Interest rates are at an all time low, the housing market is stable, and it looks like we might be heading out of this slow downturn that we have been mired in for the last few years. Maybe it is time to jump in and buy a house. But not so fast. Before you jump in with both feet, you need to take a good look at your finances and do a little gazing into your crystal ball.

The first thing to think about is the cost of a home. The very best ratio to have is one-fourth of your income going toward house payments. Consider your net income, or 25 percent of what you earn after taxes, which is how lenders calculate it. Anywhere between 25 percent and 32 percent is safe. Anything more than 35 to 40 percent is the danger zone.

A higher ratio puts you at risk if anything changes, like an increase in insurance costs or the possibility of a job loss.

Homeownership is a big financial responsibility, and with the unemployment rate more than 9 percent across much of the country, it’s important that you have funds in place to take care of yourself and your family before you buy.

Now you need to ask yourself if you are ready. Here are some factors to consider:

- **Credit score.** If your score is between 730 and 820, you are golden. You can borrow at the best rates. If it is lower than that, figure on paying a higher interest rate.
- **Down payment.** Do you have the cash for a 20 percent down payment? Again, you will have no problem. Lower down payments can mean a higher interest rate and a higher payment. At the very least, you will need several thousand dollars for the closing costs. Though some loans can be obtained with no down payment and you can even borrow the closing costs, it comes at a higher interest rate. You are putting yourself at a greater financial risk.
• Your job. Is your job stable and full time? Is there a possibility of layoffs or downsizing? If there is a possibility that you might lose your job, don’t risk buying a house that you might have to unload in a hurry.
• Location. Do you plan to live in Fairbanks for the next three to five years? If not, you are probably better off renting for the time being.
• How much space do you need? If you are looking for a mansion and won’t settle for anything less, you might want to rethink your needs — unless you have a sizeable chunk of change for a down payment and a hefty monthly payment. A modest house as a starter home is sometimes a great way to enter the home buying arena.
• Are you and your spouse or partner in agreement on housing issues? If you each have different ideas on the location, size, features and acreage, you might want to delay the purchase and get closer together before you purchase.
• Why do you want to buy? This is a central question. If you want a place to show off or to be able to decorate however you want, you need to take a hard look at your motivation. If you want a house for stability for you and your family, that is a good reason to purchase.

In the past, real estate has gained enough value over the years that it was a good investment. But, as we’ve seen over the past few years, a constant gain in the value of a home isn’t always a guarantee. Over time, a home generally provides a nice return because you are building up equity while enjoying a tax deduction on the mortgage interest and property taxes. But, if you are looking for a quick return on an investment, look elsewhere.

Buying a home can be one of the best things you ever do, but make sure you are ready financially and mentally for this big step.

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