

# RENT

or

# BUY

homebridge®

Tri Cities



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# INTRODUCTION

If you've been thinking about making the move to own instead of rent, you might be getting a lot of conflicting advice from friends and family about what you do. That's because the decision to become a homeowner should be based on your unique goals, your financial position and a number of other factors.

**YOU HAVE TO WEIGH THE BENEFITS AND LIMITATIONS OF RENTING VS. OWNING AND JUDGE WHAT MAKES SENSE FOR YOU.**



This guide is meant to help you make an informed decision based on both your budgetary restrictions and lifestyle preferences.

**READY TO GET STARTED? LET'S GO!**



# UNDERSTAND YOUR FINANCIAL RESPONSIBILITIES

## CREDIT UTILIZATION

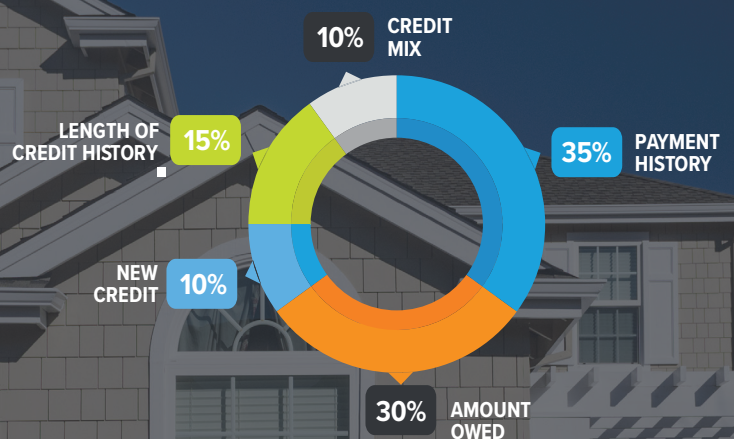
Credit utilization is a phrase that most people will not have heard until they start looking for a loan. It's a ratio of your total credit to your total debt represented as a percentage point. If your credit utilization is 20%, you're using 20% of your total available credit.

Suppose you're thinking about buying a home. In that case, you'll want to keep your credit utilization below 30%, as anything above that may signal to reporting agencies and negatively affect your mortgage options.



## CREDIT SCORE

A credit score is a number created to rank your credit worthiness. It's worked out by a mathematical formula that differs depending on the credit-score modeling company – the two major ones being VantageScore and the more commonly used FICO. Below is a chart that outlines what makes up your FICO score.<sup>1</sup>



**WHILE A LOW SCORE DOESN'T ELIMINATE HOMEBUYING AS AN OPTION, IT WILL LIMIT YOUR MORTGAGE CHOICES AND INCREASE THE INTEREST RATE YOU'LL BE OFFERED.**

Source: MyFico.com



# LIFESTYLE TWEAKS

Improving your financial position takes time but is worth it if you're considering buying a home. That's because if you're seen as a risky borrower, you may be paying more in high-interest and fees, miss out on programs with better terms, or put your plans on pause altogether. A significant first step in improving your financial standing is budgeting. It can also let you know if you're ready to take on the responsibility of a home.

List out your daily, weekly and monthly expenses. Develop a budgeting system, whether through a spreadsheet or mobile app, to track every payment. The more you document, the more opportunities you'll notice to save money.

## FOR EXAMPLE:



### CELL PHONE/CABLE BILL

Maybe you're overpaying on your cell phone bill or cable TV subscription. Is there a competitor that can offer you similar services for less?



### MEAL PLANNING

Meal planning for the week could reduce the money you spend eating out.



### PLAN OUT ERRANDS

Plan your errands so that moving efficiently from one location to the other could reduce travel time and gasoline expenses.



### BREW YOUR OWN COFFEE

You might be able to save hundreds of dollars by brewing coffee at home and only grabbing it from a coffee shop once or twice a week.

