

Financial Literacy

Money Trek Program



Financial Literacy

Financially Fit for Life



Module 6: Workbook Renting & Buying a House

AAUW California Financial Literacy Committee



Module 6: Renting & Buying a House

Activity 1: How much house can I afford?

Buying a house

Most financial professionals recommend spending no more than 35% - 40% on housing. Some say even less. How much house can our 25-year old college graduate, making \$60,000/year and netting \$3076/month afford?

- 35% of monthly take-home pay is \$1076
- 40% of monthly take-home pay is \$1230

We'll use the [New York Times Is it Better to Rent or Buy?](#) guidelines to estimate property tax, home owners insurance and annual repairs and renovation.

Discussion

- How much house can our college graduate afford to buy?
- What if the house is in an earthquake zone?
- What if the house is in a flood zone?
- What if the house is a condo, coop or townhouse?
- What can be done to reduce expenses?

Purchase Price		100,000	150,000	200,000
Down payment	20%	20,000	30,000	40,000
Mortgage	30 year fixed at 4%	382	573	764
Property tax	1.35% of purchase price	112	168	225
Homeowners insurance	0.5% of purchase price	41	62	83
Annual repairs & renovation	1% of purchase price	83	125	166
Utilities		100	100	100
Total		718	1028	1338

Renting a house

Our college graduate can still spend 35% - 40% or \$1394 to \$1593 on monthly housing. How much house s/he afford to rent?

Monthly rent		\$1000	\$1200	\$1500
Renters insurance		\$15	\$15	\$15
Utilities		\$100	\$100	\$100
Total		\$1115	\$1315	\$1615

Discussion

What is renter's insurance and what does it typically cover?

- Covers loss of your personal property (house/apartment burns down)
- Covers your personal liability for a visitor's accident inside the house/apartment
- Could optionally cover identity theft

Bottom line: Shop around!

Activity 2: Is it better to rent or buy?

It's a very personal decision and there are many factors to weigh. Let's experiment with [The New York Times calculator](#). Enter the data points (purchase price, down payment, monthly rental, etc.) in the left column, under Your Information. For fun, you can use the Advanced Settings button to enter condo fees. Use the sliders to set the purchase & rental market ups & downs.

Situation. Buying a house for \$225,000 (20% down, 4.5% 30 year fixed) vs renting a house for \$1200/mo.

- **Scenario 1.** In a rising housing market, where purchase prices are rising 3% a year and rental prices are rising 2% a year. Looks like the buyer is ahead after 4 years.
- **Scenario 2.** In a falling housing market, where purchase prices are falling 5% a year and rental prices are rising 2% a year. Looks like the buyer finishes ahead, but needs to wait 28 years.

Discussion

- Besides financial reasons, what would go into your decision to rent vs buy?

Brainstorm:

1. What is the Rule of Thumb about rent or Mortgage Payment?
2. What are the costs of moving?
3. Tenants rights and responsibilities?
4. Advantages and disadvantages of renting a place?
5. Advantages and disadvantages of and buying a home?
6. What steps you need to consider before buying a home?