

Buying a house can be a great way to build wealth and feel like part of the community. It's also a huge financial decision with far-reaching implications. Here are five rules that can help you avoid common pitfalls. Following these rules doesn't guarantee financial success nor does breaking them necessarily doom you to a life of financial woe. Still, it probably won't hurt to keep them in mind as you look for a new house.

Rule 1: Prepare Your Finances

Buying a home will probably be the most expensive purchase you will ever make, so get your finances in order, first. Start by checking your credit report at <https://www.annualcreditreport.com> and make sure all the information is accurate. It's also a good idea to reduce high-interest debt and set aside money for emergencies. A good goal is to save 3 to 6 months' worth of your committed expenses. Also save money for the down payment and closing costs.

Rule 2: Review Your Spending Plan

Homebuying doesn't just mean swapping a rent payment for a mortgage payment. There are a lot of additional ongoing expenses to consider like real estate taxes, homeowners insurance, and maintenance. Review your spending plan to know exactly where your money is going, so you can budget for the costs associated with a new house. A good guide is to limit your housing expenses to 25% – 30% of gross income or your Basic Allowance for Housing (BAH).

Rule 3: Know How Much You Can Afford

Once you have a good handle on how much you can budget per month for housing costs, consider using a mortgage calculator to help estimate how much home you can afford. Don't forget to include the property taxes, insurance, homeowners association fees, and repairs previously mentioned. You may even want to consider the cost of additional life and liability insurance to help protect your purchase. This is also a good time to start researching loan options to determine if you will need to make a down payment. If saving up a down payment is difficult, that could be a sign now is not the right time for you to make such a large purchase.

Rule 4: Get Preapproved

Once you have your finances in order and you know how much you can afford, get preapproved before you start shopping. This shows you are a serious buyer and helps keep you from buying more house than you can afford. You can obtain a preapproval letter from the lender by verbally providing some personal information on your income, debts, employment, etc., and giving them authorization to run a credit check. The type of loan you choose may also influence things like down payments, inspections, and additional insurances. Service members should research a VA home loan, which typically allows a lender to provide you favorable terms. Visit <https://benefits.va.gov/homeloans>.

Rule 5: Save for Move-in Expenses

Create a separate "make it mine" account to cover the expenses of decorating and personalizing the house so it's your home when you move in.