

by Kelly Lynch

Renters Gain by Pursuing Home Ownership

Buying a home is a big decision that requires careful consideration. But as most homeowners will tell you, the rewards of ownership are great.

For many years, purchasing real estate has been considered an extremely profitable investment. In Southern California in particular, we have witnessed investors "flip" houses to make significant profits in a rapidly rising market. As the real estate market has cooled over the last year, we are seeing fewer speculators and more long-term buyers. These buyers are not looking for a "quick" profit but instead are looking at the long-term benefits of property ownership. These buyers see that home ownership is an achievement that offers financial stability, potential tax advantages and a sense of pride.

It is true that there are increased responsibilities associated with owning a home. Landlords often will argue this benefit of renting for obvious reasons. If you are renting, you are helping your landlord make his or her mortgage payment.

The numbers are staggering if you look at it this way. For example, if you are currently paying \$2,000 per month for an apartment and you know your rent will increase a minimum of 4% every year, then over the next five years you will pay your landlord about \$135,192. If you are currently renting a house, you may be paying much more than that in rent each month. Either way, you gain no equity by shelling out this monthly housing expense and you certainly will not benefit when the property value goes up.

However, if you were to purchase your own home or condominium, you would be well on your way toward building equity within that same five-year period. By choosing a fixed-rate loan program, you can have the comfort of knowing that your monthly mortgage payment will never go up. In fact, you would have the option of refinancing to a lower interest rate at some point in the future should interest rates drop and this would cause your monthly mortgage commitment to go down.

In addition to building equity in the

property as you pay down your mortgage and the property value rises, there are tax advantages that come into play with home ownership. Interest payments on a mortgage below \$1 million are tax-deductible. To determine what your tax consequences might be, you will need to consult your CPA or tax advisor together with your mortgage professional but, depending on your tax bracket, after taxes you may determine that owning a home is less expensive than renting.

For example, consider that if you purchased a condominium for \$450,000 with 10 percent (or \$45,000) down and financed the remaining 90 percent (with an 80 percent interest-only first mortgage at approximately a 6.25 percent interest rate and a 10 percent equity line at approximately an 8.25 percent interest rate), your combined monthly mortgage payments would be approximately \$2,184.38. You also would be required to pay approximately \$469 in taxes and \$250 in homeowners' association fees for a total monthly housing obligation of approximately \$2,903. But, assuming you are in the 20 percent tax bracket (meaning you make between \$33,520 and \$77,075 per year), you would be able to write off up to approximately \$2,653 in interest and tax payments. This translates to savings of approximately \$663 per month which means that your monthly obligation to own your own home, after taxes, would be only approximately \$2,340 (rather than \$2,903).*

While the monthly obligation for a \$450,000 condo today is greater than a \$2,000 a month rental, in just three years, the opposite will be true. And, as explained above, during those three years of ownership, the payments will contribute to building equity in your own property.

In addition to tax considerations, there are many loan programs available to meet each individual's needs. To find the program that is right for you, your mortgage consultant will need to evaluate your monthly household income, current assets and savings, as well as any monthly

Monthly Cost of Owning a \$450,000 Condo vs. Renting

EXPENSES	OWNING	RENTING
Mortgage	\$2,184.38	\$0
Rent	\$0	\$2,000.00
Taxes	\$468.75	\$0
HOA Fee	\$250.00	\$0
Tax Savings	(\$663.28)	\$0
TOTAL COST	\$2,239.85	\$2,000.00

Monthly Benefits of Owning Through 2012

YEAR	OWNING	RENTING ^o
2008	\$2,239.85	\$2,080.00
2009	\$2,239.85	\$2,163.20
2010	\$2,239.85	\$2,249.73
2011	\$2,239.85	\$2,339.72
2012	\$2,239.85	\$2,433.31

^oBased on a 4% annual increase.

obligations you may have for credit card payments, car payments or child support. These prequalification factors, along with the report of your credit score, will determine how much house you can afford and what interest rate you will pay for financing. It is also important to discuss your future goals with your mortgage consultant because this will allow him or her to best advise you on the loan options that will best fit for your needs and help you meet your goals.

There is no doubt that, whether you rent or own, housing is an expense that takes a big bite out of the monthly budget. But, if you are a renter, it may be time to think about all the advantages of purchasing a home and taking that first step toward building your personal net worth as a property owner.

* The above examples are merely possible scenarios of the loan options and tax benefits to fictitious homeowners. Because each person's financial and tax situation differs, before you buy a home, you will need to consult your mortgage consultant as well as your CPA or tax advisor to determine your personal tax consequences.

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