Don't deprive yourself, but you want to prioritize your expenses a little more so you can assess if buying a home is feasible and, if so, how long it'll take you to save up for the costs associated with the purchase. Ultimately, you're in control when you know where your money is going.

If your savings aren't where you want them to be, you can consider renting as preparation for owing. It gives you time to pay off debts and put away more money.



# BENEFITS OF HOMEOWNERSHIP

Beyond owning a great place to live, homeownership has some fantastic financial benefits.



## HOMEOWNERSHIP BUILDS WEALTH.

Owning a home can be a very good way to create wealth over the long term. Buy a home you can afford that is a good value and that you will stay in more than a short time – five years at least, or seven to ten years ideally.



## YOU'RE ADDING TO YOUR EQUITY EVERY MONTH.

Equity is the amount of money you'd get for selling your home, minus what you still owe on your mortgage. A portion of each monthly mortgage payment goes to your loan principal and adds to your equity. This portion of the monthly payment increases yearly, so the longer you stay, the quicker your equity builds.



## A MORTGAGE IS AUTOMATIC SAVINGS.

Those monthly payments to your principal are building your assets like an automatic savings plan. You can access that cash when you need it through home loan programs such as a cash-out refinance or HELOC.



## BUYING IS CHEAPER THAN RENTING OVER THE LONG TERM.

The interest portion of your monthly mortgage payment decreases over time, so if it's not lower than your rent at the beginning, it will be eventually.



## YOU GET TAX DEDUCTIONS.\*

1. The mortgage interest you pay each year is deductible on your federal income tax return.
2. You can also deduct the property taxes you pay on your primary residence and a vacation home.
3. For the year you buy your home, you can deduct the points, called origination fees, on your mortgage.
4. Any interest you pay on the borrowed money is also deductible if you take out a HELOC. This lets you shift credit card balances to a loan with a lower interest rate. And that interest is tax deductible<sup>2</sup>, which credit card interest is not.\*



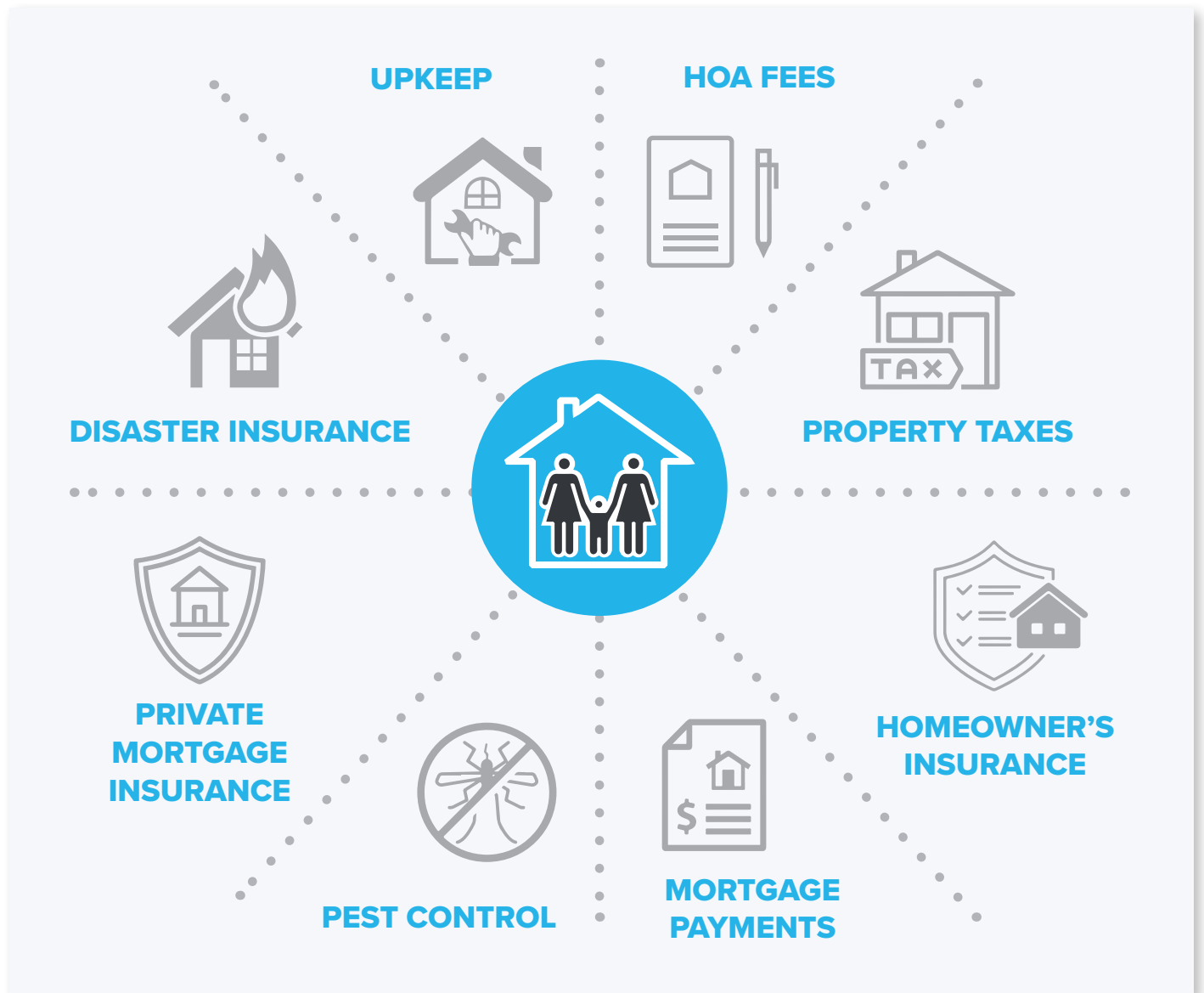
## YOU CAN GET A CAPITAL GAINS TAX EXCLUSION.

