



# BUYING OR RENTING A HOME

PERSONAL  
FINANCE FOR  
MILITARY LIFE







# TABLE OF CONTENTS

What You Should Know . . . . .	02
How Much Home Can I Afford? . . . . .	04
Renting A Home. . . . .	05
Buying A Home . . . . .	07
Reaching An Agreement . . . . .	09
Choosing The Right Loan . . . . .	11
Closing On Your Home . . . . .	14
Owning Your Home. . . . .	16



# WHAT YOU SHOULD KNOW



A home is much more than a dwelling. It's also a major financial commitment. For most people, rent or a mortgage payment is their largest monthly expenditure.

Whether you choose to rent or buy, this publication is designed to help you make an informed housing decision that you can literally live with.

Before making any big money decision, it's a good idea to take an objective look at your financial situation. Start by carefully reviewing your current income and debt obligations.



# REASONS TO RENT

Many people dream of owning their own home, and it can often seem like a prudent investment. But that's not always the case. For instance, renting might actually be the better approach in the following situations:

- » **Short stay.** Home values don't always go up and when they do the rate of increase can't be predicted in advance. As a result, homeownership should generally be thought of as a long term proposition. Unless you're confident you'll be able to keep the home for at least 3 years – and even longer in many situations and real estate markets – buying a home could be a risky financial move.
- » **Shaky finances.** Just owning a home is a big financial commitment each month, and it doesn't stop there. Large unexpected expenses are also part of the territory. So unless or until your financial situation is pretty solid, you might be better off waiting to buy a home.
- » **Life in transition.** In times of significant life change – like when transitioning out of the military – financial flexibility can be a real blessing. Unfortunately, homeownership can often create the exact opposite situation.

# REASONS TO BUY

Of course, homeownership does offer many potential benefits:

- » **Building equity.** Equity is the difference between the value of a house and the amount owed on it. This means equity is increased (or built) if the home's value increases, the mortgage balance is paid down, or both. When the home is eventually sold, the homeowner receives the equity less any costs associated with the transaction.
- » **A sense of ownership.** Another often discussed benefit of homeownership is the sense of community and stability that can come from owning a home. Homeowners also have far greater flexibility than renters with making changes to the property. Plus, any value increase resulting from time or money spent on the home ultimately benefits the homeowner more than it would a renter.
- » **Potential tax advantages.** While everyone's tax situation is unique, property taxes paid for a primary residence can be deductible. The same is true for mortgage interest under most circumstances. To go a step further, the potential for additional tax advantages may surface if the homeowner is now able to itemize their deductions instead of claiming the standard deduction. Consult a tax professional to discuss your specific situation.

# HOW MUCH HOME CAN I AFFORD?

People sometimes make the mistake of taking on too large of a rent or mortgage payment and end up struggling to pay their bills. Strive to keep your monthly rent or mortgage payment below 28% of your gross monthly income.

There will be room to budget towards other goals if you keep your housing expenses manageable.

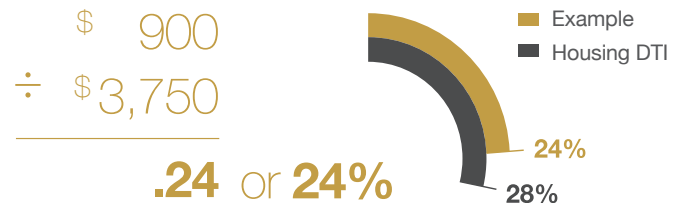
## HOUSING DEBT-TO-INCOME (DTI)

Best to keep it below 28% of gross pay

1. Take your total housing payment (rent, mortgage, condo fees, etc.).
2. Divide that by your total monthly gross income (before deductions).

### EXAMPLE

Housing cost equals \$900/mo and your total gross income is \$3,750/mo



## UPFRONT MONEY:

### RENTING - SECURITY DEPOSITS

Most landlords ask for a security deposit in advance. And it's not unusual for the landlord to require you to pay the first and last month's rent before you move in or add a nonrefundable application fee to cover the cost of obtaining a credit check. In general, this "upfront" money is required to help the landlord cover potential unpaid rent, damage beyond "normal wear and tear" and the cost of cleaning the rental after you leave. Some landlords may also ask for an additional deposit for pets.

