CHAPTER 1

Buy a House ASAP

You should buy a house as soon as possible, because it's the one investment you can make with money you have to spend anyway. After all, you have to pay money to live *somewhere.* If you currently rent, it's your biggest expense, but you can make that money serve *two* purposes by buying a place instead. You get a nest *and* a nest egg. By contrast, you can't sleep in a stock, and bonds don't keep you warm in the winter. Besides, many people can't *afford* to pay their rent *and* buy stocks and bonds, and others aren't disciplined enough to be reliable investors.

According to the Federal Reserve, the median net worth of homeowners is $234,000, while for renters it's $5,100. Buying a house is a forced savings plan where you can shelter your money *and* shelter your family. Go for it and you will SAVE BIG.

In this chapter, learn to SAVE BIG by:

- Making your housing payment serve two purposes: shelter and savings.
- Buying a house using somebody else's money—but keeping any gains.
- Locking in a monthly payment instead of paying increased rent every year.
- Making money tax-free in the form of real estate appreciation.

Why You Should Buy

In the post–housing bubble years, it's fashionable for naysayers to contend that houses are not good investments and that you should rent instead. They say that real estate doesn't appreciate as fast as the stock market. They babble that it's not a good idea to put all your eggs in one investment basket. They moan that houses are not liquid investments, so your money is stuck.

Guess what? It's all true.

But they're still wrong!

Let's explore why, by looking at the fabulous financial fringe benefits that home ownership brings—from the opportunity to profit, to fat tax deductions, to locking in a steady housing payment you can count on.

Probable Profits

The best part of buying a house is this: What other investment enables you to use somebody *else's* money to *make* money? That's exactly what happens when your house appreciates in value and you sell it for a profit. Even though you still owe money on your mortgage, the people at the mortgage company don't make you share the proceeds with them, now do they? What a deal! And to make this profit, you don't have to overhear a brilliant stock tip or try to comprehend bond rates. All you have to do is pay your mortgage.

According to the U.S. Census Bureau, the average purchase price of a home in the United States right now is about $250,000. (I've rounded for easy math.) According to the National Association of Realtors, property values have gone up an average of 6 percent a year since 1968. I believe in making a full 20 percent down payment, which is $50,000 on that average $250,000 house. So let's put those three factors together and see how we can profit:

Making Money Using Somebody Else's Money

Cost of house	$250,000
Down payment	$ 50,000
Appreciation	$ 15,000
BIG RETURN =	**30%**

In this scenario, our home's value has gone up 6 percent, which is $15,000, but your return on investment is much greater. Why? Because you only put down $50,000 of your own money. A $15,000 profit on your $50,000 down payment is a whopping 30 percent return! If you made that kind of gain as a stock broker, you'd put out a press release!

Tax Benefits

But wait, there's more! Home ownership comes with lucrative tax benefits. The first benefit starts the moment you move in. The IRS allows you to deduct the interest you pay on your mortgage from your federal income taxes. It's the government's way of supporting home ownership and it will help you SAVE BIG.

Let's say you have a $200,000 mortgage with a 6.25 percent interest rate and you're in the 25 percent federal income tax bracket. Here's the average amount you will save in taxes every year:

Mortgage Interest Tax Deduction

Annual mortgage cost before tax deduction	$ 14,777
Annual mortgage cost after tax deduction	12,242
BIG SAVINGS =	**$ 2,535**

That's $2,535 in tax relief that renters don't receive! I have a plan to use that "free money" to save even more money. You'll see how in Chapter 9.

Here's another tax treat courtesy of Uncle Sam. If you make money on a business or a bond, you have to pay capital gains taxes on the profit. But if you sell your *house* at a profit, the gain is tax-free up to $250,000 for individuals and $500,000 for couples.

Rent Goes Up, Mortgages Stay Steady

And finally, by buying a house you are locking in your monthly housing payment. By contrast, rent is almost guaranteed to go up. Since 1990, rents have risen more than 3 percent a year, according to Reis, Inc., a real estate forecasting firm. If you buy a house and choose a 30-year fixed-rate mortgage, your housing payment is set for decades. Even an adjustable rate mortgage payment can stay steady for up to 10 years. By buying instead of renting you are beating inflation at its own game by guaranteeing your payment.

