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SPENDING SMART

Buying home called best wealth builder

By Gregory Karp, personal finance writer for The Morning Call, a Tribune newspaper in Allentown, Pa
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Few spending choices in life are as smart as buying a home.

That fact has been on full display in the United States as the housing market has boomed, rapidly increasing the wealth of homeowners. Unfortunately for renters, it has been a wealth wave they missed.

But it's not too late, said David Bach, author of the best-selling "The Automatic Millionaire Homeowner: A Powerful Plan to Finish Rich in Real Estate."

"We're seeing home ownership become accessible to more people," he said in an interview.

Homeownership, however, may not be for everybody.

Possible reasons to continue renting are that you don't want the hassle and added expense of maintaining a home, or you want the flexibility to move your residence quickly.

Or if you're convinced your area is experiencing a real estate bubble that soon will see depreciating prices, and rents are relatively inexpensive, that might be another reason not to buy right away.

If you're concerned about the difference in cost between buying and renting, plug in numbers to an online calculator by mortgage-backer Ginnie Mae at www.ginniemae.gov.

But maybe no homeowner statistic is as startling as looking at net worth, which is all you own minus all you owe. American homeowners have a median net worth of $184,400; renters are worth $4,000, according to the most recent figures from the National Association of Realtors.

Bach's take on those numbers is not that rich people can afford to buy homes, but that homes make you rich.

"For most people it truly is their best asset, their most valuable asset," Bach said.

"People work their whole lives and save, save, save, but buying a home and living in it will make them more money than anything else they do."

Here are Bach's answers to some common questions about buying and owning a home:

How much house can I afford? In his book, Bach takes guidelines from the Federal Housing Administration, the agency that helps people buy homes by guaranteeing loans. The rule basically is that the principal, interest, taxes and insurance payments should not exceed 29 percent of your gross income. And your total debt, including the mortgage, car loans, credit cards and the like, should not exceed 41 percent.

That means if you have no debt, you could technically afford a mortgage and associated monthly costs of up to 41 percent of gross income.

But Bach said he's more conservative than the FHA, casting a mindful eye toward maintenance costs for a house and basing the rule on take-home pay instead of gross pay.

"I would tell you that you probably shouldn't want to spend more than a third of your take-home pay on housing costs, and that includes mortgage, taxes, insurance and maintenance," he said.

Should I stretch to buy a house? Yes, Bach said. "The key is to stretch to buy a home, not to buy everything that they want," he said. "There's a whole `dream home' issue here."

So, the first house doesn't have to be 3,000 square feet with marble countertops and a whirlpool bath. "I think that's an important wake-up call for a lot of people to hear," he said. "We're a sort of want-it-all-now society."

Do I need a lot of money? "The No. 1 thing holding people back is they think they need a big down payment," Bach said. "The fact is, 15 to 20 years ago you did."

No more. Lending restrictions have loosened to the point where many people buy homes with no money down, he said.

That's not to say people should buy a house without saving anything. You'll need money for closing costs and should have a few months' mortgage payments in savings, Bach said.

"You have to find some money," he said. "You can't borrow everything. But you can go in with pretty little. With $2,000 to $5,000, in many communities you can afford to buy a house."

Where do I get the money? This is where Bach relies on a concept in his earlier books, dubbed the Latte Factor. It means if you examine your daily expenses and start cutting, such as forgoing a daily latte at Starbucks, you can easily start to save money.

His Double Latte Factor refers to cutting back on regular fixed expenses, such as cable TV, wireless phone plans and gym memberships. Those savings will add up quickly and provide money for closing costs and other home-buying expenses.

"Most people can find enough money in a year to cover those things," he said.

What's the most important thing? The old adage contends the three most important things in real estate are location, location, location. Not so, Bach said.

"I believe it's financing, financing, financing," he said. "If you talk to multimillionaires in real estate, they'll tell you it's always about the financing."

Financing refers to the terms of the mortgage loan. Terms include the interest rate and how the mortgage payment may change with adjustable rates and some of the more exotic mortgage arrangements.

How do I save money after buying a home? Bach recommends paying off your mortgage early using biweekly mortgage payments, which could shave years and tens of thousands of dollars off your mortgage. You pay half your payment every two weeks. Because there are 26 weeks in a year, you end up paying 13 mortgage payments a year instead of 12.

"The average person ... will save $50,000 to $100,000," he said. "That's a lot of money."

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