

create a preliminary budget

Establish your home's financial foundation.

In the process of selecting and building your dream home, you'll need to ask yourself a lot of questions. One of the biggest will be "How much home can I afford?" Unfortunately, the answer for many people is "Not as much as you think." Unless, that is, you plan ahead and are willing to trim your expenses in order to achieve your goal of homeownership.

Your bank or lending institution will likely be willing to extend you a loan equal to twice your annual income. But remember, banks are not charitable organizations. They're in business to turn a profit, and the way they do that is to lend you as much money as they think you can afford to repay. The more money they lend you, the more they make in interest payments. You certainly

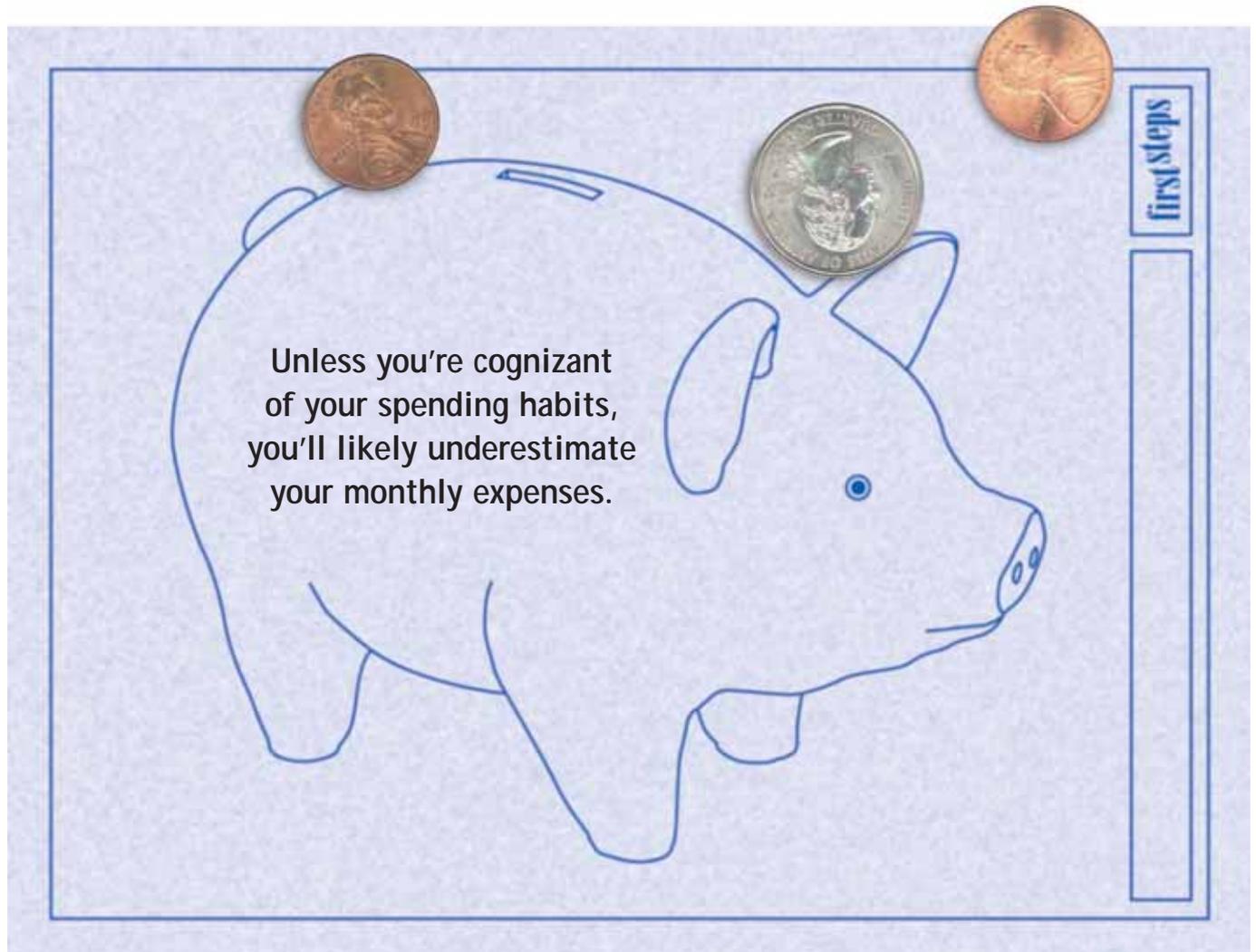
aren't obligated to take the full amount that your bank is willing to lend. But how do you determine the amount you need without overextending yourself?