Let's do some math to see how you can SAVE BIG by buying over renting. Say you have $1,000 a month to spend on either rent or a mortgage. Since rents go up 3 percent every year, but mortgage payments stay steady, you can SAVE BIG by buying. Check it out:

Renting versus Buying

Rent cost over 10 years	$ 137,566
Mortgage cost over 10 years	120,000
BIG SAVINGS =	**$ 17,566**

You save $17,566 over the course of 10 years! *That's* what I mean when I say SAVE BIG. Better yet, this math problem doesn't even take into account the fact that renters are giving money away to a landlord while buyers are paying *themselves* by investing in a home. If the home goes up in value by just the same amount that the rent went up in price—3 percent a year—the homeowner will have gained $83,287 on a $165,000 home!

There's one last benefit: When you own instead of rent, you can paint the whole place pink and blast your Bryan Adams albums if you want—and *that* is priceless.

BIG SECRET

Don't Rent, But If You Do, Negotiate

You may be able to wrangle a lower rent payment. Most people never think to ask, but at times when there are a lot of rentals on the market and not many qualified renters, you should. Do your homework. Know local rent prices; know how much your landlord is charging brand-new tenants and any specials being offered. Finally, know whether your landlord is struggling financially. Then make your case. It works especially well if you are a reliable tenant who pays on time and doesn't cause trouble. Use the money you save to start a house-buying fund!

Roll the Dice

Of course, home ownership is not Pollyanna perfect. Things can go wrong. For one thing, your home's value could go down instead of up in turbulent times. But think of it this way: A house is the *only* product we buy that even has the *potential* to rise in value. No car, TV, or computer will do that for you. Remember, property values have been going up an average of 6 percent a year since 1968.

So, I say, take a gamble on a *possible* gain. What's the worst that could happen? You *might* lose money? Well, if you keep paying rent, you will *definitely* lose money. Go for the *potential* earnings instead of the *sure* loss. (You will hear me say things like this throughout the book.)

There's always a chance your home's value will drop right when you need to sell, making it hard to get your money out. Yes, houses are nonliquid investments. But so what? I'd rather have a nonliquid investment than *no* investment. Later, I'll talk about the importance of buying for the long haul and buying below your means, which are both good ways to avoid this sort of scenario.

When to Buy

We've tackled whether and why to buy a house. Now it's time to talk about when. The answer is so simple: Buy a house when you are ready to settle down and your finances are secure. The two S's: settled and secure. Let's take *settled* first.

Settled

To figure out if you're ready to buy, ask yourself: Are you at a point in your career (and love life!) that you can commit to a location? You want to make sure you are prepared to settle down for enough time to recoup the closing costs you have to pay to get a mortgage.

The old advice was not to buy a home unless you planned to stay put for at least three years. Today, longer is better, because in the aftermath of the housing bubble, values are less certain. So I'd suggest that you aim to stay in your home for at least five years.

In fact, try to stay as long as possible. Don't be in a huge rush to trade up to a swankier place. My husband and I lived below our means in a modest condo for the first seven years of our marriage. Our monthly mortgage payment was ridiculously low, well below most rental prices in the Washington, D.C., area. Real estate was hot and friends kept asking, "Why don't you buy a *real* house?" The truth is, we loved those carefree years with no financial pressure, no yard work, and fun neighbors close by. And the condo tripled in value in that time, allowing us to buy a real house later when we were ready to start a family.

BIG SECRET

Set a Spousal Spending Limit

One way to save money is to limit the amount you're allowed to spend without your spouse's approval, and vice versa. Pick a number that works for your family: $50? $100? $500? Then vow that you will not spend more than that without checking in with each other.

Secure

Now for the other S, *secure*. Not only should your career be at a stage where you're fairly certain you won't have to move to another city, it should also be at a point where you make enough money to afford a home comfortably. I know, that's a big "duh." But *secure* refers not only to making money but also to not *owing* money. If you have credit card debt or other loan obligations, stop reading and skip to Part III, which is about credit. No house for you yet. I'll show you how to pay off your debts as fast as possible and *then* you can return to Part I and buy a home.

It's also a good idea to make a habit of maxing out your IRA or 401(k) before you buy a place. You should at least be contributing enough to get the full company match, if your company makes one. Yes, real estate can experience impressive appreciation, but a company 401(k) match is a guaranteed 100 percent return on your investment. Hard to beat!

BIG TIPS

- Use your housing payment for two purposes, nest and nest egg, by buying a home as soon as you can afford it.
- Lock in your housing payment by buying instead of renting.
- Use somebody else's money to make money on real estate.
- Make sure you are settled and secure before you buy.