

A HOME FOR YOUR FAMILY 1

Should You Buy or Rent?

Should you rent or buy a place to live? What kind of home does your family need? How much space is needed for your family and their activities? How much money do you have to pay for housing? When is the best time to buy a house?

Buying a house is more complicated than just having the money for the down payment and monthly mortgage payments. Owning a house requires a tremendous commitment of funds, time, and attention. For some people, owning is not the best or only way to have a comfortable and safe living environment. Consider the pros and cons of renting listed below.

RENTING A HOME

For some families, renting is the best solution. You may not be ready economically or emotionally to own. Some people consider renting a temporary way to live until they are more settled in job or family.

Renting can mean benefits such as:

- Moving is easy (you can move within a short time).
- Amenities may be available (pool, tennis courts, social/activity rooms, laundry facilities, security for apartment renters).
- You have few responsibilities.
- Maintenance and repairs are handled by the owner.
- There is no large downpayment, only a security deposit.
- Some monthly expenditures (rent) are fixed making it easier to budget.
- There is no chance for financial loss of

investment (beyond the amount of the lease).

- There is a sense of security from nearby neighbors.
- You can look over the community and move again.
- Moving-in costs are low.
- It is easier if you travel a lot, either for your job or pleasure.

However, renting has some disadvantages:

- It offers no special tax deductions.
- There are no potential gains from the rising value of property.
- You usually get less space for the money.
- Changes cannot be made or are limited in scope.
- Rent rises with inflation except where there are many rental units available.
- You will probably have restrictions on noise level, pet ownership, or children.

OWNING A HOME

If you are thinking about buying a house, consider the following advantages:

- A house is a form of forced savings (you make payments on an asset that may grow in value—many families would never accumulate assets otherwise).
- Homeowners often have a sense of pride and status in home and community.
- A homeowner may have a better credit rating (equity in a home improves the credit status of the family and can be

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- used as collateral for an emergency loan).
- Mortgage payments contribute to an investment, particularly if the property is located where it increases in value over a period of years.
- Monthly payments remain relatively constant for many years (fixed loan), thus housing costs are stabilized because present and future costs can be estimated and planned.
- Interest on mortgage monies and taxes are legitimate income tax deductions.
- The house may increase in value, resulting in a significant gain in net worth.
- Ownership may contribute to security, especially in retirement years when income normally decreases.
- A homeowner can borrow against his/her equity, as the value of the house increases against what is owed on it.
- More space may be available for family members and their activities.
- A homeowner has freedom to make improvements and changes to the house and surroundings as desired (although a development or association may have restrictions and prohibitions).
- Homeownership can contribute to the general well-being and sense of “roots” of the family, especially for children.
- Homeowners generally are concerned about community affairs and how they may affect their property.

The disadvantages of home ownership may outweigh the advantages for some people because:

- A substantial down payment is needed.
- A house requires a big commitment in time, emotions, and money.
- The house may decrease in value if the neighborhood deteriorates or changes quickly; thus resale may be a problem.
- The homeowner may have limited money for other purchases or activities since his/her money is tied up in the house.
- Maintenance and repairs may be costly and take a great deal of time and effort.
- Owning a house requires money for insurance, and a loss of the house as a result of a natural disaster (tornado, flood, hurricane) could mean a serious financial burden.
- Some families have difficulty budgeting for maintenance, repairs, home improvements, and/or homeownership dues.
- Real property taxes could increase dramatically.

- Total housing costs may take too much of the budget, resulting in potential cash flow problems.
- The family may have higher moving-in costs as new items may have to be purchased for a house.
- The family may feel less secure if neighbors are not near.
- The house may be too large after children leave home.
- Security may be a problem if you travel a lot.
- Unexpected loss of income due to job termination or unemployment may limit money available for homeownership costs.

DEFINE YOUR VALUES

Sit down and list the factors about a house that are important to you. If you are married and have children, ask every family member who is old enough to make their own list. Then compare the lists. They won't be the same and you will probably have to talk with each other about the differences and compromise to make a single list for the family. This list should include answers to questions such as the following:

- What is a home to us (a refueling station, the center of family life)?
- Which is more important to us, the house or its furnishings?
- How do the activities we are involved in affect the kind of house we need?
- How far are we willing to commute to work, school, church, shopping?
- How important is privacy to us? Can a privacy fence give enough privacy, or do we want more open space in the country?
- How much time and what skills do we have to devote to maintenance and upkeep?
- What community services are available (garbage and trash pick up)?
- What stage of the lifecycle is our family in and are we likely to need more space or less in the next five years? Ten years?

WHEN CHOOSING A HOME TO RENT OR BUY, CONSIDER:

The Neighborhood

- Location.
- Appearance.
- Current residents (similar or dissimilar occupational and social interests).
- Whether area is appreciating or depreciating in value.
- Safety and security.

Accessibility

- Convenience to work, shopping areas, school, and church.
- Good roads and streets.
- Available public transportation.

Community Facilities

- Police and fire stations.
- Health and sanitation services.
- Schools and churches.
- Recreational facilities, such as parks.

Family Values

- Appearance.
- Size versus amenities.
- Special features your family needs.

Costs

- Within your price range.
- Cost of money (both interest rate and terms of mortgage).
- Tax benefits.
- Energy costs.