You create a budget. Your lender will calculate the size of your home loan based on your monthly credits and debits; i.e., your income and expenses. Most loan officers will ask you how much you bring in every month from sources such as your salary, Social Security payments, retirement benefits, disability benefits, interest income, investment income and other monthly income. Next, the lender will subtract the expenses you presently incur or that you may owe as a homeowner. Common expenses include estimated property taxes, homeowners and mortgage insurance,

condo or homeowners' association fees, car payments, average credit card debt, student loan payments and alimony and/or child support payments. Your mortgage payment is then calculated on the amount that's left.

As you can see, the expenses list isn't extensive. Your lender will probably ask you to come up with a dollar figure for "other monthly expenses." However, unless you're extremely cognizant of your spending habits, you'll likely underestimate that amount. That's why it's important to consider every aspect of your daily and monthly spending, so you're not stuck having to make major lifestyle adjustments after you take on your mortgage.

Use a worksheet such as the one in this article to calculate your monthly



expenses. Some will be the same in your new home as in your current living situation. Other expenses, such as utility payments, taxes and insurance, will change. If you currently rent an apartment, they'll change drastically.

The best way to get an accurate assessment of your monthly expenses is to track them. You can purchase an ordinary accountant's ledger at most discount stores. Use it to keep track of every single dime you spend for one month. It's not as hard as it sounds; it just takes a little discipline. You already have the statements for bills you pay every month, which account for a majority of your monthly expenses. For categories like entertainment, simply remember to keep your receipts for all transactions. Then, at the end of the day, sit down and tally them up.

Finally, don't assume that because you're buying a new home your upkeep expenses will be nil. Your brand-new home will contain brand-new appliances and a brand-new HVAC system, all of which may require scheduled maintenance checks to keep their warranties in effect. And your start-up costs will also be large, from a down payment to landscaping to new home furnishings. Formulating a budget can help to ensure that you'll have money available to make your new house a home. 🏠

Expense	Current Amount	Projected Amount
Groceries		
Clothing		
Heating		
Electricity		
Water		
Trash collection		
Phone <i>(including long-distance charges)</i>		
Average credit card payment		
Student loan		
Auto loan		
Parking or public transportation		
Auto insurance		
Auto maintenance, including gasoline		
Property taxes		
Homeowners or renters insurance		
Normal home maintenance		
Condo or homeowners' association fee		
Doctor's visits <i>(includes dentists, chiropractors, optometrists, etc.)</i>		
Prescription drugs		
Alimony or child-support payments		
Tithing and other charitable giving		
Cable/satellite television bill		
Internet access		
Cell phone		
Entertainment <i>(movies, video rentals, dining out, etc.)</i>		
Activity costs <i>(health club memberships, hobby materials, etc.)</i>		
Contributions to an IRA <i>(or other non-employer-sponsored retirement account)</i>		
Savings <i>(it's a good idea to set a fixed amount, say, 5 percent of your monthly take-home pay or as much as you can afford)</i>		
Other monthly fees		
TOTAL		

penny pinchers

If the total figure for your monthly expenses seems a little daunting (and remember, at this point it doesn't include your mortgage payment), consider ways to lower it. Here are a few tips:

Limit the use of your debit card. Conducting transactions with cold, hard cash or even a good old-fashioned check will make you more aware of how much money you spend every day. Sure, debit cards are more convenient, and you can use them just about anywhere, but how often do you remember to record the receipts so you're keeping track of how much you've spent?

Make a distinction between your needs and your wants and stick to it! Is your daily café latte a necessity? Before you answer, consider that one \$2.50 latte per day every workday for 48

weeks (assuming the other four weeks of the year are vacation or other nonwork time) ends up costing you \$600 per year. For some people, that ends up being a full mortgage payment.

Turn off the lights and turn down the heat. You heard your parents say it a hundred times, and the truth is that they knew what they were talking about. Why pay for something that you're not using? Your local utility company will be happy to provide you with an exact figure for the savings you can realize by lowering your thermostat one degree during the winter. In the summertime, you can often lower your bill if you allow the utility company to "cycle" your energy use, meaning that they turn your air conditioner off automatically during peak periods to control disruptions in service. Give them a call for more information.