

OWNING VS RENTING



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INTRODUCTION

The decision to move can be confusing, especially if you get caught in the “should I buy or should I rent” loop. Going to friends and family for advice can be helpful, but it can also lead to receiving a wide range of conflicting opinions. That’s because there is no right answer when it comes to choosing a home.

Owning and renting each offer their own unique benefits and limitations.



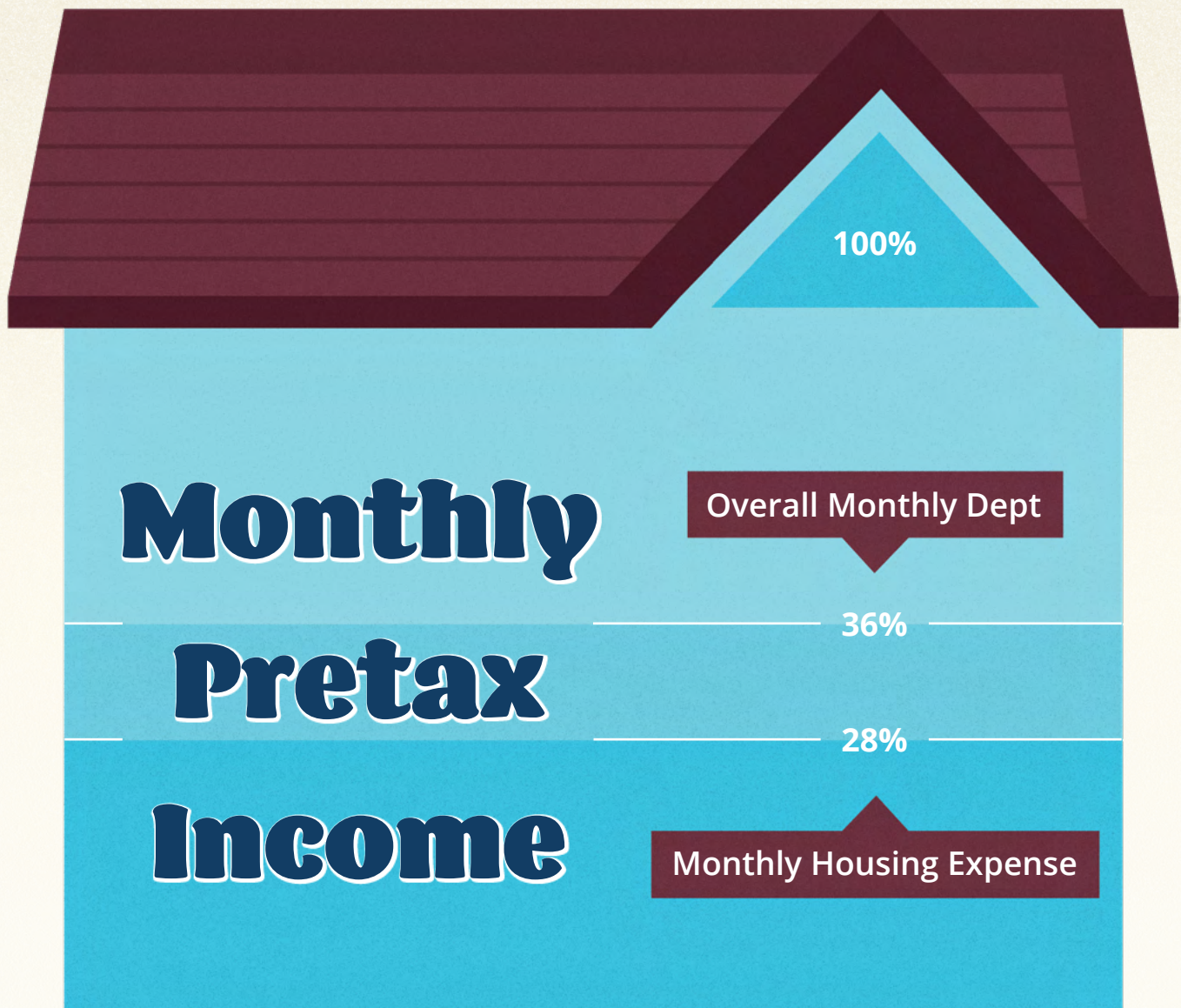
We created this printable eGuide hoping that the information below will help you make an informed decision, based on both your budgetary restrictions and lifestyle preferences.

Welcome to **Owning vs. Renting eGuide**.

BE HONEST ABOUT YOUR FINANCIAL RESPONSIBILITIES

Do you have student loans, credit card or car debt?

Some experts recommend that your monthly housing expenses **not exceed 28%** of monthly income— and that overall debt (rent or mortgage + loans, car payments, credit cards, etc) **not exceed 36%.¹**



These thresholds were designed to help you save for retirement and to avoid strain on recreational activities.

