

Financial Literacy Money Trek

MODULE 6 - RENTING & BUYING A HOUSE

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Objectives

This module will help you to understand:

- The initial and continuing costs of renting an apartment.
- Signing a lease & being a tenant.
- The benefits and pitfalls of renting versus owning a home.
- Questions to ask when determining if you are ready to buy a home.
- The basics of getting a home mortgage.

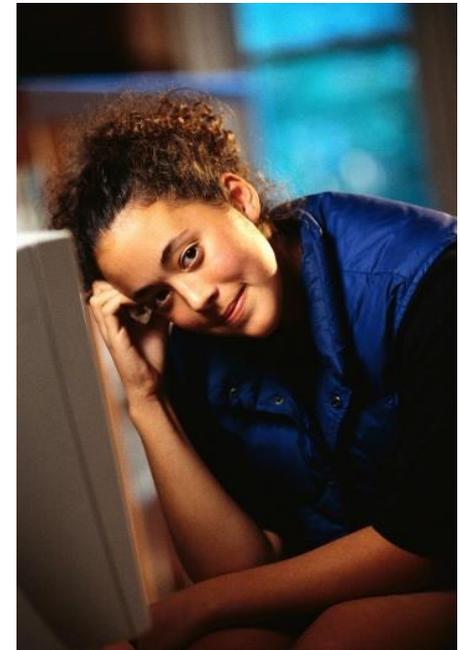
Rule of Thumb

You should spend no more than 40% of your net income on rent or mortgage payments.



Thinking About Moving Out

- Consider the options of moving out carefully.
- Discuss the options.
- Make a list of pros & cons.
- Create a detailed budget.
- Based on the information, decide if you would be ready to move out.



The Costs of Moving

Moving costs can include the following:

- First month's rent
- Last month's rent
- Security deposit
- Utilities deposit
- Telephone deposit
- Renting a truck
- Hiring movers
- Packing supplies



Paying For Your Place

Continuing Costs of Your Living Space

- Rent and other fees (parking, pets, etc.)
- Utilities (electricity, water, gas, telephone)
- Possible rent increases
- Renter's Insurance



Roommates

Consider having roommates:

- Share a house or an apartment that is large enough and affordable for more than one person.
- Save money you would otherwise spend on the rent.



Tenants Rights & Responsibilities

Tenants Rights:

- Safe and sanitary premises.
- No changes in terms and conditions for the length of the lease.
- Withholding rent if the landlord doesn't make repairs in a reasonable amount of time.



Tenants Rights & responsibilities

Tenant's responsibilities:

- Paying rent on time.
- Taking reasonable care of the property.
- Using the rental for the purpose stated in the lease.
- Notifying the landlord if any major repairs are needed.



Tenants Rights & Responsibilities

Tenant's responsibilities:

- Giving notice if leaving at the end of the lease.
- Giving notice if leaving before lease is up and paying rent for balance of lease if landlord can't find new tenants.
- Paying for any damage to the walls, floors, and furniture.
- Not making alterations that the landlord must fix later.

Renting vs. Buying

Advantages of Renting:

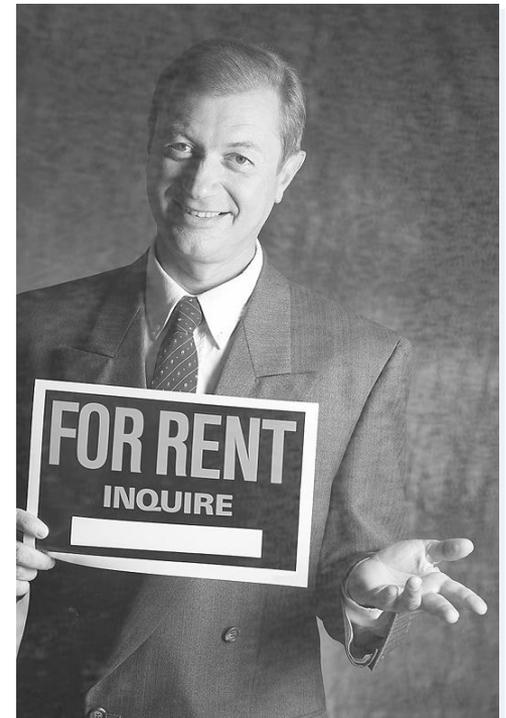
- You are under contract for 1 year or less.
- No taxes & insurance cost to you. Unless you want to buy renter's insurance.
- Maintenance & repairs are the landlord's responsibility.