### BUYING - DOWN PAYMENT

Financing the purchase of a house, town-home, or condominium will typically require a down payment. Depending on the type of financing you obtain, be prepared to put down anywhere from 3.5%-20% of the purchase price. There are financing options that require no down payment, but it's a good idea to have a cash reserve in all situations.



# RENTING A HOME

Renting involves more than choosing the right home or apartment at the right price. You'll want to understand what you're getting for your money — whether it's access to a swimming pool, or admission for your children to a highly-rated school system.

## THE RIGHT PRICE

Finding the right place at the right price can be challenging. Higher rents often cover extra features that you may or may not use. When looking for a rental, ask the landlord why he or she thinks the rental is worth the price. You may discover a feature that adds value, or you may decide it's not worth the extra expense.

Some rentals include the cost of utilities and some do not. If you are responsible for utilities, you should also ask to see a few months' bills and compare them to similar properties to get a sense of your true monthly expenses. You may want to consider selecting a home or apartment with "energy efficient" features, such as ENERGY STAR rated appliances, to cut down on monthly costs.





# RENTERS INSURANCE

**Property insurance isn't just for homeowners. Renters insurance helps protect against the serious financial burden you'd face replacing possessions that were destroyed or stolen. Renters insurance also covers you if someone sues for injuries, whether on or off your property, that were caused through your negligence.**

Some policies provide worldwide coverage for your personal property, whether it's in your home, apartment, or such places as storage units and vehicles.

You're also protected against loss caused by whatever perils are named in the policy such as flood, fire or other calamities. You'll want to read your policy closely to ensure that you have adequate coverage — before a loss occurs. And remember, the landlord's insurance generally only covers the building itself, not what you have inside it.

## **GENERALLY, YOU NEED RENTERS INSURANCE IF:**

- » You don't already own a home that's covered by a homeowners insurance policy.
- » You live in military housing. The federal government or privatized housing provider may provide minimal, limited coverage for your personal possessions if they are damaged or stolen from your quarters. Generally, your personal possessions are considered to be your responsibility.
- » You're a student but only have limited coverage on your parents' homeowners insurance policy.



# BUYING A HOME



Buying a home is one of the biggest purchases you will ever make, so it's important to get it right.

The financial aspects of homeownership involve more than a down payment, closing costs and a monthly mortgage payment. In fact, those are just the tip of the iceberg. You'll also have to allow for insurance, taxes, utilities, homeowner association dues, furnishings, landscaping, home maintenance, repairs and other unexpected expenses.

## BEFORE YOU START SHOPPING FOR A HOME:

- » Build a good credit reputation.
- » Reduce other debts, especially those with high interest charges.
- » Establish a spending plan (budget) to allow you to better predict how homeownership will impact you differently than renting.
- » Have an emergency fund in place, targeting 3-6 months of committed expenses.
- » Save for a down payment. Even if you can get a loan without one, being able to save up the money is often a positive indicator of readiness to own a home.
- » Consider creating a separate "make it mine" account to cover all of the expenses of making the home the way you want when you move in.



# SEEK PREQUALIFICATION OR PREAPPROVAL

It's a good idea to get prequalified or preapproved before you start shopping for a house. Doing so helps you stay focused on homes that fit your budget. Plus, being prequalified or preapproved shows the seller that you are a serious buyer, and that you are likely to get funding.

Be careful not to overdo it. A lender may preapprove you for more than you have requested. As tempting as it might be to stretch your budget for a higher priced house, consider the impact to other financial goals you are trying to achieve. Put simply, just because you can buy it, doesn't mean you should.

