can be approved for a loan, the lender will base a decision on your credit profile, income, assets, and job history and debt-to-income ratio. A clear understanding of your credit reports and credit scores is vital.

The higher the score the better your credit and the more likely you will be approved for a mortgage at the lowest rate and then qualify for lower insurance premiums after the sale. Your debt-to-income ratio for the lender's purposes is based on the minimum monthly payment for all of your credit card debt, student loans, car loans and personal loans—compared to your gross monthly income. In many cases the amount a lender will say you can borrow is higher than you may feel comfortable borrowing.

It's crucial you decide what you think you can afford for your monthly payment and work with that number when you begin searching for a home. Your comfort level should take into consideration other financial goals you have — paying for child care, saving college tuition, retirement and even things like vacations, skiing or golf.

Remember, most of those expenses won't be part of your lender's calculation of what you can afford to spend on a housing payment, you will want to consult with your financial advisor first.

Budgeting For Your Expenses and Mortgage Payments

To determine what you can afford to pay for your home each month, you will need to account for *far* more than just your down payment, monthly mortgage and interest. Homeowners have extra expenses renters don't, such as property taxes, homeowners insurance and especially maintenance. Before you become a homeowner, you should create a budget based on your current finances and consider how you can adjust that budget to accommodate extra savings to allow you to buy a home and to afford potentially higher monthly expenses. You should also budget for utilities, homeowner's insurance expenses, maintenance and repairs (1% of the home value) and emergency reserves (at least one month's mortgage payment). If you live in a condo or a community with a homeowners association (HOA) you will need to budget for those extra fees as well.

Once you have addressed your financials and done extra preparation for the responsibilities you will inevitably face as a homeowner, you should be in a good place to buy a home without derailing your financial future.

Buying Real Estate is One Step on the Path to Financial Freedom

Buying a home is one of the most significant financial decisions you will ever make. Consult with a trusted financial advisor and tax professionals, so they can collaborate with your real estate agent and/or lenders to put a realistic plan in place that allows you to meet your home buying goal as well as other important financial goals.

Then continue your financial education to ensure homeownership goes smoothly and your safety net is as strong as it possibly can be; the more you know, the more you will be able to actively participate and control the decisions affecting you for the long run.

Contact me for a referral to a great financial planner in your local area. I've been in business for 24 years and have trusted sources for you.

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