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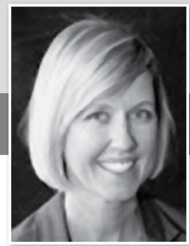
ALWAYS A STEP ABOVE

CAN YOU AFFORD A MORTGAGE?



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CARLA SEELY – Guest Columnist

How much can you afford to spend on a house? Depending on who you ask, you will get surprisingly different answers. There is no magic dollar amount for a 'perfect' home. How much house you can afford is based on many factors, such as your desired location, income, savings and personal preferences.

You cannot expect your real estate agent, a mortgage broker, your friends and family or an Internet calculator to know what you can afford. It is a decision you have to make yourself after reviewing your finances, your future obligations, goals and your gut instinct. It is up to you to crunch the numbers and figure out what would be a comfortable mortgage payment on top of all your other monthly commitments.

About 30 years ago, first-time buyers were often encouraged to stretch as much as they could to buy a house. Today, that advice can be a recipe for disaster. A high mortgage payment can leave you with too little money for other goals, such as retirement, vacations and funding your children's education. At worst, it can leave you vulnerable to bankruptcy.

TOUGH

Before you consider buying a home, you should be debt-free and have three to six months of expenses saved as well as your down payment and closing costs. Being debt-free with money set aside will keep you prepared in case you have to sell your home should you lose your job or become very ill.

Many first-time buyers still find themselves pushed into bigger mortgages than they can handle, based on old-fashioned advice. The idea of purchasing a property on the assumption it can be rented to cover the cost of the mortgage is a great one. But it cannot be the only deciding fact on whether or not you can afford the mortgage.

Interestingly, here is what has changed in the 30 years or more since your parents bought their first home.

Inflation. Rapidly rising prices in the 1970s, 1980s and 1990s meant you could count on hefty annual raises in property values.

Two-income families. A generation ago, single-income families were more common. If the bread-winner lost a job, the other spouse could go to work to save the house.

With more two-income families needing both pay cheques to make the mortgage payment, there is no one on the sidelines to take up the slack.

The lending industry. Thirty years ago, it was pretty tough to get a mortgage for more than you could really afford. Today some institutions still offer zero down payments and 100 per cent financing.

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Retirement. A much bigger proportion of the work force was covered by traditional, defined benefit pensions 30 years ago. Today most of us realise we will not see the benefits of a Government pension and sadly our company pension will not fund even half of our retirement.

Once you have purchased a home you can comfortably afford to pay for, the next consideration should be regarding renovations.

SOLUTION

Putting additional hard-earned money into a property has to be debated. "Asset rich and cash poor" describes the finances of many Bermudians.

The solution is the 50 per cent rule — do not have more than 50 per cent of your net worth tied up in your house, cars, furniture and other possessions. You should have at least 50 per cent of your net worth in income-producing assets not related to real estate.

Owning a home should be something that everyone gets an opportunity to do but remember, big is not always better.

Carla Seely is a Senior Wealth Manager at AFL Investments Ltd. She may be reached at 294-5712 or cseely@aflinvestments.bm

Maxwell R. Roberts Building
1 Church Street, Third Floor
P.O. Box HM 1064
Hamilton HM11, Bermuda

Tel: (441) 294 5715
Fax: (441) 292 5761
invest@aflinvestments.bm
www.aflinvestments.bm