



Should newlyweds buy a house?

By Teri Cettina | April 3, 2007

So you've returned those well-meant-but-weird gifts, sent the thank you notes and settled into your newly married life.

If you're like many freshly minted couples, now you're thinking about buying a home of your own -- with plenty of storage space for the wedding gifts you actually kept.

But how do you know if you can afford to be homeowners? Is it wise to buy a home before the ink dries on your marriage certificate? What are some of the common mistakes newlyweds make when buying their first home?

Don Patrick, a Certified Financial Planner with Integrated Financial Group in Atlanta, is a big fan of couples becoming homeowners. However, he's cautious about recommending such a big investment for pairs just starting their married lives together.

"While having a home of your own is certainly rewarding," he says, "many young couples are swept up in the romance of their new life and forget that buying a home is a huge financial commitment."

Allyson Bernard, a veteran Realtor with Real Estate Professionals of Danbury, Conn., agrees. She works carefully with newly married clients to ensure that they've given attention to other financial commitments in their life (paying down student loan debt, cleaning up credit card debt, etc.), and that they're not buying more house than they can comfortably afford.

"I want my clients to be happy in their new homes, not to lose their houses in two or three years because they weren't really prepared to be homeowners," she says.

Buying a home

Here are some things you can do to make sure your homeownership experience ends up "happily ever after."

7 Key Points

1. Clean up your financial house.

Before you take on a mortgage, eliminate as many other financial commitments as you can. Pay off leftover wedding or honeymoon bills or credit card debt. Pay down or even

pay off car loans. Take a close look at your student loan debt and any old debts either of you brought into the marriage.

Patrick's rule of thumb: A couple's total monthly debt -- including their new house payment -- should not be more than 35 percent of their gross income.

You should also pull copies of both of your credit reports to see where you stand. You can learn how to get and read your free credit reports on Bankrate.com. Your credit ratings will make a big difference in your mortgage interest rate and, therefore, your monthly house payment.

Finally, get life and disability insurance for each of you. Life insurance, particularly, is cheap these days. If your employer doesn't offer it, or doesn't offer much, consider individual policies. If something tragic should happen to one of you, the insurance can help pay down -- or completely pay for -- your new home.

2. Resist the urge to splurge.

If you're looking forward to buying a home within a year, don't take out loans for that new "now-we're-a-couple" car, an expensive suite of furniture or trendy weekend toys such as motorcycles.

Aside from the fact that you'll need extra money for your home down payment, mortgage lenders don't like seeing new debt on your credit report.

"You don't have a reliable record of payment for a new car, for instance, so you're in a riskier category financially," says Patrick.

3. Manage your moves.

If one of you is moving to a new job or changing careers, sit tight on the house purchase for three to six months. A stable employment history is important to mortgage lenders.

If you move to a new city after you get married, consider renting for a year before you buy a house, says Patrick.

"It can take a while of actually living in a new place before you know which neighborhoods are the ideal ones for you," he says.

Save, save, save. Even if you need to put contributions to your retirement plan on hold, this is the time to sock away cash. Patrick likes couples to have at least three months of expenses stashed in an emergency fund (in savings or a money-market account) in case one partner loses a job, gets ill, becomes pregnant, etc. You don't want to lose your house when an unexpected financial crisis hits.

It's also smart to save up a hefty down payment. The more you pay upfront on your house, the smaller your fixed monthly payments will be. You may also be able to eliminate the cost of private mortgage insurance, or PMI, by putting down at least 20 percent of the house's cost.

4. Get pre-approved before house-love hits.

Bernard won't show clients any houses until they've had a serious sit-down with a mortgage lender, even if it's not the bank or broker they eventually use.

"It's just awful to see a newly married couple get their heart set on a particular house, only to find out afterward they can't afford it or they're not creditworthy enough for a decent mortgage," she says.

"I insist that they take care of the boring financial details first," says Bernard. "Once they know they're qualified for a home loan and know how much they can afford to spend, they're free to focus on the more emotional side of the transaction -- finding the house they love."

5. Research mortgage deals.

Even if you've had your checking account at Stable Mega Bank since your college days, you don't necessarily want to get a mortgage there. Mortgages are very competitive financial products these days and you might not get a better deal at your current bank just because you're already a customer.

Realtors usually keep track of reputable mortgage brokers in your area, so be sure to ask your agent for recommendations. And ask if your Realtor is getting any kind of referral fee for the suggestion. In many states, it's illegal for Realtors to do so.

Focus on getting the best mortgage interest rates and terms you can. But both Patrick and Bernard recommend steering clear of interest-only loans, which are often suggested to younger buyers.

In fact, the National Association of Realtors, or NAR, recently created a publication, "Shopping for a Mortgage? Do Your Homework First," that warns against these kinds of predatory loans. To download a copy, go to www.realtor.org and search for "specialty mortgage."

Once you've got your mortgage, don't worry if you get a letter that your loan has been transferred to another financial institution.

"Mortgages are financial commodities that are sold and traded all the time," says Patrick. "The terms of your loan won't change, no matter who buys it."

6. Discuss your timeline.

How long after your wedding you wait before buying a house is a decision that only the two of you can make. Patrick likes the idea of waiting a year after the wedding and giving yourself time to adjust to your new life together.

"On the list of life's most stressful events, getting married -- even though it's a happy occasion -- is right up there. So is buying a house. Are you sure you want both of those stressors within your first year together?" he asks.

Patrick also is in favor of sharing a rented or previously purchased home for a while before you commit to a new house together. That way, you have time to decide whether you really can share a sewing room/computer room, how much closet space you need and whether a small kitchen is fine (just one of you cooks) or you need a little more elbow room for the gourmet creations you whip up together.

Bernard, the Realtor, disagrees.

"In my experience, couples are pretty quickly in synch about what they want in a house -- it doesn't change after they get married," she says. "For instance, you may like to entertain, need room for visiting family members, or not. You know that pretty quickly. Plus, most younger couples buy a different home in three to five years anyway. Their first home is usually not their forever home."

7. Think twice about becoming a landlord.

If one or both of you already owns a condo or home, don't assume you should live in one and rent out the other. Think about it.

"Renting out a property is a whole other issue. Most people I've known who have tried to be landlords hated it," says Patrick. Also, not every home or condo makes a good rental property.

"If a couple can, I really advise them to start their together space fresh, rather than living in a previously purchased home," Bernard says. "And, in fact, that's what most of my clients end up doing."

http://www.bankrate.com/brm/news/real-estate/20070403_newlywed_homeowner_debt_a1.asp