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MANAGING IN TOUGH TIMES INITIATIVE

FAMILY FINANCIAL MANAGEMENT

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THIS MONTH'S TOPIC:

Home is where the heart is: Should I buy or rent?

A three-bedroom home with a white picket fence is part of the American dream for many individuals. The decision to purchase a home is typically one of the largest financial obligations a person makes during his or her lifetime. While there are many advantages to home ownership, several disadvantages also should be considered. Prior to making the decision to buy a home, carefully consider both the pros and cons of home ownership.

Advantages of Home ownership

One of the most significant advantages to home ownership is a stable housing cost, which makes incorporating your monthly mortgage payment into your household budget much easier. Although it is possible for your monthly payment to increase over time, due to changes in insurance costs and property taxes. If you have a fixed rate loan your principal and interest payment will remain set for the life of the loan, which may be as long as 30 years.

If you choose to rent a home instead of buying, your landlord may decide to increase your monthly rent payment, depending on the terms of your lease. Home ownership may also provide tax benefits. If you itemize your deductions you may deduct both property tax payments and home loan interest paid. Many people view home ownership as an investment with potential return. In addition to building equity with your monthly mortgage payment, the value of your home could increase in value. Finally, home ownership offers the owners a sense of stability and freedom, knowing that you have a place of your own to decorate and change to meet the needs of your family.



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Disadvantages of Home ownership

Although buying a home can be very exciting and has many benefits, it is also important to think about the disadvantages associated with home ownership. Often, your monthly rent will be less than a monthly mortgage payment. Some of the monthly costs of home ownership include your mortgage payment, property taxes, insurance, utilities, and maintenance. In most cases if you do not have a 20% down payment, lenders will require you to pay private mortgage insurance (PMI), which is an additional expense. Typically, the monthly costs associated with renting are limited to rent and utilities. Additionally, home ownership comes with the added responsibility of property maintenance. As a renter if you have a problem, such as a leaky roof, broken furnace, or clogged drained, you can call your landlord or maintenance to fix the problem; but as a home owner you must either make the repair yourself or pay a repair person to do the work. Often with home ownership you have reduced flexibility; as a renter, you can choose to move at the end of your lease without any consequences. However, as a home owner you will most likely either sell or rent your house before you can move. Finally, the opportunity to build equity was considered an advantage to home ownership. It is important to realize there are no guarantees that a home will increase in value.



Home Buying Considerations

After carefully weighing the pros and cons of home ownership, there are still several more factors to consider in your decision to buy versus rent. First, how long to you plan to live at the residence? Depending on the housing market, it may make financial sense to rent instead of buying. Although an advantage to buying is the buildup of equity while you are living there (as opposed to paying rent to a landlord) there are several up-front fees called closing costs associated with setting up a mortgage. If you plan to live in a home for a short period of time, consider how much your home value would need to increase in order for you to recoup the fees you paid in closing costs, in addition to any real estate broker fees you would pay when selling the house. Because it can be difficult to predict the real estate market, buying doesn't always make sense.

You will also want to take a close look at your monthly budget before you decide to buy a home, if you do not have steady income or feel as if the monthly mortgage payment may stretch your budget. You should continue renting and saving more cash to go toward your down payment. It is very important that you are certain you can afford the cost of a home prior to purchasing it. If you find yourself in over your head financially it can take time to sell a home, which could negatively impact your credit, as well as future home ownership.

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