Jane Walstedt: Now, let me turn the program over to Sarah Miller, a member of the Women’s Bureau team that plans the Wi$e Up teleconference calls, to introduce our first speaker.

Sarah--

Sarah Miller: Thank you, Jane.

It’s my pleasure to introduce Nancy Flint-Budde. Nancy is a native of Washington County, New York, where she settled after starting her career in Boston and the New York City area.

A graduate of the SUNY Geneseo, Nancy earned her Certified Financial Planner designation in 1992 and is a current member of the Financial Planning Association.

She served as a branch manager for Countrywide Home Loans and as a regional vice president for Banknorth Mortgage Corporation.

An independent financial planner since 2000, she enjoys working with a wide range of clients and is often called upon by national publications like USA Today and Kiplinger’s Personal Finance magazine to comment on planning issues.

Active in community affairs, Nancy serves on multiple boards for area non-profits and volunteers her time to serve the local Habitat for Humanity affiliate.
Nancy is married, is a mother of three sons and lives in Salem, New York.

She maintains offices in Clifton Park and Salem, New York.

Nancy--

Nancy Flint-Budde: Hi. Thanks for having me.

My topic for today is working your home into your financial plan. And the way I usually like to start talking about that is by contrasting renting versus buying, and when you are considering buying but have been renting, whether you’re making the choice for the right reasons.

Most of the time – and I think that it was alluded to in the opening remarks – we think about buying because we’re tired of throwing money away on rent. And while that can make sense in the long run, sometimes in the short run, it doesn’t make quite as much sense.

So, the first question I would ask is “Why do you want to buy?” And if you are looking to put down roots --maybe you’re in a job now that you feel like you’re going to stay in for some time, or you’re looking at starting a family and you want to put down some roots, you see a timeframe of five years or longer -- then that may be a good reason to look at buying a home.

But I saw a statistic which I’m going to quote here, “Twenty-nine percent of the Americans who borrowed money to make a home purchase in 2005 either bought with no money down or they’re carrying an amount of debt on their home that is greater than the current value of the house.” That’s from the Wall Street Journal.
So, when we consider that, we want to make sure that we’re not only buying for the right reasons but that we are really truly ready to buy. And that means that you’ve got some money set aside.

If you go right from renting into buying, but you haven’t set any money aside for down payment or closing costs, then you’re either going to end up borrowing that from a secondary source or maybe asking for a gift from parents or family, but you’re not really going to have the equity in the home that you might have going into it in the event that there is an adjustment in home values.

And if the markets are truly cooling then that’s something that we need to think about.

One good thing to do is, if you’re renting right now and you think you’re ready to buy, take a look at what your mortgage payment would be on a home that you’re considering, including the taxes and the insurance, you call that PITI -- principal and interest on the loan, taxes and insurance -- and take a look at what your monthly rent payment is.

And let’s say your rent payment is $750 a month and your mortgage payment is going to be $1,250 a month including taxes and insurance. That means that you should right now be comfortably saving $500 a month, the difference between what you’ll be paying in your mortgage and what you’re paying in rent.

If you are not comfortably saving $500 a month or if you set your mind to it, and you can’t do that over the next six months or so, then you might find that even though everybody’s willing to tell you that
you qualify for that amount without any problem, that it might be a little tight once you get into the house, into your mortgage.

So that’s a good thing to take a look at, at the very beginning.

The other thing is to make sure that you aren’t going to be house poor, that is, that you’re not putting everything you have into this house and you no longer can afford to save for retirement or put money aside for emergencies for other perhaps short-term goals like replacement of a car.

So, does a home fit into your financial plan? Only if you’re not sacrificing all your other goals in order to own a home.

Your cash flow needs to still be able to support a total financial picture. You need to have money set aside for reserves in case you have a financial emergency. You need to be able to meet your other goals.

So take a look at your cash flow. That probably means budgeting, something that we’re not always that good at doing, writing down where things are going, how much they’re costing you, and then maybe making a separate column [for] how will that change when I live in a house.

I won’t have my rent anymore but now, you know, I may have more utilities. I may have more in home maintenance than I have now. It’s important to set aside some money for that.

I saw a statistic recently that said within six months of purchasing their first home, home buyers have typically put about $6,000 on their credit
cards. And I’m going to guess that’s furniture, lawn equipment, garden hoses, everything that you might need when you’re in a house that you didn’t feel like you needed in an apartment.

So think about those kinds of considerations as well.

The other thing that we’re taking a lot of time looking at now is the term of the loan. When interest rates had gotten quite low, people were refinancing a lot, taking a look at 15-year loans instead of 30-year loans.

And the attraction of getting rid of that payment that much sooner, I encourage you to do that. But remember, a 30-year loan doesn’t have a prepayment penalty. [Note: A prepayment penalty is a fee assessed by a lender on a borrower who repays all or part of the principal of a loan before it is due. The prepayment penalty compensates the lender for the loss of interest that would have been earned had the loan remained in effect for its full term.]

So you can often pre-pay it like a 15-year loan, but leave yourself the flexibility to fall back to the 30-year payment -- the lower payment -- if you have a problem and you need to do that.

You can always accelerate payments, but you can’t go in the other direction. So that’s an important consideration as well.

Once you do make the decision to perhaps make the jump to buy the home, there are some tax considerations. And you are going to -- if you itemize and you want to make sure that you do itemize -- you are going to be able to take advantage of writing off the interest on your mortgage and your real estate taxes.
And depending on your situation, you maybe able to write off a portion of the closing costs, but don’t count on that being a very big piece of it.

The other consideration will be the [tax] exemption that you may be able to take on the gain when you do sell the property, if you have a gain. And again, I don’t want to encourage people to think that that’s always, always going to happen.

We’ve been in a very unusual market over the last several years, and it may not continue. So I would encourage you to speak with your tax advisor before you purchase a house about exactly what the implications are going to be for your own individual situation.

And before you assume that you’re going to be able to flip this house in a couple of years and make a lot of money, take a look at what the implications are on that side too.

The other thing I would caution against is if you’re likely to be transferred and you think, “Well, if I get transferred, I’ll just hold on to the house and rent it out,” the tax rules for owning a rental property are very different than the ones for owning a home that you occupy.

And if you rent that property out for more than two years, and then you decide to sell it, you may have to claim your capital gains as a tax item. And that may be something that you weren’t at all prepared to do.

So do some planning with a tax advisor if you are looking at purchasing real estate and you think that your situation may change or
that you may be looking at a sale in the short term or even in the long term.

Let me just wrap up quickly with just a reminder to think about a worst case scenario. When you make any investment – be it in our volatile stock market or be it in real estate – you need to prepare yourself for the worst case.

If prices go down, what’s your strategy going to be? Are you going to sell it at a certain price and walk away from your losses? Are you going to convert it to rental property? Are you going to just hang tight and live there until things rebound?

Over time, like most investments, real estate will rebound, but we don’t know how long that timeframe is. And if you’re doing long range planning, you need to be able to prepare for a worst case scenario.

I’ll let that close my formal remarks and move on to the next speaker.

Jane Walstedt: Thank you so much, Nancy. You actually didn’t even use up all of your time, but those were some very useful suggestions.