

Ten signs you are ready to buy a home

By Erin K. Witt

Maybe you just got married, or maybe you have just found out a new baby is on the way. Perhaps a new job promotion has made a big change in your finances. You feel the time is right to buy a home. But are you really ready? Although homeownership readiness varies from person to person, here are ten signs that can indicate you are ready to take the plunge.

Sign #1: You're familiar with the market. If you've been paying attention to how much houses are listed for in the neighborhoods you're eyeing and have a realistic view of how much a house will cost you, you're in good shape. But if you're dreaming about that big house with no clue about its asking price, you may want to spend some more time becoming familiar with the market and how much houses are going for.

Sign #2: You have the money for a down payment and closing costs. The down payment is a percentage of the value of the property. Freddie Mac says the type of mortgage you select will determine the percentage. Down payments usually range from 3 to 20 percent of the property value. You may also be required to have Private Mortgage Insurance (PMI) if your down payment is less than 20 percent. Closing costs include points, taxes, title insurance, financing costs and items that must be prepaid or escrowed and other settlement costs. You can expect to pay between from 2 to 7 percent of the property value. Generally, you will receive an estimate of these costs from your lender after you apply for a mortgage.

Sign #3: You know how much you can afford. Freddie Mac says that, as a general guide, your monthly mortgage payment should be less than or equal to a percentage of your income, usually about a quarter of your gross monthly income. Your income, debt and credit history will also help determine how much you can borrow. As a general rule, your debt—credit card bills, car loans, housing expenses, alimony and child support—should not be more than about 30 to 40 percent of your gross income.

Sign #4: You know what additional expenses will come with owning a home. This includes homeowner's insurance, utility bills, and maintenance costs like roofing, plumbing, heating and cooling.

Sign #5: You have your credit, and credit report, in good shape. Potential lenders will view your credit history—how much debt you've accrued, how many accounts you have open and whether your payments are made on time—to determine whether they'll give you a loan. You should also get a report from each of the three credit reporting companies: Equifax, Experian, and Trans Union.

Sign #6: You haven't made any recent major purchases, particularly a vehicle. If you have, you may have a harder time getting a loan, or it could potentially lower the amount you'll be approved for.

Sign #7: You are settled. Is a job transfer likely? Are you thinking you might like a change of scenery sometime in the near future? If you're not going to be in the same location for the next three to seven years, you may not want to buy a house. After only a few years, you may not make enough on the house sale to break even.

Sign #8: You are ready to take on the obligations of ownership and leave behind the “perks” of renting. Maintaining a home and a yard take time out of every week. As a homeowner, fixing the dripping faucet and the clattering furnace becomes your responsibility. Would you rather rent and be able to call the landlord? Will you miss apartment amenities such as a workout room or hot tub? How about apartment security features including locking mailboxes, secure parking and a secure entry system?

Sign #9: You know why you want to purchase a home. If it's because your best friend just purchased a home and is constantly gushing about her new garden, extra living space and great neighbors, don't get caught up in her excitement. Remind yourself that committing to homeownership means facing expenses you probably can't even comprehend at the moment. It also means ongoing maintenance. The bottom line is that homeownership is a lifetime commitment that can't be decided overnight.

Sign #10: You've found a REALTOR. You'll want to start searching for an agent as soon as you decide to buy a home. Talk to several and find someone you think you'll be comfortable working closely with. Ask friends and family for referrals. When you interview agents, ask questions about the areas and types of homes in which you're interested. Do they seem knowledgeable? Most important, is their personal style a good fit with your own?