




RENT VS. BUY



What should YOU do? It Depends.

- Where you live
 - How long you plan to stay
 - Compare home prices to rent prices on homes in the same area
- 

RENTING PRO'S

- **Lower cost upfront** – You might be required to pay the first and last month's rent and perhaps a security deposit.
- **Freedom and flexibility** – You aren't tied down to one particular neighborhood.
- **No maintenance** - A/C, pipe break...owner's expense.
- **Uncertainty in income** – If you expect a pay hike or pay cut in the near future, that can change your borrowing ability as well as impact your ability to pay a mortgage.



RENTING CON'S

- Rent rates will increase as expenses to the landlord increase: taxes & insurance.
- You will not be able to benefit from tax write-offs.
- You might be limited in decorating the home or apartment.
- You won't build equity in your home.
- You are subject to the landlord's decisions.
- Property could be sold.
- Lack of *privacy*.





PRO'S OF OWNING YOUR HOME

- **Build equity** – When you pay a mortgage, you increase your degree of ownership in your home with every payment. You can borrow against your ownership (or equity) in the home to pay for major purchases.
- **Tax deductions** - You can deduct mortgage interest as well as property taxes from your income tax if you itemize deductions.
- **Creative control** – Paint the walls, add another room etc.
- **Maintenance choices** – You decide how to approach maintenance issues – hire a contractor or do it yourself.
- **Pride of Ownership** – You have something to show for your money.

DISADVANTAGES OF HOMEOWNERSHIP

- No Guarantees that your house will increase in value.
- Maintenance and Repairs are your responsibility.
- Decreased Mobility – you often can't move until you rent or sell your home.



EXAMPLES – RENT PAYMENT VS. MORTGAGE PAYMENT

3 BR. 1 Bath valued @ \$60,000

Rent per month = \$750

Mortgage payments for \$60,000 home with various down payment options

Sales Price	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00
Down Payment	\$ 3,000.00	\$ 6,000.00	\$ 9,000.00	\$ 12,000.00
Interest Rate	4%	4%	4%	4%
Length of Loan (Years)	30	30	30	30
Annual Property Taxes	\$ 1,794.00	\$ 1,794.00	\$ 1,794.00	\$ 1,794.00
Annual Home Insurance	\$ 600.00	\$ 600.00	\$ 600.00	\$ 600.00
Monthly PMI*	\$ 38.00	\$ 23.48	13.78	0
Loan Amount	\$ 57,000.00	\$ 54,000.00	\$ 51,000.00	\$ 48,000.00
*Monthly Payment	\$509.63	\$480.79	\$456.77	\$428.66

- Results are for illustrative purposes only and are not guaranteed. They are not an estimate or representation of your qualification for a mortgage. Only a mortgage lender can determine your actual mortgage qualifications including monthly PITI (Principal, Interest, Taxes & Insurance) payment.

*PMI = Private Mortgage Insurance

HOW DO YOU BUY A HOME?

Determine how much you can afford to spend.

Budget – Prepare a realistic budget, or spending plan, that includes all your monthly obligations and regular expenses.

Down payment – The minimum amount of the down payment is determined by the lender. If you have more money, you can make a larger down payment and reduce both the amount you have to pay back and the amount of your monthly payments.

Closing costs – A variety of costs associated with the transaction (above and beyond the price of the property) and are typically paid at the closing. Ex: recording fee, appraisal fee, survey fee, attorney fee, and others.

Decide what kind of home you want and need.

Features – Fireplace, pool, large kitchen

Size of family - Bedrooms, baths, common areas

Lifestyle – Water-front, acreage, neighborhood

Special circumstances – Handicap assessable, walking distance to schools



Visit with a lending specialists- Understand the loan process.

SHOPPING FOR YOUR HOME.

A **Real Estate Agent** can protect you throughout the sale by explaining all the steps in the purchase process. This is the time when you and your family can explore new neighborhoods, visit and compare features in homes. Take your time, look at many houses, take notes and ask questions.

Work with your real estate agent to:

- Negotiating the lowest possible price for a home.
- Making the final offer.



Home Inspections – Some homes are sold “as is”. After the sale, the seller moves away and any problems with the house are the new owner’s responsibility. However, if you make your purchase contract contingent on a home inspection, you have options to address any problems with the house before you have to live with them.

THE LOAN PROCESS

Applying for a mortgage – the type of loan products and your interest rate will not only influence your total settlement costs but will determine the amount of your monthly mortgage payment.

- **Mortgage loan application** – applications are available at all First State Bank branch locations.

