

REAL ESTATE

Is Now a Good Time to Buy a House?

As interest rates rise and the housing market cools, you may be asking yourself whether you're ready. Here are four key questions to help you decide



(Image credit: Getty Images)

Deciding whether to buy a house is one of the biggest financial decisions you'll ever make. Not only is it a huge financial decision, it's an extremely emotional one as well. Anyone who has put in an offer, experienced a bidding war and lost a house or who finally got their dream home can agree that the process can have great highs and frustrating lows.

The last few years have been increasingly confusing to potential home buyers. COVID brought on tremendous worry about the future of the economy, initially spurring home buyers to put a pause on purchases. Eventually, lockdowns and remote work and learning inspired many to seek additional space. That, coupled with a low-interest-rate environment and low inventory, spurred bidding wars and sent home prices soaring.

Now that the Fed is increasing interest rates, with a couple more hikes anticipated this year, there is upward pressure on mortgage rates. The average rate on 30-year mortgages has been above 7% for most of October this year. This is more than double what rates were this time last year. With a higher cost to borrow, the Mortgage Bankers Association reported that mortgage demand is 86% lower than it was last year, and they anticipate slowing housing demand for 2023.

There are fewer bidding wars, and we are seeing price reductions. With all of this at play, you may be asking yourself if now is the right time to buy a house. The answer really depends on

your needs and your current financial position. Here are four questions to ask yourself to see if you're ready.

1. Are You Ready to Settle in One Location?

Buying a house is a long-term commitment, so it's a good idea to think about whether you're planning on making any big life changes in the near future. If you plan on switching jobs, getting married or having kids, it might be a good idea to wait on purchasing a home, as your needs will typically change when one of these major life events occurs. If you do end up purchasing a home, you should stay long enough to offset the cost of the transaction, such as closing costs, your selling agent's commission and expenses to prep your home for a sale. Typically, that takes about five years.

Although not the end of the world, you probably don't want to buy a house and then find out you have to move shortly after because you landed the job of your dreams elsewhere. The best time to take on a big asset, and potentially a big liability (hello, mortgage payments!), is when you feel stable in your life and are ready to put down roots.

2. Have You Looked Over Your Budget to See What You Can Afford?

Not only are mortgages expensive, everything else that goes along with owning a home adds up. When figuring out your budget and what it costs to own a home, don't forget to add in things like property tax, insurance, homeowners' association dues, additional maintenance costs — think lawn care, pool upkeep, home repairs, etc. — and perhaps the additional costs of utilities if you're moving into a larger home. The cost of heating and cooling a large home, and water used for a garden and lawn, will obviously be more, so make sure you take those into consideration.

If you're trying to figure out how much of your budget is OK to spend on housing, try this yardstick: Lenders usually require that the principal, interest, taxes and insurance expenses be less than 28% of your monthly gross income. Or you should consider discussing the purchase with a financial adviser, who can help guide you in the right direction and ensure all your bases are covered.

3. Have You Saved Enough for a Down Payment?

If you plan on taking out a loan to pay for your home, you'll need to contribute some money toward the purchase price. The amount that you must put down depends on the type of loan that you take out. While most lenders require at least 3%, typical new home buyers put down 6%, on average.

You may hear 20% thrown around a lot; that's because it's the required down payment to avoid paying for mortgage insurance. This is insurance that protects the lender in case you fall behind on payments. In any case, know that the more you put down on a house, the less you have to borrow, and the lower your mortgage payments will be.

4. How's Your Credit Score?

Having a good credit score will have a big impact on the ability of a lender to extend credit and the interest rate offered. A credit score above 670 is generally what lenders look for in an acceptable borrower; scores between 740 and 799 are considered very good; and a score of 800 and above is excellent.

Your credit score is something that you want to make sure to have in order *before* you apply for a mortgage. If your score isn't where you'd like it to be, the best way to improve your score is to pay your credit card bills on time. Set up automatic payments so the payments don't fall through the cracks when things get busy.

Credit usage is also an important factor and is a measurement of how much credit you use at any given point. You calculate credit usage by dividing the amount you owe across all your credit cards by your total credit limit. Experts say that you should keep this ratio below 30%. Also, keep in mind that credit history makes a big impact on your score as well. Don't close those cards that you've held on to for a long time, as they can help contribute to a positive credit score.

Ultimately, only you will know if now is the right time to buy a house. By having your finances in order first, you can help make that decision more clearly and be able to take the leap when you find that special place you want to call home.

NYSUT NOTE: Are you considering buying a new home this year? The NYSUT Member Benefits Corporation-endorsed mortgage discount program presented by Mid-Island Mortgage can save you money on anything from application fees to underwriting fees to broker fees and more. Mid-Island Mortgage has been offering home lending with personalized service for more than 60 years and NYSUT members qualify for several special purchase and refinance mortgage discounts. [Click here](#) to find out how to learn more.

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