The Apartment or House Itself

- Space, arrangement, and condition.
- Bedrooms and bathrooms (enough space and privacy).
- Kitchen and work area (well planned and step saving, adequate work and storage areas).
- Dining and living areas (adequate for family entertaining and resting).
- Storage (adequate and well placed in each area of the house).
- Room sizes, shapes, and wall areas to permit use of furnishings and equipment on hand or planned.
- Interior and exterior finishes (types acceptable, condition good, easy maintenance).
- Heating and lighting (adequate and efficient systems).
- Outdoor space (patio, deck, lawn, garden space, outdoor storage).

HOW MUCH HOUSE CAN YOU AFFORD?

Buying a house commits your family to a long-term debt and requires time and energy. American consumers spend from 21 to 54 percent of family income on housing. How much each family spends on housing depends on many factors.

Three basic considerations that can help a family determine how much house they can afford are:

1. *The amount of take-home pay the family can reasonably expect.*

2. *The family's living costs and other debt payments.*

3. *The total amount of housing expenses, including taxes, insurance, energy, furnishings, maintenance, and mortgage payments.*

Because of rising prices and increased housing-related expenses, the old rule-of-thumb on how much to pay for a house no longer apply. Lenders usually follow two basic guidelines in determining how large a mortgage to grant:

- Principal, interest, taxes, and insurance (PITI) should not exceed 25 to 29 percent of gross income.
- PITI plus other long-term debt should not exceed 33 to 41 percent of gross income. (Long-term debt includes car and installment loans, alimony, child support, and charge card balances that will take a set length of time to repay.)

The range the lender uses will depend on the size of the down payment. Lenders probably will use the 29 percent and the 41 percent figures if you are paying 10 percent down. If you are paying 5 percent down, lenders will probably use the more conservative 25 percent and 33 percent. Federal Housing Administration (FHA) loans use 29 percent and 41 percent.

These are general guidelines used by lending institutions. The prospective buyer should find out about these guidelines and then evaluate them in terms of the family: size, stage of life cycle, job stability, amount of savings, present spending pattern, and lifestyle.

To learn what your total housing costs might be, use this formula:

$$P + I + T + I = \text{Monthly Cost}$$

Pincipal + **I**nterest + **T**axes + **I**nsurance = Monthly Cost

For example, a homeowner may have:

$$\begin{aligned} \$750 &+ \$75 &+ \$50 &+ \$25 &= \$900 \\ \text{Principal} &+ \text{Interest} &+ \text{Taxes} &+ \text{Insurance} &= \text{Monthly Cost} \end{aligned}$$

NOTE: Insurance costs may include the homeowner's policy required by most lenders and also mortgage default and term life. Ask prospective lenders what they include in insurance costs.

Also keep in mind utility and maintenance costs. When

shopping for an existing house ask to see the utility bills for the last 12 months. Learn as much as you can about the condition of the house to see if repairs will need to be made.

With a new house, monthly utility and maintenance costs can only be estimated based on similar houses in the neighborhood or those of a similar size, style and construction.

ARE YOU READY FOR HOME OWNERSHIP?

When trying to decide if you are ready to buy a house, ask yourself the following questions:

- Am I sure I want to buy a house?
- Do I have steady income and stable employment?
- Do I plan to remain in the area for the next several years?
- Have I created a budget so that I know how much more I can realistically afford to pay for housing?
- Do I have an established credit record or can I build a non-traditional credit history with records of payments to previous landlords and utility companies? If so, is my

credit profile favorable? Do I pay bills on time or before the due date?

- Do I have enough money saved for the down payment (if required) and closing costs? If not, can I enlist the aid of relatives or government or non-profit agencies that might give or loan me money at a low interest rate?
- Have I been “pre-qualified” by a lender so that I know how much I can borrow based on my income and existing debt?
- Is my existing debt low enough that it will not limit my ability to qualify for a mortgage? If not, can I pay down my debt before I attempt to buy a house?
- Have I looked into the benefits and requirements of the numerous financing options that are now available to low- and moderate-income home buyers?

If you can answer *YES* to all or most of these questions, you may be well on your way to owning your own home.

Adapted from:

Shelby, Wanda W. and Eleanor J. Walls. 1991. *Finding the Right House*. Arkansas Cooperative Extension Service, University of Arkansas. Little Rock, AR.

Peart, Virginia. *A House for Your Family: Buy or Rent?* Florida Cooperative Extension Service. University of Florida, Gainesville, FL.

Fannie Mae. 1991. *A Guide to Homeownership*. Washington, DC.

You may be interested in other North Carolina Cooperative Extension Service publications:

Should You Buy or Rent? HE-426

Selecting Your House HE-427

Choosing to Rent HE-428

Selecting the Location for Your House HE-429

How Does the Space in Your House Rate? HE-430

Environmental Considerations in Real Estate Transactions HE-431

Budgeting for Home Ownership HE-432

Financial Aspects of Home Ownership HE-433

Selecting Home Buying Professionals HE-434

Negotiating for Your House HE-435

Inspecting a House HE-436

Choosing the Best Mortgage HE-437

House Purchase Contracts HE-438

Furnishing Your First Home HE-439

Preventive Home Maintenance Guide HE-440

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