Be sure to take stock of your daily, weekly and monthly expenses— that's the best way to determine the highest mortgage or rent payment you can afford. You can develop a budgeting system, whether through spreadsheet or mobile app, to track every expense. The more you input, the more you'll notice money saving avenues. For example:



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?



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



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



Planning your errands so you're moving efficiently from one location to the other could result in reduced travel time and gasoline expenses.

Remember, the goal here is not to cut out things you love. You just want to prioritize a little more so you can put the best roof over your head as well. Ultimately, when you know where your money is going, you're in control.



Another important indicator of homeowner readiness is your savings. When you close on a home, you'll have to make a down payment and cover closing costs. Those two can deplete a savings account fast, leaving you vulnerable to surprise expenses. If you're set on buying a home, but your savings aren't where you want them to be, consider this: renting can prepare you to responsibly own a home down the road. It gives you time to pay off debts and put away more money.

THE FINANCIAL BENEFITS OF HOMEOWNERSHIP

Homeownership comes with several financial rewards, including tax deductions. According to the IRS: Mortgage interest is deductible if the loan was used to “buy, build, or substantially improve” your qualified home.²

For mortgage loans after December 16, 2017
you can deduct your home mortgage interest if:

Individuals or married, filing separately: Mortgage balance is \$375,000 or less

Married, filing a joint return: Mortgage balance is \$750,000 or less

You may also be eligible for itemized deductions
on state and local taxes, including property tax

- Following the latest changes in tax law in 2018, your mortgage interest and property taxes are currently deductible, in addition to your loan’s origination fees (for the year in which you bought the home).
- Property taxes up to \$10,000 (\$5,000 if married and filing separately) can be deducted in combination with state and local income taxes or sales taxes.

Be sure to speak with a tax professional to understand how these benefits affect you.



Building wealth through equity is another reason to consider buying over renting.

The amount you earn depends on how prepared you are for the revolving costs of homeownership. As a renter, you'll pay the same amount every month of your leasing contract. When you own a home, you'll have to trim the trees and clean the pool every so often. Utility bills could also be higher. Consider these revolving costs of owning a home:



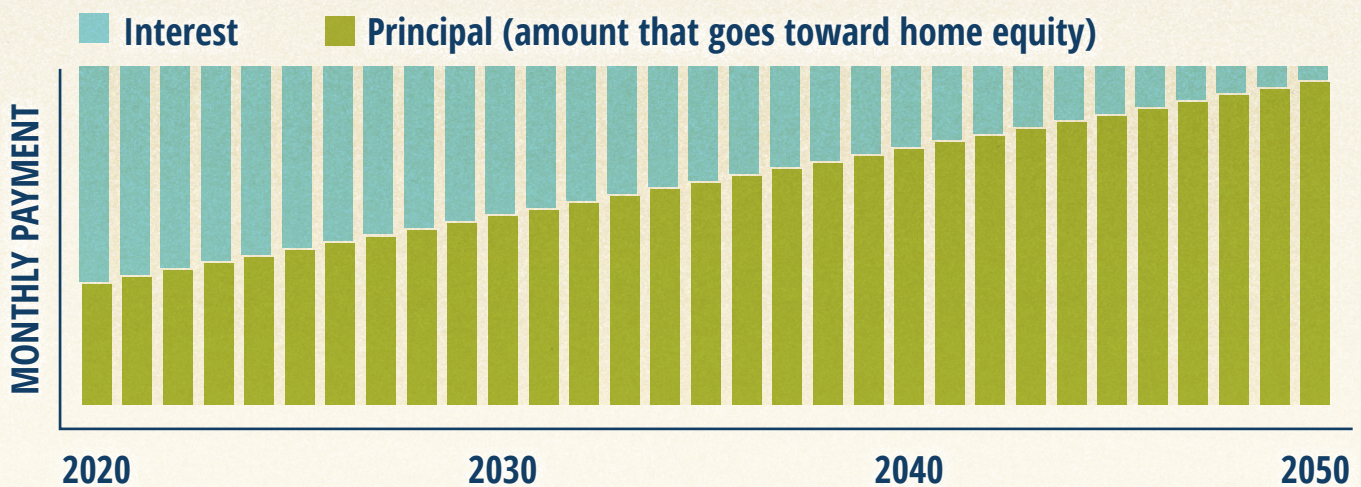
Don't allow any of this to intimidate you—as long as you know what to expect, you can plan accordingly. If you're financially ready to own a home, remember: renters may avoid some of the above mentioned costs, but they also won't own property that could potentially be sold for profit later.

Additionally, renters may be subject to price increases year-to-year, with no control over the amount the landlord sets. With a locked rate on a mortgage, homeowners can plan for the future knowing their monthly mortgage rate won't change over time.

YOUR LIFESTYLE PREFERENCES CAN MAKE THE CHOICE EASIER

In the battle between responsibility versus flexibility, people often wonder which route is best because they aren't sure what the next five years will look like.

