

“Are you ready to buy your first home?” Quiz

Find out if you've taken the necessary steps to be a homeowner!

1. Which do you value more?

- Flexibility as my job and personal life demand change – **1 Point**
- Consistent monthly expenses and long-term investments – **5 Points**

EXPLANATION: If your job demands relocating on a frequent basis or you prefer to move around as a personal aspiration, buying a home might not be your best option. But if you like the stability of a set monthly housing payment and investing in a long-term asset, then you're one step closer to homeownership.

2. Which describes you more?

- I would love to do projects around the home and fix issues as they arise – **5 Points**
- I have the room in my budget to hire professionals to handle maintenance issues
– **3 Points**
- I'm not particularly handy and don't want to worry about being responsible for maintenance issues
– **1 Point**

EXPLANATION: Owning a home is a large responsibility; there are always going to be maintenance issues that will require your attention. If you're all for completing home projects after watching a few YouTube videos or simply hiring a professional to do it for you, then you're definitely suited for homeownership. If you'd rather not spend the time or money on solving maintenance issues, then renting might be your best option for now.

3. How long do you plan to stay in the area you are renting or buying?

- Less than a year – **1 Point**
- Between a year and three years – **2 Points**
- Between three and five years – **4 Points**
- More than five years – **5 Points**

EXPLANATION: Like question one, if you have plans to move around frequently, then spending the large fees associated with buying a home doesn't make financial sense. Most experts agree that buying a home only makes sense if you plan on staying put for five or more years.

4. How much debt do you currently have?

- None! – **5 Points**
- Under \$10,000 – **4 Points**
- Between \$10,000 and \$50,000 – **2 Points**
- More than \$50,000 – **1 Point**

EXPLANATION: If you plan on taking out a mortgage to pay for your home, then you'll have to pass the credit requirements of your lender. They'll look at your credit score and debt-to-income ratio to make sure you haven't already committed to paying back large amounts of debt to other lenders. Paying off existing debt should be a priority before you decide to pursue homeownership.

5. How much do you have saved in your emergency fund?

- One month of expenses or less – **1 Point**
- Between two and five months of expenses – **3 Points**
- Six months of expenses or more – **5 Points**

EXPLANATION: Another good financial move to make before buying your first home is saving enough for three to six months worth of expenses. This emergency fund will be your lifeline in the event you lose your job, have a large medical expense or other such unexpected event. This safeguards you from not being able to pay your mortgage and other monthly expenses while you get through the tough time.

6. How much are you currently spending on monthly rent payments?

- Less than 10% of my monthly income – **1 Point**
- Between 10 and 30% of my monthly income – **3 Points**
- More than 30% of my monthly income – **5 Points**

EXPLANATION: If you are currently paying less than 30% of your monthly income on your rent payments, you are in a good spot to keep renting. Unfortunately, you don't know how much your rent might increase from year to year, so it's difficult to know what to expect for your future expenses. Mortgage payments can fluctuate a small percentage based on property tax amounts and private mortgage insurance, but overall stays more consistent than rent payments.

7. How much would you be spending on your monthly mortgage payments?

- Less than 10% of my monthly income – **5 Points**
- Between 10 and 30% of my monthly income – **3 Points**
- More than 30% of my monthly income – **1 Point**

EXPLANATION: If your mortgage payments end up being more than 30% of your take-home monthly income, then you could end up "house poor." This means you're spending more than the recommended amount on your housing, leaving less room in your budget for other monthly expenses. Make sure to include all your housing expenses in this category – mortgage payment, homeowners insurance, HOA fees, utilities, etc.

8. Can you afford houses in your desired location based on your income?

- Yes, homes in my desired location do not cost more than 2.5 times my annual salary – **5 Points**
- No, homes in my desired location cost more than 2.5 times my annual salary – **1 Point**

EXPLANATION: Again, this is a good rule of thumb for making sure you aren't overextending your budget on housing expenses. If the homes in your desired location aren't falling within this guideline, you might want to look at other neighborhoods or consider waiting on a promotion before becoming a homeowner.

9. Do you have enough money saved for a down payment and closing costs?

- No, I don't have any money saved currently – **1 Point**
- No, but I'm aware of those costs and am actively saving for them – **2 Points**
- Yes, I have 5% of the home's cost saved – **4 Points**
- Yes, I have more than 5% saved – **5 Points**

EXPLANATION: Some first-time homebuyers don't know how much cash you actually need on hand to buy a home. If you get a specialized FTHB loan, you will likely need at least 3% of the home's value as a down payment. And closing costs typically come in around 2% of the home's cost. That means you'll need at least 5% of your desired home's value saved up to close. For a \$200,000 home, that's \$10,000.

10. Are you buying a home as your main investment strategy?

- Yes, my home is going to be more than 40% of my net worth and I plan on using the market appreciation as a return on my investment. – **1 Point**
- No, I understand that the real estate market does not see the same amount of gains that stocks or bonds could get. – **5 Points**

EXPLANATION: Unless you're buying your home in cash, getting a mortgage is debt until you start gaining equity. If you've put the minimum down on a 30-year mortgage, it's going to take quite a while before you start to see any equity build. Plus, the real estate market sees a fraction of the appreciation that the stock market gains year-over-year. So viewing your home as a main part of your investment strategy is not a good financial practice. Housing is a necessity; yes, you want to make your home a good investment, but your overall strategy should rely more on stocks and bonds.

SCORE YOURSELF!

If your total is between 39 to 50 = You are ready to buy your first home!

Congratulations, you've answered enough of the questions to prove that you are more than likely ready to buy your first home! You've saved up enough money for an emergency fund and down payment, you're choosing a house within your income level and you've done a great job paying off debt. It's time to talk with your credit union or bank to get pre-approved for a home loan and get connected with a real estate agent. These experts will be invaluable resources as you navigate the homebuying process. We wish you the best of luck!

If your total is between 22 to 28 = You should consult a professional first.

Whether you're still paying off student loans or just haven't quite saved enough for a down payment, homeownership is still within reach! You're making good progress, so keep it up. Once your income level reaches the amount needed to get you into your desired location and you're financially prepared for all the costs of buying a home, your credit union or bank will be there to help you on your homebuying journey. In the meantime, feel free to consult with them on the best savings and debt repayment strategies so you can get into your dream home even quicker!

If your total is between 10 to 21 = You aren't quite ready to buy your first home.

Breaking the rent cycle can seem almost impossible. If you're living paycheck-to-paycheck, saving thousands of dollars for a home just might not be within reach. Luckily your local credit union or bank can help you make a plan for getting out of debt, saving for emergencies and increasing your earning potential. Plus, there are a ton of first-time homebuyer programs that assist low- to middle-income families in becoming homeowners by providing second mortgages and grants that cover the down payment and closing costs. You can check out those resources here.



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