

Before You Buy a Home - Look at Eight Reasons to Buy a Home

If you're like most first-time home buyers, you've probably listened to friends', family's and coworkers' advice, many of whom are encouraging you to buy a home. However, you may still wonder if buying a home is the right thing to do. Relax. Having reservations is normal. The more you know about why you should buy a home, the less scary the entire process will appear to you. Here are eight good reasons why you should buy a home.

Pride of Ownership

Pride of ownership is the number one reason why people yearn to own their home. It means you can paint the walls any color you desire, turn up the volume on your CD player, attach permanent fixtures and decorate your home according to your own taste. Home ownership gives you and your family a sense of stability and security. It's making an investment in your future.

Appreciation

Although real estate moves in cycles, sometimes up, sometimes down, over the years, real estate has consistently appreciated. The Office of Federal Housing Enterprise Oversight tracks the movements of single family home values across the country. Its House Price Index breaks down the changes by region and metropolitan area. Many people view their home investment as a hedge against inflation.

Mortgage Interest Deductions

Home ownership is a superb tax shelter and our tax rates favor homeowners. As long as your mortgage balance is smaller than the price of your home, mortgage interest is fully deductible on your tax return. Interest is the largest component of your mortgage payment.

Property Tax Deductions

IRS Publication 530 contains tax information for first-time buyers. Real estate property taxes paid for a first home and a vacation home are fully deductible for income tax purposes. In California, the passage of Proposition 13 in 1978 established the amount of assessed value after property changes hands and limited property tax increases to 2% per year or the rate of inflation, whichever is less.

Capital Gain Exclusion

As long as you have lived in your home for two of the past five years, you can exclude up to \$250,000 for an individual or \$500,000 for a married couple of profit from capital gains. You do not have to buy a replacement home or move up. There is no age restriction, and the "over-55" rule does not apply. You can exclude the above thresholds from taxes every 24 months, which means you could sell every two years and pocket your profit--subject to limitation--free from taxation.

Preferential Tax Treatment

If you receive more profit than the allowable exclusion upon sale of your home, that profit will be considered a capital asset as long as you owned your home for more than one year. Capital assets receive preferential tax treatment.

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Mortgage Reduction Builds Equity

Each month, part of your monthly payment is applied to the principal balance of your loan, which reduces your obligation. The way amortization works, the principal portion of your principal and interest payment increases slightly every month. It is lowest on your first payment and highest on your last payment. On average, each \$100,000 of a mortgage will reduce in balance the first year by about \$500 in principal, bringing that balance at the end of your first 12 months to \$99,500.

Equity Loans

Consumers who carry credit card balances cannot deduct the interest paid, which can cost as much as 18% to 22%. Equity loan interest is often much less and it is deductible. For many home owners, it makes sense to pay off this kind of debt with a home equity loan. Consumers can borrow against a home's equity for a variety of reasons such as home improvement, college, medical or starting a new business. Some state laws restrict home equity loans.

*From Elizabeth Weintraub, Your Guide to Home Buying / Selling.
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