

Workshop: Furthering Your Financial Wellness

Your Home: Rent or Buy?



Welcome to the Advanced Financial Wellness Workshop! In this six-week workshop, we will address important components of mastering your financial wellness. This first chapter will discuss possibly the biggest investment you'll probably make: purchasing a home. Whether you already own a home, or are getting ready to purchase your first (or your fifth), you'll learn how to make the most of your purchase and invest in your future.

Your Biggest Investment

Think of the purchase of a home as your most important investment. There are many benefits to home ownership, but there are also many reasons to be wary, like committing to a long-term financial investment, buying more house than you can afford, costs of maintenance and repairs, etc. Advantages of homeownership include:

Financial leverage – This is when you use debt to make a purchase that may increase in value.

Ability to use home equity loans – Allows you to open lines of credit at lower interest rates than credit cards or conventional loans.

Tax benefits – Owning a home can result in tax deductions such as those from mortgage interest, property taxes, closing costs in your first year of ownership, and interest from home equity loans.

Monthly Equity – Each time you pay your mortgage, your equity increases as it reduces the amount you owe and increases what you should gain upon selling your house. This equity almost serves as a savings account as you're likely to get the money back, plus some.

To Rent or To Purchase?

Renting can be beneficial for some people, especially if you want to save for a nice down payment for a house, want flexibility in where you reside, or are looking for a place with little maintenance. However, when you rent for too long, you pay money without chance of return. Although paying interest on a mortgage seems daunting, as you pay your mortgage your interest decreases. Eventually your interest will be less than what you could have been paying in rent. Don't forget that the tax deductions also lower your mortgage.

Source: 1.Forbes.com. Freshen Up on the 7 Financial Benefits of Home Ownership. 2014

Proceed with Caution

The only way to reap the benefits of homeownership is to purchase a home you can afford. Similar to any investment, there is risk involved, so being smart about the amount of money you can spend, what type of mortgage to get, etc. is necessary to reduce your risk of losing money and protect your financial wellness.

Action Step - Calculate how much home you can afford:

[CNN Money: How Much House Can You Afford Calculator](#)

Remember, Your Home is a Long-Term Investment

When you own a home or plan to buy a home to maximize your return on investment, plan to own the home for at least 5 years. There are costs involved in buying and selling a home. If you sell too early, you may not have enough equity in your home to cover those costs and make a profit.

- When you buy or sell a home, there are transaction costs on top of the actual cost of the home. These can include mortgage fees, closing costs, and inspection fees.
- If you use the services of a realtor you may experience other fees due to their commission.
- Selling your house when you have more equity than the cost of fees should provide you with a return on your investment.
- Ideally, waiting until the value of your home increases or when you have a substantial amount of equity in the house would provide the biggest return.

Next Steps

1. Read Lesson 2: "How Much Can You Really Afford to Spend on a House?"
2. Read Lesson 3: "Mortgages and Refinancing"
3. Take Chapter 1 Quiz