

# **How to Plan and Save For Your First Home**

Justin Krane CFP<sup>®</sup>, CIMA<sup>®</sup>

President

Krane Financial Solutions

## Develop a Budget

- Try to save between 10 and 20 percent of your income for a down payment on a house.
- List out every expense you have today, and calculate how much after tax income you bring in – there's your free cash flow.
- Automatic withdrawal from checking account to separate savings account.
- Pay off other higher debts such as credit cards first.
- Improve your credit score: Equifax, Experian, Transunion
- Have three to six months living expenses set aside once home is closed.
- No more than 28 percent of your gross income should be spent on PITI.
  - PITI – Principal, Interest, Taxes, and Insurance payments

## Where To Put Cash For Down Payments

- Need the money within five years?
  - Your investment portfolio is not a bank account.
  - Keep it in a money market account, or CD's.
  - Based on today's interest rate environment – money market is better.
  - FDIC limits \$250,000.

## Sacrifices You May Need to Make

- You may need to wait to save up for the down payment, and also allow your future earnings to catch up.
- Your spouse may need to work, or go back to work.
- You may need to delay your retirement, or consider working part time in retirement.
- Reduce your expenses:
  - Smaller vacation.
  - Delay purchase of new car.
  - Delay/reduce saving for retirement.

# Mortgage

- Smaller payments, more life flexibility.
- What kind of job you have – entrepreneur vs. steady salary job.
- Get one with no prepayment penalty.
- 30 year fixed rates are usually best type of loan to get the lowest rate.
- Just because you qualify for large loan doesn't mean you should take it.
- Use mortgage calculator.
- Conforming loan limits \$417,000 and \$625,500.
- Loans sold to Fannie Mae & Freddie Mac.

## FHA Loans

- Down payment could be as low as 3.50 percent of purchase price.
- Upfront mortgage insurance premium.
- Monthly mortgage insurance premium.
- Premium hikes in Spring of 2010.

# Surprises

- Closing costs – 2-3 percent of purchase price.
- Subject to AMT, you cant deduct prop taxes.
- Plan to have family – buy home with more bedrooms.
- Condo vs home – why are you moving?
- Homeowners insurance – earthquake insurance.
- FICO Score.
- 1<sup>st</sup> property tax bill.

## Other Prep Work

- Get tax returns, brokerage, savings, checking account statements.

# Your First House

- May not be your starter house:
  - You may be there for five to ten years.
  - Home prices might not appreciate.
  - If you aren't able to save any additional money after you buy your first house, you may live in the house for longer than you previously expected.

## First-time Home Buyer Advantages

- Tax credit –
  - Capped at \$8,000.
  - Phaseouts apply.
  - Current homeowners.
  - First-time home buyers.
- \$10,000 withdrawal from IRA or Roth – no 10 percent penalty.

Justin Krane, CFP, CIMA  
President  
Krane Financial Solutions  
Direct : 310.914.0128  
Toll Free : 800.506.6071  
Fax : 888.556.8537  
11400 West Olympic Blvd.  
Suite 200  
Los Angeles, CA 90064  
[www.kranefinancialsolutions.com](http://www.kranefinancialsolutions.com)  
[Justin@kranefinancialsolutions.com](mailto:Justin@kranefinancialsolutions.com)

Investment Advisor Representative  
Cambridge Investment Research Advisors Inc., a Registered Investment  
Advisor.

Cambridge and Krane Financial Solutions are not affiliated.