**Don’t Buy a Home. Buy the Right Home!**

There are many views on home-ownership, and most of them are based in ignorance.

**View One:**

One of the more common views is that you should buy as big a home as your budget can fit, and what is more is that we trust banks to tell us what our budgets can fit. Part of the thought process here is that you are going to be in your house for a long time. So, you should buy something that you’ll be happy with for a long time, and even if it is to big now you’ll likely grow into it. This sounds pretty good, and you are likely to make more money down the line than you do now, but you could certainly make less at times too. In addition, as you grow into your home, it is highly probable that your bills will grow too, especially if you are having children. To take things a step further, if you buy the biggest house you can afford now it means stretching out the expense for the longest time possible (which is usually 30 years – sometimes more). How certain are you that this is the place you are going to need to be for the next 30 years?

Even if you are certain, you are probably mistaken. If you are somewhere in the age range of 0-35ish life is going to change in ways most of us can’t imagine, and so will your neighborhood. If you are 35-60ish things may not change as much, but you have just locked yourself down not only for the next 30 years but into your years as a senior citizen. Imagine that you want to move at that time. If you are 65 years old and you made pretty good money maybe you can take out a 10-year loan and work until you are 75. Maybe you didn’t get rich, and you have to take out at least a 20-year loan and work until you are 85. Maybe you are like most other people in the world and you will have to take out a 30-year loan. You’d be working until you were 95, and all this is if you bought your house at 35. It gets tougher every year after that. Even if you can accept all of that, the fact is that with this model you are working for your house (your money). That is money you already worked for. So, now it should be working for you!

**View 2:**

This view assumes that home-ownership is not worth it. It ties you down. You have to pay property insurance, and you are responsible for all maintenance. That is all true, but it is also largely based on the idea that the only home buying model is model one. If you’ve stretched your budget to its fullest and something breaks, you have no money to repair it. Even if you have insurance you have a deductible which almost always cost more than you expect. For that matter insurance rates will go up. Property taxes will go up. Repairs will be necessary, but this is all true on any place you rent as well. Whoever owns the property pays those taxes, repairs, and insurance. All of those fees are part of your rent. They aren’t gifting these things to you.

There are plenty of people who will say, “I don’t believe in home ownership.” Often times, this is someone who is wearing a fake Rolex, driving a rented car that they cannot afford, and ultimately presenting themselves in such a way to trick the untrained eye into thinking they are doing really well and that you are very fortunate for any opportunity they give you to be a part of this success. They are hard selling you on some scheme (that won’t work) and don’t believe in home ownership (for you) because they’d rather see your mortgage money handed over to them. (Hello, Primerica – legally not called a pyramid scheme, but…!) Those who are not trying to scam you, actually mean that they do not believe that home ownership as they understand it, which is similar to view one. They can see that stretching yourself like that results in you working for your house instead of your money working for you.

**View 3:**

This view is not like the others. It is different which makes some people uncomfortable. With view 3 you don’t buy the most you can afford. You buy with an eye toward having enough left to pay surprise expenses and to pay the home off in far under 30 years. This runs a bit contrary to what our get it now society teaches. Our society says get everything you can get now, but view 3 requires that you get some of what you can get now with the patience and understanding to accept that this means you will be able to have much more later and potentially much less stress now.

On the surface this is pretty simple. If you commit yourself for 10 years instead of 30, you won’t be stuck so long. If you budget (you – not your bank or anybody else) in such a way that you have enough for the unanticipated, when those unanticipated things come up, your stress will be much lower knowing you can do it instead of knowing that you can’t but you have to. It’s a decision to have a lower stress life now and more freedom later along with the biggest and most later instead of the biggest and most now. So, why do people sell you on any other direction?

People who made a lifelong mistake with their mortgage often times commit themselves to making the most of it and so sell themselves on it being the right decision. There is also the part in all of us that says if I don’t get it all now, I may not be able to get it later.

In addition to those things the residential real estate business has done a phenomenal job of convincing us that they are on our side. We accept this readily, because there are so many intimidating numbers to work through on a real estate contract. However, the reality of it is that if they don’t sell us a home they don’t get paid. Furthermore, the more expensive the home is that they sell to us the more money they make. It is highly unlikely that any of us will ever buy more than one home or finance more than one home through any real estate related person. So, they have no reason to look for return business. Their financial objective is to get all they can out of you right now while being nice enough that you might recommend your friends allow them to do the same thing. They are not necessarily bad. It is our naivety that is bad.

The Table on the following pages helps show what kind of a difference buying based on different perspectives can make.

Note the following:

* Following view/example 1 you end up with the least in the end but have the highest payments
* Example 2 still almost exactly the same payment amount as example 1, but you end up with a lot more in the end
* You end up with the most at the end of example 3, but it is dangerous. When you max out your budget you’re likely to end up with problems and will definitely carry stress.
* Example 1 requires the biggest upfront sacrifice regarding home type, but it keeps a lot more cash in your pocket EVERY MONTH for 30 YEARS and ends up with the same amount in the end
* Example 5 falls in the middle. You get a little more up front, get some extra cash in your pocket every month, and end up with a better home in the end
* **These are basic examples. There are even better ways to get further ahead on your home purchase**

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| --- | --- | --- | --- | --- | --- |
|  | **Example 1** | **Example 2** | **Example 3** | **Example 4** | **Example 5** |
|  | *View 1* | *Mostly View 1 w/some View 3* | *View 3 w/ max budget* | *View 3 route to View 1* | *View 3 all the way* |
|  | 30 Year Loan on $300,000 Home | 20 Year Loan on $262,000 Home, then 10-year loan | 10 Year loan on $158,000 home |  Multiple 10 year loans on $100,000 home |  Multiple 10 year loans on $125,000 loan |
| **Payment** | $1,520  | $1,519  | $1,518  | $961  | $1,201  |
| **Year 5 Equity** | 26,526 | 49,748 | 73,289 | 46,386 | 57,982 |
| **Year 10 Equity** | 53,732 | 108,339 | 158,000 | 100,000 | 125,000 |
|  |  |  | Sell $158,000home, buy $316,000 home | Sell $100,000 home, buy $200,000 home | Sell $125,000 home, buy $250,000 home |
| **Year 15 Equity** | 101,298 | 178,473 | 231,289 | 146,386 | 182,982 |
| **Year 20****Equity** | 153,330 | 262,000 | 316,000 | 200,000 | 250,000 |
|  |  | Sell $262,000 home, buy $400,000 home | Sell $158,000 home, buy $474,000 home | Sell $200,000 home, buy $300,000 home | Sell $250,000 home, buy $375,000 home |
| **Year 25** **Equity** | 218,465 | 315,289 | 389,289 | 246,386 | 307,982 |
| **Year 30****Equity** | 300,000 | 400,000 | 474,000 | 300,000 | 375,000 |
| **30 Year Result** | Own a $300,000 home | Own a $400,000 home | Own $474,000 home | Own $300,000 home | Own $375,000 home |
|  | *Maxes out budget for life (potentially)* | *Max budget but ends with better house* | *Max budget but ends with best house* | *Extra $559 monthly plus View 1 house* | *Extra $319 per month plus a better home* |
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