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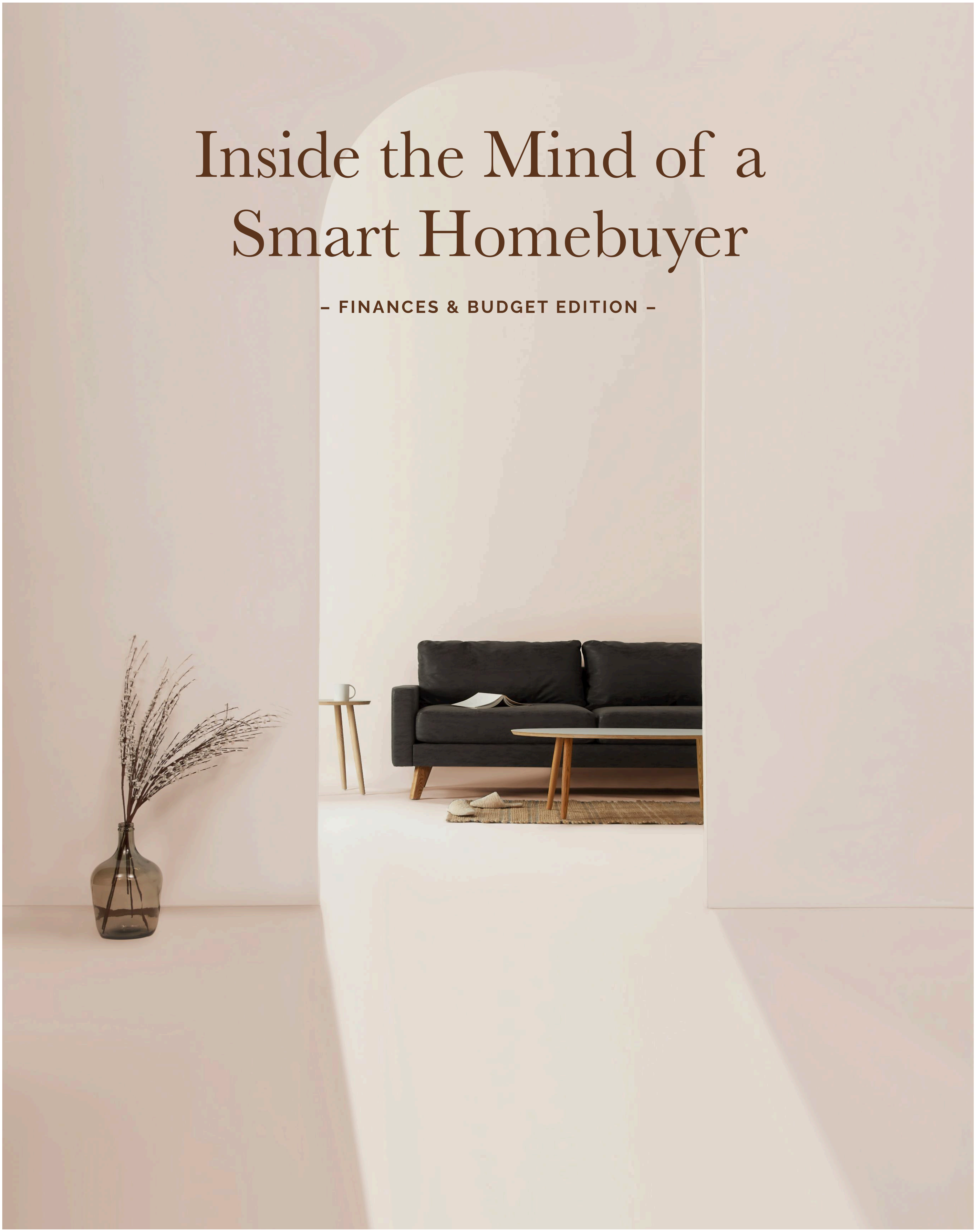
Inside the Mind of a Smart Homebuyer

– FINANCES & BUDGET EDITION –



The Questions That Matter

Buying a home is a major life decision. Home buying may take 6 months or more, so you need to make sure this decision fits in with your personal plans and goals. You should be on the same page with your family - not just for buying a home, but also lifestyle changes and new responsibilities it brings. Take a look at your medium-to-long term goals - typically home buying makes better financial sense if you are going to stay put for 5-7 years.