This applies to a home that has been your primary residence for more than two years. When you sell, you can keep up to \$250,000 in profits if single and up to \$500,000 if married. That's without owing any tax on those capital gains.



# BENEFITS OF HOMEOWNERSHIP

Owning a home also means you are responsible for its maintenance. This is a definite when you want to make home improvements that a traditional landlord would deny. However, it also means added chores such as trimming the trees and cleaning the pool every so often. Think about these revolving costs of owning a home:



As long as you know what to expect and plan accordingly, these responsibilities shouldn't scare you. It's also important to note that while renters may avoid some of these costs, they also don't own property that could potentially be sold for a profit later. They may also be subject to price increases year-to-year, with no control over the amount the landlord sets.



WHEN TO CONSIDER RENTING

Continuing to rent may be a good option if you don't plan on living in the home for more than five years. This is a general rule because otherwise, you may lose money on the home purchase. Closing costs and other fees add up, and usually, it isn't until you're about five years into paying down your mortgage that you've made enough progress on the principal to make it a better deal than paying rent each month.

The money spent on rent is a fee to cover your rental contract/lease. Unlike a mortgage payment, you don't see it accumulate in the form of equity. That makes owning a far more attractive prospect in the long term. Consider the numbers in the chart below.

RENT/MONTH	AFTER 2 YEARS	AFTER 5 YEARS	AFTER 10 YEARS	AFTER 15 YEARS
\$600	\$14,400	\$36,000	\$72,000	\$108,000
\$700	\$16,800	\$42,000	\$84,000	\$126,000
\$800	\$19,200	\$48,000	\$96,000	\$144,000
\$900	\$21,600	\$54,000	\$108,000	\$162,000
\$1,000	\$24,000	\$60,000	\$120,000	\$180,000
\$1,100	\$26,400	\$66,000	\$132,000	\$198,000
\$1,200	\$28,800	\$72,000	\$144,000	\$216,000





# CONDOS: A COMPROMISE FOR SOME BUYERS

For those who are genuinely torn between renting or owning, there is one option that combines many of the perks of each. A condo allows you to keep rental amenities such as gyms, pools and other common areas, while also experiencing the stability and independence of homeownership.