## GETTING PREQUALIFIED FOR A MORTGAGE REQUIRES YOU TO GET YOUR "FINANCIAL HOUSE" IN ORDER.

- » Check your credit report for free at [www.annualcreditreport.com](http://www.annualcreditreport.com) to ensure all information is accurate and current.
- » Review your budget by completing the "Spending Plan Worksheet" on pages 11-12 in the *Financial Planning and Goal Setting* publication.





# REACHING AN AGREEMENT

After countless home showings and negotiations you're ready to buy. What's next?

## EARNEST MONEY

This is a deposit that shows your offer is in "good faith." Amounts vary, but the deposit is generally held in escrow until closing, when it's applied to your down payment. If you fail to purchase the home without an acceptable reason, you may forfeit your earnest money.

## FINANCING

Your offer should be contingent on loan approval within a specified time unless you don't need a loan or already have a loan commitment from a lender.

## HOME INSPECTION

Generally, the buyer will select and pay for someone to perform the inspection. If the property needs repairs, the seller should allow enough to cover the repairs, or be prepared to lower the sales price.

## CLOSING COSTS

During the purchase and sale of a home, the buyer and seller incur charges for items such as a property appraisal and title insurance. Your offer should specify who pays for each charge.



# THE HOME INSPECTION

**No matter how nice a home looks at first glance, there may be underlying problems with the construction, foundation, heating and cooling systems, wiring and more. The inspection is meant to uncover structural or mechanical defects — not cosmetic problems, such as scratched floors, chipped tiles or dirty walls.**

Even newly constructed homes should be inspected. While a lender may require a home inspection before loaning you money, it's generally the buyer's responsibility to select and pay for the inspection. Here are three important tips:

- » Schedule the inspection early enough in negotiations that if repairs are required, the seller has time to make them before the closing. You don't want to sign any papers before the repairs are complete, unless you are prepared to assume the cost to complete them.
- » Choose an inspector qualified to examine every part of the home — electrical, plumbing, roof, heating and cooling, etc.
- » Attend the inspection so you can learn more about the home such as the age and quality of the furnace, how long before the roof might need repairs, and more. Request a detailed report about the findings, and schedule a follow-up inspection to verify any items repaired by the seller. If possible, conduct a final walk-through of the home just prior to closing. Make sure the property named in the contract — such as appliances, hardware and window coverings — is in place and that no new damage has taken place in or around the home.





# CHOOSING THE RIGHT LOAN

## **FIXED-RATE LOANS**

Also known as conventional loans, fixed-rate loans are generally repayable in 15 or 30 years. Because the interest rate remains constant (fixed), your principal and interest payment remains the same for the life of the loan, which makes it easier to plan your personal financial outlook. Note, however, that your total monthly payment is always subject to changes due to an increase in escrowed property taxes or homeowners insurance rates.

## **ADJUSTABLE-RATE MORTGAGE (ARM) LOANS**

ARM loans typically offer a low fixed interest rate for a set number of years after which the rate can increase depending on the interest rate environment at that time. When the interest rate increases, your mortgage payment generally increases as well. Knowing this, it's important to understand your long-term plans and understand that while there might be upfront benefits to an ARM loan, the possibility of increasing interest rates could bring higher payments in future years.

## **THE DEPARTMENT OF VETERANS AFFAIRS (VA)**

Certain eligible service members, veterans and surviving spouses might want to consider using a VA Home Loan. These loans are offered through regular banks and mortgage companies but contain certain VA guarantees that help the lender make the loan with terms outlined by the VA. These loans generally require a funding fee, but no down payment. VA-financed homes must pass rigid property valuations and be your primary residence. Consult your lender or the VA for more information. More information is available at [va.gov](http://va.gov).

## **THE FEDERAL HOUSING ADMINISTRATION (FHA)**

The FHA offers government-backed mortgage loans through approved lenders. One advantage of FHA loans is a down payment requirement as low as 3.5%. However, the trade-offs are that buyers must pay a mortgage insurance premium (MIP), homes must pass rigid property valuations, and the home must be your primary residence. Any bank or mortgage lender can provide more information or you can research these loans at [portal.hud.gov/hudportal/HUD](http://portal.hud.gov/hudportal/HUD).