Renting vs. Buying

Disadvantages of Renting:

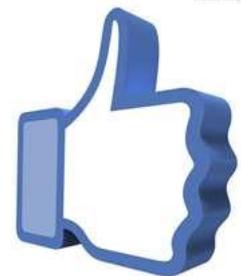
- You do not own your home.
- Your rent could increase.
- You may not be able to renew your contract.
- You are really paying your landlord's mortgage.



Renting vs. Buying

Advantages of owning a home:

- You are building equity.
- Increased value of your home means a good investment.
- The home is yours when the mortgage is paid in full.
- You can deduct your mortgage interest from your income tax.
- You have control over the property.



Renting vs. Buying

Disadvantages of owning a home:

- The value of your home might go down, meaning you lose money on your investment.
- The cost of upkeep is your responsibility.
- If you can't sell, you may be not be able to move to a desired location



Are You Ready to Buy a Home?

You should be prepared:

- Personally
- Professionally
- Financially



Buying a Home: Mortgages

What is a mortgage?

- A loan, or amount of money provided by a financial institution to help you buy a house.
- The interest rate varies depending on the type of loan and terms of the loan.
- It must be repaid over the set time, typically 15-30 years.



Buying a Home: Costs

Closing costs are fees you pay at the time you purchase a home.

They include:

- Property taxes
- Homeowner's insurance
- Points - interest paid up front to borrow money
- Escrow fees



Buying a Home

Down Payments:

- Initial amount of money needed to purchase a house.
- Usually the biggest hurdle for first time buyers.
- The higher the down payment, the lower the interest rate.
- Usually 10 – 20%.



Help Purchasing a Home

Government programs can help you with:

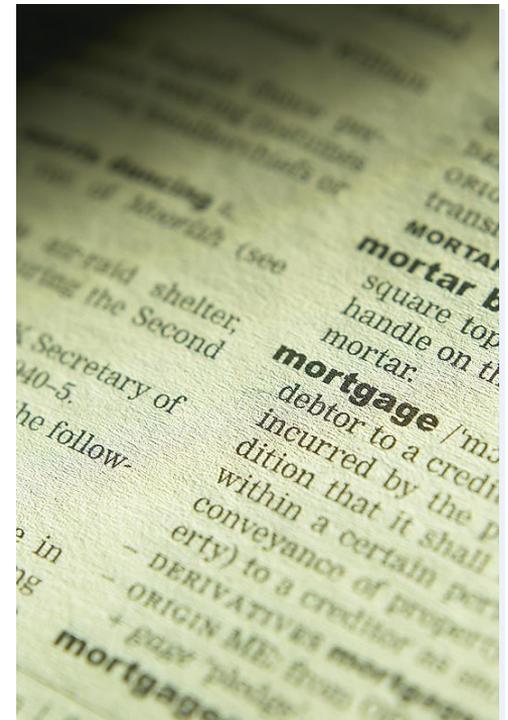
- Discounts for service personnel.
- First-time homebuyer plans.
- Check with your realtor about other options.



Mortgage Payment

Mortgage payments are composed of:

- Principal & Interest
- Taxes and Insurance
- Private Mortgage Insurance (if less than 20% down).



Private Mortgage Insurance (if less than 20% down).

Homeowner's insurance

Real estate taxes

Homeowner's association dues
(sometimes)

Maintenance of property



Renting versus Buying

Practice Session

- Now evaluate the best option for you and list the reasons why.
- Create a budget for your option.
- If your best option is different from your current situation, create a plan to implement the change.