How To Determine If You’Re Ready To Buy A House

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In today’s fast-growing housing market, you may be shifting your sights from renting to buying your very first home. It can be thrilling to start touring prospective fixer-uppers and dream properties.

But this exciting time can also be met with crippling hesitation for one reason: money. On an economic level, perhaps you’re not sure you can afford all the costs that a down payment, mortgage and home maintenance entails. The first step? Peoples Home Equity suggests doing your homework to help answer the most important question of them all: “Can I afford a house?”

With the economy currently on the rebound, the biggest question potential homeowners have is whether or not they should buy before home prices rise again. It's important to not rush into a purchase out of fear that they may suddenly skyrocket.

That's because your decision to buy a home should be based on your financial well-being, not the housing market. If you're planning to stay in one spot for a decade or more, short-term fluctuations in the house's underlying value shouldn't make a difference. Don't overanalyze the market when deciding to buy a house. If the timing is right for you, there's no reason to wait.

Instead, people should first ask themselves whether or not they have the finances to actually purchase a home. Many lenders require a 20 percent down payment before they'll grant a mortgage. If a potential homeowner can't come up with such a hefty down payment, it's possible to secure a loan, but you'll probably have to pay private mortgage insurance to make up the difference. PMI rates vary from lender to lender, but generally cost 0.05 percent to 1 percent of the total loan amount.

The bottom line is this: not having a 20 percent down payment on hand can be a very expensive proposition. If you borrow $200,000, for example, and you're charged 1 percent PMI, you'll hand over $166 per month.

While your mortgage accounts for the largest of all monthly payments, homeowners need to also keep in mind their taxes and insurance—which could fluctuate month by month and year by year depending on the changing economy. To determine if you can afford these additional expenses, it's important to ask yourself whether or not you have the space in your budget to accommodate tax increases.

If your budget is so tight that it will cause you to miss payments, you're probably not in a strong enough position to buy a home.

Lastly, it's important to account for costs of inevitable maintenance and repairs. Moving into a new home comes with new responsibilities—things like replacing or repairing a roof, fixing and maintaining the HVAC, hiring a plumber, refinishing the floors or installing a new dishwasher. It's recommended to set aside 1 percent of the home's purchase price annually for repairs and maintenance.