One important part of the equation requires doing the math. If you want to protect yourself financially, will renting or owning be the smarter choice in the long run? It's possible you don't know for sure how long you'll live in a home, and that answer varies depending on the market in your city, and potentially your job. In general, the longer you're in the home, the better, because your costs are spread out over time.



When it comes to home loans, your monthly payment amount will remain the same, but **what your payment goes to will change over time**, as this graph represents. For each payment you make, some will go towards the **interest costs**, and some will pay off your **loan principal**, which reduces the overall loan balance.



Homeownership offers amazing perks. When you own, the decision about what to do with your space is up to you—not a landlord. If you decide to renovate to better suit your lifestyle, you're not limited to simple cosmetic changes. You can plan the perfect kitchen setup for your family, install a freestanding bathtub, or remove a wall to open up space—and increase your equity in the meantime.

If you own a house with a yard, those benefits extend to your outdoor spaces, too. You can reserve an area for an in-ground garden, build a privacy fence, or install a pool. With your own home, you're in control.

Those unsure about the area you want to live in might opt to rent, unless it means moving a house full of family and things often, which can be time-consuming and expensive. Minimalists who spend more time away from a home than in it might prefer to live out a lease and move when it ends. Buyers with families might choose to buy a home and sell in a few years if they decide they would prefer another area.



If you're completely caught between renting or homeownership, there is one option to marry some of the preferred perks from each: buy a condo. You'll likely keep rental amenities such as gyms, pools and direct access to city life, for example, while also experiencing the stability and independence of homeownership.

WHAT'S YOUR TIMETABLE FOR MOVING?

Do you have the time to properly research and purchase a home? It can take months, and the process includes many stages that will require your full attention and ability to research.

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 realtor 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-qualified for a loan could expedite this part of the process, but prepare to do some research on a trustworthy mortgage company (Open Mortgage is up to the challenge).

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

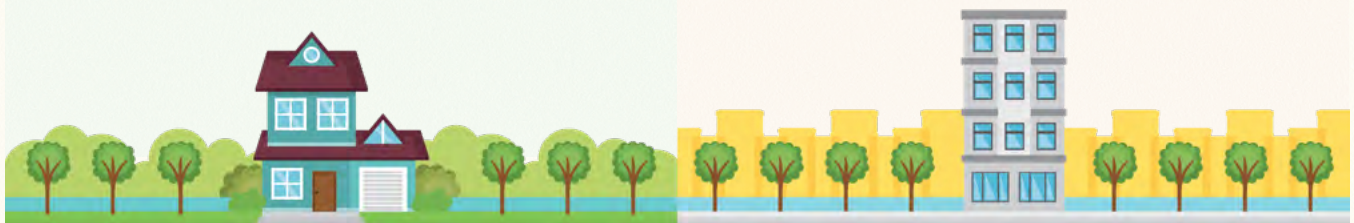
All three usually come with a small fee. Sometimes the application fee is applied to the first month's rent if you sign a lease.

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 in the property.



WRAP UP

As you can see, the only right answer to the question of renting versus owning is what's right for you and your family. In fact, there are probably several compelling reasons both homeownership and renting could make sense for you.

We hope the biggest takeaway from this guide is that you focus on which living situation is best for you, and that you ensure you're financially capable of handling whichever you choose.

Try using the worksheet on the next page as a litmus test for homeownership readiness.

ARE YOU READY FOR HOMEOWNERSHIP?

Have you paid off your student loans, automobile or credit card debts? **Y/N**

Do you have enough money saved to put down a 3.5% - 20% down payment, depending on the program that best suits you? **Y/N**

Do you have enough money saved to cover closing costs as well? **Y/N**

Do you have enough money saved to put homeowner's insurance and property taxes in escrow to satisfy your lender's loan terms? **Y/N**

Can you cover three to six months of expenses if you lose your job or become ill? **Y/N**

Will you be willing to put in the time and/or cost commitment to a home's maintenance (yard, home improvements as needed)? **Y/N**

Have you budgeted for higher utility bills and other monthly rotating costs that are associated with homeownership? **Y/N**

Will you have enough time to research your mortgage options and the terms of any loan that a lender offers you? **Y/N**

Are you planning to live in your new home for more than five years? **Y/N**

Do you have enough time to research realtors, lenders, home insurance providers and home inspectors in your area? **Y/N**

If you answered **No to more than four of the above questions, you might consider further building up your savings and waiting a little while longer before purchasing a home.**

Open Mortgage Loan Originators have an expansive referral network. Find a loan originator near you [OPENMORTGAGE.COM](https://openmortgage.com)

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EMPOWERING THE AMERICAN DREAM OF HOMEOWNERSHIP.

Open Mortgage empowers our partners to deliver the American dream of homeownership to borrowers across the country. Our partners include our retail branches, mortgage brokers, community banks and credit unions. Our partners provide the retail storefront to American borrowers. Open Mortgage provides the operational engine that empowers our partners to succeed, delivering the American dream of homeownership to an ever-growing audience.



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