Suze Orman

Give Me Shelter

Suze explains the right time to start saving for a house. Plus, how to safely co-own property and secure your future when you're a stay-at-home parent.

Q My husband and I are in our early 30s, and after living expenses and debt payments, we have $1,500 left over each month. Our plan is to put this first toward credit cards (we owe $6,000) and then toward an emergency fund. Once we're out of credit card debt and have savings in place, should we put that $1,500 toward the $175,000 we owe in student loans? We'd like to save to buy a home—is that a financial no-no until we're completely debt-free?

Suze: Wow, your combined student loans are more than the median price for a home these days (about $172,000). You already have a huge mortgage, but it bought both of you a college degree, not a home.

Before we talk about those college loans, I want to applaud your paying down credit cards and building an emergency fund. You are speaking my language, girlfriend. The only tweak I'd offer is to split the extra $1,500 between debt and savings each month. You'll still have your credit cards paid off in about eight months, and starting a safety cushion can't wait.

Now let's talk about your plan's next phase. The four-year limit on undergraduate federal Stafford loans for

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dependent students is $31,000, so I'm guessing you have private student loans. I want you to focus on paying those down, even if it means delaying the home purchase for a few years.

One problem with private loans is they typically have a variable interest rate. Right now interest rates are very low. But with $175,000 in debt, you will be making payments for a long time, and eventually rates will rise. With these loans, you also need to be vigilant about making timely payments; as with credit cards, one late payment is the only excuse a lender needs to jack up the rate. (For parents with college-bound teenagers, see "Paying for College 101," page 66.)

Your college debt will play a big role in whether you even qualify for a mortgage, and in the loan terms. One of the most important factors banks consider is your debt-to-income ratio. As a general rule, they don't want housing payments to be more than 28 percent of your gross monthly pay, and a mortgage shouldn't bring total debt to more than 36 percent. Estimate what your mortgage payment might be for a home in your area, then add that to what you pay each month for student loans and any other debt. If that figure is higher than 36 percent of your monthly salary, you know that decreasing your debts is the necessary first step before you focus on buying a home.

Q For now I am a stay-at-home mother of two. My husband makes a good living, and we're in solid financial shape. The only thing that nags at me is that because I'm not working, I am not contributing to Social Security or saving for my own retirement. What are my best options? Should I *(continued on page 66)*

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(continued from page 64) **contribute to my 401(k) from a past job or open a new account? I could contribute $400 each month.**

Suze: It kills me when stay-at-home moms sell themselves short. You are working—you just aren't getting paid for it. I also noted that you refer to saving for "your" retirement. If you and your husband decide that you'll be the stay-at-home parent, his income needs to pay for both of your retirements.

As for Social Security, stay-at-home spouses can claim a benefit based on their partners. Even if you divorce, if you were married for at least ten years, you're entitled to that money, which can equal up to half of the main recipient's benefit. So, if your husband will get $1,000 each month, you would get $500. AARP has a calculator that parses all the variables. (Type "AARP Social Security Benefits Calculator" in your Web browser.)

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That said, you should absolutely have a dedicated account—and make the maximum annual contribution. (The limit is $5,000 if you're under 50 years old, $6,000 if you're 50 or older.) Every spouse, with or without income, can open a Spousal IRA. The only requirement is that the "working" partner earn enough income to cover the contribution. So as long as your husband earns $10,000 in income, he can put in $5,000 for his IRA and cover $5,000 toward yours. That works out to $417 a month going into your IRA, within easy reach of the $400 you say is available.

Q I'm a woman, married and living with my wife. We earn similar salaries and have joint bank accounts, and we're now saving to purchase a home. I've heard that we might have to pay a gift tax if we both contribute to the down payment, even if we're pulling the money from a joint account. Is that true? Is there anything special we should do to protect ourselves financially with homeownership, as two women?

Suze: Though some states recognize same-sex marriage—Massachusetts has been on board since 2004, and New York legalized it this summer—in the eyes of the federal tax system, you are still individuals. In effect, your situation is no different than any two people, straight or gay, who choose to buy a home together. Definitely sit down with an estate lawyer with experience in this area.

The good news is that the down payment won't be subject to gift tax, given that you both contribute to your savings and the payments will be made from a joint account. The biggest issue is the type of ownership on the deed. There are three basic types: Tenants-in-Common, Joint Tenants with Right of Survivorship (JTWROS), or having a revocable living trust take ownership.

Tenants-in-Common means that you have a share in the home and can do what you like with that share. So, let's say your wife leaves everything to a nephew in her will. If she dies, he now owns her stake in the house. If he wants to sell it, you need to buy him out, or you could be forced to sell the home. I'm guessing that's not what either of you wants. JTWROS solves that problem. With this setup, when one of you dies, the property passes directly to the survivor.

If you want something more customizable, set up a trust. It allows you to maintain control over the asset while you're alive and to specify exactly what happens when you die. For instance, you could let your wife live in the house as long as she likes but once she moves give a portion of the proceeds to someone else. The important thing is to weigh these ownership options and choose one that feels right for the two of you. ◘

Suze Orman's new book is The Money Class: Learn to Create Your New American Dream *(Spiegel & Grau). To ask Suze a question, go to oprah.com/omagazine_talk.*

Paying for College 101

Families that want to get schooled on the smart way to finance a degree should consider these rules:

1. **STUDENTS ALWAYS** borrow before parents. Always.
2. **STUDENTS USE** federal Stafford loans. These are fixed-rate loans with flexible repayment terms, and everyone, regardless of financial need, is eligible.
3. **STUDENTS BORROW** no more than they expect to make at their first job. Financial aid expert Mark Kantrowitz (finaid.org) has found that when total debt exceeds your starting annual salary, the odds of defaulting go way up.
4. **IF THE STAFFORD LOAN** limits ($5,500 to $7,500 for a dependent undergraduate) don't cover what the student needs, don't be tempted by private loans.
5. **PARENTS BORROW ONLY** if their retirement savings are on track. No ifs, ands, or buts.
6. **PARENTS BORROW ONLY** through the federal PLUS program, which offers fixed-rate loans with flexible repayment options.
7. **IF THE STUDENT STILL** can't swing it, consider a less expensive school. Parents and students willing to take on massive debt don't earn a passing grade in my money class. **—S.O.**