**Below is a breakdown of the difference between a single-family house and a condo.**

## CONDOMINIUM



# VS



## SINGLE FAMILY HOUSE

### CONDOMINIUM OR CONDO

A privately owned individual unit within a building of other units.

There are 26 different pieces of criteria that determines the rate.



RATES

If you're putting less than 25% down, there's a potential for a different (higher) rate.



DOWN PAYMENT

Homeowners only pay insurance for the space within their individual unit.



INSURANCE

In many cases, condo purchases require more documentation when compared to single family homes. Lenders must obtain paperwork from the condo association that establishes their unique rules for selling and buying.



PURCHASE PROCESS

### SINGLE FAMILY HOUSE

An independent structure that sits on its own land and is designed to be used as a single dwelling unit.

Like condos, there are just as many pieces of criteria that will determine the rate for a single family home.

If you're putting less than 20% down, you may have to pay additional mortgage insurance.

Homeowners' insurance must cover the entire house, from foundation to roof.

In most cases, single family home purchases require less documentation when compared to condominiums.

# CREATE A TIMETABLE FOR YOUR MOVE

The time it takes to research and purchase a home properly can be months, and there can be many stages that will require your full attention. You want to have a realistic timeline for both purchasing and renting. Here are a few points to help you map out your journey.



## OWNING

### FINANCIAL REVIEW

Budgeting to be sure you can afford homeownership. Do you have enough savings to cover a down payment and closing costs? Will you have enough left over for emergency repairs or life circumstances?

### FINDING A REALTOR

Tips from friends and family can help you find the right Real Estate Agent or avoid the wrong ones. If you're unable to obtain tips, or you're moving into a new city, take the time to do your homework.

### FINDING A HOME

Is the house everything you dreamed of? Is the neighborhood ideal? Finding the right home could take time.

### FINDING A LENDER

Getting pre-approved for a loan could expedite this part of the process, but prepare to do some research on a trustworthy mortgage company.

### CLOSING

This includes finding a home insurer and a home inspector. It can take time to shop for both if quotes start to come in higher than you budgeted for. This is also where you make the down payment and pay the closing costs.



## RENTING

### VISIT PROPERTIES

Set up appointments ahead of time.

### APPLICATION + CREDIT AND BACKGROUND CHECKS

All three usually come with a small fee. Sometimes the application fee is applied to the first month's rent if you sign a lease.

### SIGN LEASE

This will define all of your obligations as a tenant and your landlord's obligations as well. It will break down the date you move in, your monthly rent, and which utilities (and possibly maintenance) you are financially responsible for.

### RENTER'S INSURANCE, DEPOSIT, FIRST & LAST MONTH'S RENT

All together, these can add up to a hefty one-time payment. The upside is that you won't need to sweat a rent check for the last month you live on the property.



## IN CONCLUSION

The only correct answer to whether to rent or own is the answer that is right for you and your family. In your situation, there may be several compelling reasons to buy a home or rent. The goal of this guide is to help you focus on which housing situation is right for you and that you are financially capable of handling that decision.

When you are ready to own your home, use the next page to organize your house hunting. It will help you manage your search so that you'll be sure to find the right home for you.



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**READY TO BE A HOMEOWNER?**

[illegible]



## SOURCES

1

### WHAT'S IN YOUR CREDIT SCORE?

MyFICO.com



2

### CAN I STILL GET A DEDUCTION FOR MY HELOC MORTGAGE

Forbes Magazine





Tri Cities

# MAKE YOUR DREAM OF HOMEOWNERSHIP A REALITY

You've taken the first step towards homeownership! We're grateful that you've chosen Scott Unger to help you reach that goal. Working with us means you can expect open communication, professional advice and access to services sure to enhance your homebuying experience.

We aim to get you a loan that works for you while providing outstanding customer service.

**CONTACT US TODAY TO GET STARTED!**



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