

“Home Sweet Home”

We live in a very transient society. Unlike the turtle, whose shelter is always attached to his body, we are required to locate a new shelter each time we move. The financial and logistical issues that surround the search, transfer and establishment of what we call our “home”, can be frightening and sometimes overwhelming. Having moved twelve times in my twenty-five years of marriage, I have gained an almost envious appreciation for the simple and uncluttered package deal that God provided for the turtle. It is no surprise that the common box turtle is able to enjoy a lifespan of up to 100 years.

I think it is important that we take a minute to differentiate between “house” and “home”. In a way, we are much like the turtle. We do actually take our “home” with us at all times. The old saying, “Your home is where your heart is” has become more meaningful to me over the years as I have seen the numbered moving stickers become layered on the bottoms of the furniture throughout our house. The once endeared attachment to the bricks, plaster and wood that is more accurately described as our “house” has been replaced with a more realistic perception of a house as a mere tool.

Regardless of the semantics, there are some very important practical issues that we need to address concerning the “house” that will help keep the “sweet” in “Home Sweet Home”. There are basically two categories of people, those that are looking to buy a house and those that are already in a house.

There are specific financial concerns for those that are looking to buy a house that might differ from the concerns of those that are already in a house. How much house can I afford? How much should I put down as a down payment? What type of mortgage should I get and for how long? Do I need an established credit rating to get a mortgage loan? These are some of the common questions that house buyers must answer. (The answers to these and more can be found on my website, www.coeinc.org).

I remember the first house my wife and I bought. After having completed the walk through with the realtor, we said our goodbyes and returned to our car parked in the front of the house. We sat there quietly for a few minutes admiring the details of the house and reflecting on the walkthrough we had just completed. Knowing that we both had emotionally and mentally signed the deed, my wife asked, “Can we afford it?”

I remember thinking at the time, that I had no clue whether we could afford it or not and in a way felt it was not even up to me to decide. In my ignorance I turned to my wife and said, “If the bank will lend us the money.”

My warning to you is to never let someone else decide your financial destiny. Rule number one in buying a house is to determine how much house you can afford BEFORE you go shopping. The most aggressively market item in society today is debt. The banks and mortgage lenders have devised numerous ways to separate you from your financial future by qualifying you for a mortgage that is guaranteed to make you “house poor”. The debt ratio for qualifying for a standard conventional loan is 28-36% of your gross income. For a non-traditional FHA approved loan the debt ratio is a more lenient 28-41% of gross income. As a result of automated underwriting, those with excellent credit can qualify for an unbelievable debt ratio as high as 50% of their gross income.

Determining how much house you can *really* afford requires that you complete a few simple calculations. The number to use for calculating the allowable percentage that you can afford for a house is referred to as your net spendable income (N.S.I.). Your N.S.I. is equal to your gross income minus your charitable giving, taxes and any pre-tax deductions such as qualified retirement savings plans. Once you have determined your N.S.I. (same as your take

home pay), the allowable amount for the house budget is easy to calculate. Since the budgeted amount for the house category should include all of your house expenses, we'll need to break it down.

For principle, interest, taxes and insurance (P.I.T.I.), you should consider 25-30% of your N.S.I. to be a maximum amount. For incomes over \$60,000 per year, the percentages will obviously need to be adjusted down. In addition to P.I.T.I. there are utilities and miscellaneous house expenses that are normally between 5-10% of your N.S.I. Therefore, the total budgeted amount for housing expenses should be approximately 35-40% of your N.S.I. Another rule of thumb is to keep the combined amount for what I call the BIG THREE expenses (house, food, auto) within 60-65% of your N.S.I.

Just to illustrate my point, a bank loan for a conventional mortgage of 36% of your gross income plus an additional 10% of your N.S.I. for miscellaneous house expenses would equate to a total of 64% of your N.S.I. That would be for house only! So you can see how quickly the answer to my wife's question, "If the bank will lend us the money" got us in trouble.

If you find that these percentages do not provide you with what you consider to be adequate housing, then you must be willing to make some tough choices. For a family to commit themselves to more than 40% of their N.S.I. for housing will require them to always drive old cars, buy their clothes at second stores, toys at garage sales, eliminate expensive vacations just to name a few of the sacrifices. This is called being "house poor".

Mortgage lenders are more than ready to craft a deal that will allow you to become their slave (Proverb 22:7) with no money down and no requirement to pay private mortgage insurance (P.M.I.). P.M.I. is basically default insurance for the lender. It is required when the lender allows you to borrow more than 80% of the value of the house you are buying. Mortgages are available in all shapes and sizes. In order to be able to continue to sell debt to a society that is broke, mortgage lenders have been required to become very creative with their mortgages. For example, the same lender will package a mortgage with multiple loans that will satisfy the loan to value ratios. By structuring two or three loans with loan amounts of 80-10-10, 80-15-5 or 80-20, they can offer you a package deal with 0% down and no requirement to pay P.M.I. But before you get too excited you better take a look at the interest rates. The 80% will cost you about 1% or more above the going rate and the smaller loans will in most cases cost you an additional 3% or more. This of course will depend on what kind of credit risk you are to the lender. Just because it can be done does not make it a wise choice.

Buying a house is a major financial decision. In 1926, 2% of all homes were financed while 98% were debt free. By 1962, 98% of all homes were financed while only 2% were debt free. The typical mindset of our current society concerning debt is to borrow all you can (payment mentality) and make the term as long as you can in order to keep the payments as low as possible.

A solid financial plan starts with a solid financial foundation. Before buying a house, I would always encourage you to establish a cash contingency account of three to six times your monthly expenses, eliminate all of your consumer debt and have a minimum of a 20% down payment. When shopping for a mortgage, look for fixed rate loans starting with a 15-year term. Do everything you can to get compounding on your side as soon as possible. The difference it will make in the long-term is well worth the effort. The way to insure that your dwelling remains your "Home Sweet Home" is to get your life in order financially before you buy your house. *"Prepare thy work without, and make it fit for thyself in the field; and afterwards build thine house."* Proverb 24:27.