Last week, we provided you with a list of key areas for you to think about as you start your homebuying journey. Don't worry - we didn't intend to leave these questions unresolved. Every week, we will provide some pointers for one of the categories of questions.

This week we are taking a crack at the first category - Finances and Budget.

Finances & Budget

Setting a realistic home budget is one of the most important steps for any first-time homebuyer. It helps ensure that homeownership fits comfortably within your finances—not just on closing day, but for years to come. Understanding what you can truly afford upfront makes the entire process less stressful and more predictable.

A smart budget looks beyond just the mortgage payment. It also includes property taxes, insurance, utilities, and ongoing maintenance. Planning for these real-life costs ahead of time helps you avoid surprises and feel confident about your decision.

In this guide, we're going to answer some of the top questions first-time buyers have about the financial side of buying a home. From down payments to monthly costs and hidden expenses, these questions will help you get a clear handle on the money side of things so you can move forward with confidence.

1

How much can I comfortably afford each month beyond what a lender approves?

Conventional mortgages typically allow your total monthly expenses up to ~43% of gross income. This means you are spending 43% of your pre-tax income on all your monthly debt obligations, so not just mortgage payments, but also home insurance, property taxes, and payments on loans, credit cards. This ratio is called debt-to-income ratio or DTI.

Many first-time buyers aim to be ~35% of gross income for comfort. You should list all your monthly expenses, and stress-test it for higher utilities, maintenance, and lifestyle goals.

You can also go to a mortgage lender for a pre-qualification to understand the maximum home loan amount you are eligible for and terms you can expect. A good way to think is: “Spend less than what you qualify for,” i.e. intentionally stay below the maximum home you can afford to preserve flexibility.

2

How much cash do I need upfront, including down payment, closing costs, and reserves?

Typical upfront cash includes a 3–20% down payment, 2–5% in closing costs, plus reserves of 3–6 months of total housing expenses. The higher the downpayment, the lower your rate will be, but the benefits start to taper at 20-25% downpayment. Please note: If your down payment is lower than 20%, you may be required to purchase private mortgage insurance (PMI) by the lender.

If you are eligible for FHA, VA or USDA loans, you might be able to reduce your downpayment, but reserves still matter. A common rule of thumb is to plan for at least 8–12% of purchase price in total cash unless you have access to assistance programs.

3

What will my total monthly housing costs be, including taxes, insurance, HOA, and maintenance?

Your “all-in” payment goes beyond principal and interest on your mortgage.

Add property taxes (often 1–1.5% annually), homeowners insurance, HOA dues (if applicable), and maintenance (commonly 1% of home value per year). In addition, your utilities may go up, and your commute/gas costs may also change depending on your location.

Buyers are often surprised that non-mortgage costs add 25–40% to the loan payment - This makes full-cost budgeting critical as you start on your homebuying journey.

4

How do my credit score, debt, and interest rate affect my loan options and payment?

Credit score and debt-to-income ratio directly impact interest rates and loan eligibility. A 100-point score difference can change rates by ~0.5–1.0%, affecting monthly payments and lifetime interest significantly. Typically conventional mortgages require a credit score above 620. With FHA loans, you may be able to qualify at lower scores, but will require a higher down payment. Lower debt improves approval odds and pricing. Conventional mortgages look for DTI below 43%, but you will get the best offers if your DTI is ~35%. You can improve your credit profile with a few months of effort before applying. HAUS is here to help with thanks to the free app (Download: Apple, Google) provided by our partner. And don't forget to look at non-conventional loan options, e.g. FHA, VA, USDA (if you are eligible).

5

How stable is my income, and can I handle changes like job loss or unexpected expenses?

The key question to ask yourself is: "Could I still pay my mortgage if my income dropped temporarily?" To answer the question: you should assess your income consistency i.e. how stable is your income every month; industry risk, i.e. medium term job availability and outlook for your profession; and emergency savings, e.g. do you have money to dip into if needed in an emergency.

The smart course of action, as advised by experts, is to maintain at least 3-6 months of expenses post-closing. We recommend that you prioritize financial and personal flexibility over stretching to the highest possible home price.

6

How long do I plan to stay in this home to make the purchase financially worthwhile?

As we said in our first letter in this series, buying typically makes sense if you plan to stay 5–7 years. This allows time to offset closing costs, selling costs, and early interest-heavy payments. Shorter stays increase the risk of loss if prices stagnate. Many first-time buyers underestimate mobility-job changes, family needs, or lifestyle shifts, so conservative time-horizon assumptions are prudent.

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