

# Let's Talk Finances

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## Things to Consider Before Purchasing Your First Home



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Owning a home is a great investment. However, before jumping into the market it is extremely important for consumers to consider the costs involved and budget accordingly to ensure they're able to meet all of their financial obligations.

It is a good idea to consider these questions before beginning your housing quest:

**1. How much money do you have saved up?**

Start with an evaluation of your financial health. Figure out how much money you have for a down payment. Down payments are typically 5 to 20 percent of the price of the home. Also, be sure to keep enough in savings for an emergency fund. A good guideline is to have three to six months of living expenses to cover unexpected costs.

**2. How much debt do you have?**

Consider all of your current and expected financial obligations, like your car payment and insurance, credit card debt, and student loans. Make sure you will be able to make all your existing payments in addition to the cost of your new home. Aim to keep total mortgage payments - plus utilities - to less than 25 to 30 percent of your gross monthly income. Recent regulatory changes limit debt to income (DTI) ratio on most loans to 43 percent.

**3. What is your credit score?**

A high credit score indicates strong creditworthiness. A low credit score can keep you from obtaining a mortgage loan or disqualify you for one offering the most desirable terms. If your credit score is low, you may want to delay moving into a new home and take steps to raise your score. For tips on improving your credit score, visit [aba.com/consumers](http://aba.com/consumers).

**4. Have you factored in all the costs?**

Create a hypothetical budget for your new home. Find the average cost of utilities in your area, factor in gas, electricity, water, Internet, and cable or streaming TV services. Find out if you will have to pay homeowners' association fees or for trash pickup. Consider the cost of yard maintenance and other basic costs like replacing the air filter every three months. Factor in real estate taxes and mortgage insurance.

**5. How long will you stay?**

Generally, the longer you plan to live someplace, the more it makes sense to buy. Over time, you can build equity in your home. On the other hand, renters have greater flexibility to move and fewer maintenance costs. Carefully consider your current life and work situation and think about how long you want to stay in your new home.