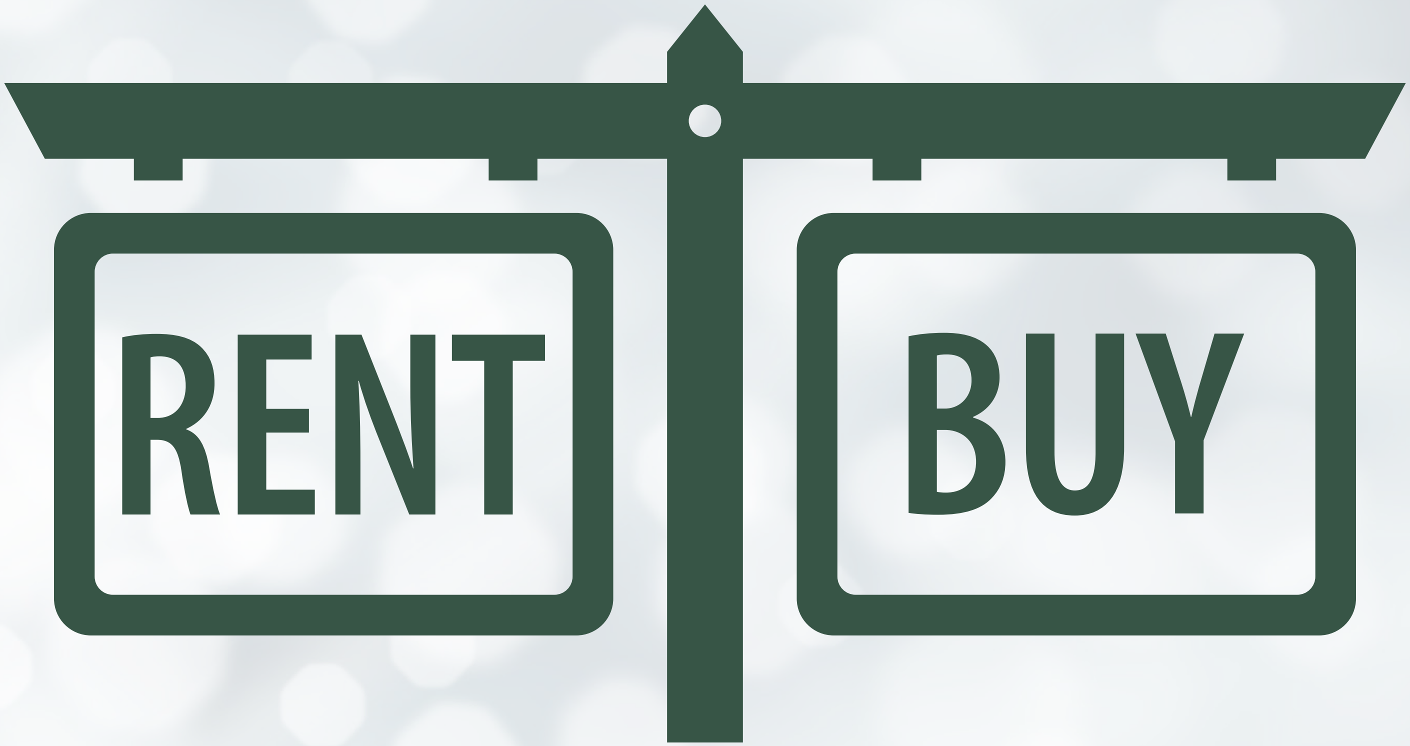

Which is best for you?

Renting vs. buying

Buying a home is a major investment, but in some parts of the country you'll be paying less in the long run by buying instead of renting. However, buying a home isn't for everyone. Here are some pros and cons of both buying and renting, and factors to consider when buying a home.

The pros of renting

A landlord

When a pipe bursts in your rental home, someone else foots the bill to fix it. When you own a home, you are responsible for all of your own repairs. These repairs can become expensive extremely fast.

Mobility

Renting gives you the freedom to take a new job or move to a new city without the hassle of needing to sell your home, which could take months. The freedom to end a lease and take a new opportunity elsewhere can be a major plus for younger tenants.

Smaller down payment

The costs of putting a down payment on a home, along with the costs of closing, can add up quickly. Though rental deposits can seem unreasonable at times, odds are it's a lot less than the up-front costs of purchasing.

The cons of renting

A landlord

When you're only paying rent on a property, not owning it, there can be varying rules that decide how much you can alter your residence. You may not be able to paint your walls or alter any aspect of the property, a major downside for more creative types who may want more freedom.

Equity

Writing a rent check every month can add up. You aren't building any long-term equity when renting a house or apartment, you're only putting money in your landlord's pocket.

Changes in rent

If you live in a larger city, you may have noticed a hike in rent prices lately. As soon as your current lease ends, your landlord likely has the ability to inflate rent based on demand, a trend that many people are experiencing throughout the country.

The pros of buying

Equity

If you do decide to move in the future, you have an asset to sell. Depending on the strength of the market, your home could increase in value over the time you own it.

Tax benefits

You'll get tax deductions for your mortgage payment, property taxes, and even some closing costs. These can add up!

Freedom

It's your property and you can decorate and improve it as you see fit. Feel free to take on home improvement projects and truly make your house a home, you won't have any landlords picking your paint colors! Though improvement costs time and money, it truly is one of the most rewarding parts of owning your own home.

The cons of buying

Paying for maintenance

You'll have to invest time and money to keep your home in tip-top shape. If something breaks unexpectedly, you'll need to be prepared with the emergency funds to cover the costs.

Homeowner's insurance

Renter's insurance is optional. However, if you have a mortgage, homeowner's insurance is not. Across the country, homeowner's insurance rates range from just over $500 to almost $2,000, based on the area's risk.

Property taxes

Just like any other tax, these costs can fluctuate, leaving you paying more than expected.

There are a multitude of factors that can impact your ability to get approved for a mortgage. Here are a few that mortgage lenders pay close attention to.

What to consider when buying a home

Your income

Lenders will look at your income to determine if you'll be able to pay off a mortgage long-term. They'll want evidence of stable employment, and will look at your type of income, such as hourly, commission, or salary wages, to determine whether or not you're financially fit.

FICO credit score

Your credit score can not only affect whether or not you get approved for a loan, it can affect how much you pay in the long run. Generally, you should have a FICO score of at least 620 to get approved for a mortgage, but you can save thousands of dollars each year on your mortgage by waiting until your credit score is up to 760.

Debt-to-income ratio

The Federal Housing Administration has set standards for debt to income ratios to help prevent home buyers from getting into a home they can't afford. For your mortgage payment expense to income ratio, the maximum ratio is 31% to qualify for a loan. For example:

House payment ÷ Gross monthly income = Debt-to-income ratio

$1,000.00 ÷ $3,800.00 = 26.3%

How long you anticipate staying in the area

Think carefully about your future plans and goals. If you are married, this is also something to think of collectively. If you plan on having children, is this an area that would suit their needs? Are there career options in the area that will allow you to advance as you planned? If not, you may be better off renting a home until you're sure you've found an area you plan on settling down in long-term.

The up-front costs you will have to pay

The standard down payment on a home is 20%, but more is always better. If you cannot afford the 20% down payment, you might not be able to afford the house. There are also closing costs and fees on a home that are often between 2-5% of the total purchase price of the home. Since these are up-front payments, it's important to take a good look at your finances. However, lenders are required to give you a good faith estimate of what the closing costs will be, so you aren't caught by surprise.