

Transcript

Is Buying A Home Right For You?

To be or not to be...a homeowner or a renter? Now that's a question. It's one you'll want to seriously ask yourself before jumping into the buying process. And while buying a home is a very worthwhile goal, it doesn't always make sense. Because believe it or not, sometimes renting can be the smarter thing to do.

That's why it's so important to consider the pros and cons of both renting and buying before you make a big move. So let's talk a little bit about renting. On the pro side, a monthly rent check may be easier to afford than a mortgage payment. Not to mention the other expenses that go along with owning like maintenance, homeowner's insurance and home repairs. So renting could free up some money to help you save for other big things, like retirement, education — or even a down payment for a home in the future. Renting also gives you the flexibility to be able to easily move when you want. Just, you know, make sure you've fulfilled your lease obligations first if that's what you decide to do.

As with anything else, renting has its downsides. For starters, you know, you have less control over your living environment. Say you want to paint a chalkboard on your kitchen wall, that sounds nice, or hook up a washer-dryer. If you rent, you'd have to get your landlord's approval first. Financially, there are cons too. Namely, your rent can go up. And it can be frustrating to send a check month after month to help someone else build equity in a place that's never going to be yours.

So what about buying a home? What are the pros and cons of that?

Well, on the plus side, you've got much more control over your living environment. So if you want to create a retro 70s living room, complete with wood paneling and orange shag carpeting, there is nothing stopping you.

In addition to having the freedom to truly make something your own, there are many financial benefits of buying, both in the short term and in the years to come. For instance, if you have good credit, you may get a good interest rate — which could help make for a more affordable monthly mortgage payment. Another big plus, especially if the home is your primary residence or a second home, is the ability to deduct interest payments. That can help save you money in taxes. But check with your tax advisor to see

how much. What's even better? Each payment helps you chip away at the loan's balance. And once it's paid in full, you could own your home outright.

But, there are cons to buying too. Like, what happens if your hot water heater goes kaput? Well, if you own, it's up to you to fix it. That usually means having to lay out a good chunk of change. Or let's say, what if you're offered your dream job three states away? Well, congratulations, but it's not exactly easy to pick up and move as a homeowner. You'd have to sell or rent your place first.

Now consider what needs to happen before buying a house in the first place. For starters, you'll need to have a significant amount of money saved before you even look at property. How much? Well, it's a good money habit to put down 20% of the cost of the home you're buying. Why is 20% ideal you ask? Well, put down less than that and you might not get the best interest rate on a loan — and you may have to pay for Private Mortgage Insurance or PMI on top of your mortgage payment every month. What's PMI? It's insurance that lenders typically require when you make a down payment of less than 20%. It's to protect them in case you default.

What else? On top of a down payment, you'll also need cash on hand to cover closing costs and unanticipated expenses. If your credit needs improvement, the interest rate you'd get on a mortgage might not be great — if you even qualify.

But what happens if you don't have 20% saved? Well, if you have your heart set on buying sooner rather than later, and it makes financial sense, you might qualify for a government-sponsored loan program. That can help you buy with a lower down payment — sometimes as low as 3.5%. And there are other programs that you could look into sponsored by nonprofits, employers, and state and local housing finance agencies. For information on these types of programs, you can start by watching our "Understanding alternative mortgage options" video.

In addition to all of those considerations, there's one more thing to know before you decide between buying or renting. Prices for both can vary wildly by market. So in some cities renting is much cheaper than buying. But in others, buying is definitely more cost effective.

So what should you do? Well, start by asking yourself the following questions. And be honest:

Do you have less than 20% saved for a down payment?

Could changing market conditions affect your job security?
Are home repairs something you'd rather not deal with?
Would a mortgage prevent you from saving for other things that are important to you?
Do you need to build or rebuild your credit, or have you recently gone through bankruptcy?
Are you planning to stay in your current area for fewer than three to five years?

Now, if you answered "yes" to any of those questions, renting should be a serious consideration. At least for now. Because buying isn't always the right fit for everyone. But if owning a home is still a goal of yours, there are certain steps you can take to get ready.

Start off by creating a budget to see where your money is going and how much you can comfortably afford. Need help? We have a video called "How to set a budget and stick to it." Then take a good look at your current credit situation and if you need to improve it, you can watch "Building credit and keeping yours healthy" for some tips. But don't stop there. We also have several other videos about credit that can help as well.

Next, start saving. Our video "Easy ways to save on everyday expenses" can help you trim the fat in your budget. And if you haven't created an emergency fund, be sure to watch "Create a safety net for life's unexpected events" which could come in pretty handy to help you replace, say, that broken water heater we just talked about.

You'll also want to figure out how much you can afford for a mortgage, property taxes, homeowners insurance, utilities, upkeep of the property and, if necessary, homeowner's association fees. I know...it's a lot, so to help you, we've got other videos that walk you through the mortgage process.

Don't know if you can swing a mortgage payment? Well, you can always "try it on" before you buy. That means seeing if you can actually afford a monthly mortgage payment for a place you want. So if you're currently paying \$1,000 for rent, and a monthly mortgage payment including all the extras I just mentioned would cost 1,500 bucks, take the additional \$500 and put it into savings. If it's not a stretch to afford, then maybe you're ready to buy. And that money you save every month? Well, that new habit can help you make your down payment later on.

In the end, deciding to buy a home is a personal choice and only you can decide when and if it's right. Since it's a very expensive and important

purchase, you owe it to yourself to consider all of your options. Once you do, your answer to the question "to own or not to own?" will become a lot more clear.