➤ **Approval Process**

- **Determining the debt to income** – The debt-to-income ratio is the maximum percentage of a borrower's gross monthly income that can be used for the house payment, plus all other debts.
- **Credit** – How much money you owe, how often you use credit and if you pay your bills on time.
- **Job History** – Proof of employment and years employed.
- **Value of Property** – An appraisal may be required to determine the value and condition of collateral.
- **Down payment available** – Initial upfront portion of the total amount due.

Types of Mortgages

- **Fixed-Rate** - The interest rate on a fixed-rate mortgage will remain the same for the entire life of your loan.
- **Adjustable Rate** – Adjustable rate mortgage (ARM) may adjust at regular intervals and may be tied to an economic index, such as a rate for Treasury Securities. When the interest rate on an ARM adjusts it may cause your payment to increase.

Other Expenses

- **Appraisal** - An appraisal will be done to estimate the fair market value of your house by comparing the house with houses like it that have sold recently in the same area.



Other Expenses Continued

Property Taxes and Insurance – In addition to the principal and interest portion of your mortgage payment, you will have to pay property taxes and insurance to protect the property in the event of disaster such as a fire or flood.

Mortgage Insurance – PMI (Private Mortgage Insurance) may be required by your lender if your down payment is less than 20% of the purchase price.

Escrow Account – Your lender may require an escrow account to pay property taxes and insurance with your monthly mortgage payment. If an escrow account is not required, you are responsible for making these payment.



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Housing Affordability Worksheet



If you are paid:

Weekly	\$ _____ Pay before deductions	x52	\$ _____ Annual income
Twice a Month	\$ _____ Pay before deductions	x24	\$ _____ Annual income
Once a Month	\$ _____ Pay before deductions	x12	\$ _____ Annual income
Other Monthly Income	\$ _____ Other monthly income	x12	\$ _____ Annual income

Total Gross Annual Income
(Add annual income from all borrowers
To other monthly income)

\$ _____

\$ _____ x2.5 \$ _____
Gross Annual Income **Low Range of Housing Cost**

\$ _____ x3 \$ _____
Gross Annual Income **High Range of Housing Cost**



Calculating Your Gross Monthly Income Worksheet



If you are paid hourly

$$\begin{array}{l} \$ \underline{\hspace{2cm}} \times \underline{\hspace{2cm}} \times 52 \text{ weeks} \div 12 \text{ months} = \\ \text{(pay before} \quad \quad \quad \text{(\# of hours you} \\ \text{deductions)} \quad \quad \quad \text{work in 1 week)} \end{array} \quad \begin{array}{l} \$ \underline{\hspace{2cm}} \\ \text{(gross monthly} \\ \text{income)} \end{array}$$

If you are paid weekly

$$\begin{array}{l} \$ \underline{\hspace{2cm}} \times 52 \text{ weeks} \div 12 \text{ months} = \\ \text{(pay before} \\ \text{deductions)} \end{array} \quad \begin{array}{l} \$ \underline{\hspace{2cm}} \\ \text{(gross monthly} \\ \text{income)} \end{array}$$

If you are paid bi-weekly

$$\begin{array}{l} \$ \underline{\hspace{2cm}} \times 26 \div 12 \text{ months} = \\ \text{(pay before} \\ \text{deductions)} \end{array} \quad \begin{array}{l} \$ \underline{\hspace{2cm}} \\ \text{(gross monthly} \\ \text{income)} \end{array}$$

If you are paid twice a month

$$\begin{array}{l} \$ \underline{\hspace{2cm}} \times 24 \div 12 \text{ months} = \\ \text{(pay before} \\ \text{deductions)} \end{array} \quad \begin{array}{l} \$ \underline{\hspace{2cm}} \\ \text{(gross monthly} \\ \text{income)} \end{array}$$

If you are paid monthly

$$\begin{array}{l} \$ \underline{\hspace{2cm}} \\ \text{(gross monthly} \\ \text{income)} \end{array}$$

Total Monthly Debt Worksheet



Your Total Monthly Debt Payments

Car Payment \$ _____

Credit Cards

Card:

Monthly Payment

\$ _____
\$ _____
\$ _____
\$ _____
\$ _____

Total monthly debt from credit cards

Loan Payments

Lender:

Monthly Payment

\$ _____
\$ _____
\$ _____
\$ _____

Total monthly debt from loans

Childcare

\$ _____ x 52 ÷ 12

Weekly cost for all children

\$ _____

Total Monthly Debt

\$ _____

(Add monthly car payment, total monthly debt from credit cards, total monthly debt from loans, and monthly childcare payment)

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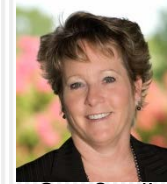
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