## **UNITED STATES DEPARTMENT OF AGRICULTURE (USDA)**

USDA loans are for home mortgages in rural areas. The USDA backs a variety of loans in an effort to help low to moderate income people buy, repair, or renovate a home in a rural area. The eligibility and terms of these loans differ, but some feature no down payments. Consult your lender or the USDA Rural Development offices at [rd.usda.gov](http://rd.usda.gov) for more information.

# UNDERSTANDING MORTGAGE PAYMENTS

Whatever type of loan you select, your monthly payment could be broken into several pieces once it reaches your mortgage servicer.

**Principal:** The principal portion of the payment directly lowers your outstanding loan balance. You are paying a portion of the original amount you borrowed and building equity in your home.

**Interest:** The interest portion of your payment is your cost of borrowing. The lower your interest rate, the lower your monthly payment, all else being equal. The interest portion of the payment is often the largest component during the early years of the loan.

**Escrow:** Depending on your loan contract, your monthly payment could also bundle in your property taxes and homeowners insurance costs. If so, the lender holds these funds in escrow (a separate account) and pays the local property tax office and your insurance company when those bills are due. This is convenient for you because the payments are bundled into a monthly payment that's easy to plan for. It protects the lender holding your mortgage who, because your house is the collateral for the loan, wants to know that their investment is secure.

**Mortgage Insurance:** If you don't make a large enough down payment, you may be required to purchase mortgage insurance from the lender. This protects the lender if you are unable to repay the loan.

There is often more to a mortgage payment than just principle and interest. In many cases, your payment will also include an escrow portion for taxes and property insurance. It might also include private mortgage insurance.







# CLOSING ON YOUR HOME





“Closing” is the term used to describe the final meeting at which you sign all of the paperwork to officially take ownership of your new home.

## TYPICAL CLOSING COSTS

**Be prepared to sign quite a few papers at the closing including some that are your authorization to pay certain costs (closing costs) associated with the transaction. These costs could include:**

- » Attorney’s fees
- » The cost of a credit report
- » Escrow and title company costs
- » The loan origination fee
- » The cost of pest inspection
- » Recording fees charged by your local government
- » Survey fees
- » Title search and insurance fees





# OWNING YOUR HOME

**Congratulations! You've made it over all the financial hurdles and are now a homeowner. But the financial aspects of homeownership don't stop with the closing. In fact, they're just beginning. Here is a list of some of the major financial considerations of owning a home:**

**Emergency Fund:** A new hot water heater or leaky roof might require the help of a professional. Make sure to maintain an emergency fund of 3-6 months worth of living expenses to pay for these unexpected repairs.

**House Maintenance & Improvement:** To make your house a home will cost sweat equity and real dollars. Consider adding a category to your spending plan to set aside dollars to furnish and upkeep your house.

**Homeowners Insurance:** Homeowners insurance can help alleviate the financial burden of having your home or possessions destroyed or stolen. Your insurer agrees to pay the cost of repairing or rebuilding your home and replacing your possessions in the event of a covered loss such as a burglary, fire or theft. The policy also pays damages if you are held legally liable for accidental injury to someone else. Be sure to regularly revisit your coverages to make sure you're protected as things change.

**Life Insurance and Estate Planning Review:** The financial impact of losing a loved one could be devastating and that's especially true when there's a mortgage involved. Review your life insurance and estate planning documents when making a major purchase such as a home.

**Annual Spending Plan:** Taxes and insurance tend to increase over time. Plus, owning a home typically means doing major renovations or repairs and those usually come with a major price tag. Advanced planning for these items can be the difference between enjoying the changes or stressing about the debt they created.

## REDUCE MORTGAGE COSTS

**Even after agreeing to the terms of your mortgage, you can still save money with it.**

A great way to do this is to pay off the loan sooner than expected. You can pay off your mortgage early by:

- » Making an additional lump sum payment toward the principal every year.
- » Increasing your monthly payment by a fixed amount.
- » Putting additional funds toward your principal balance as the opportunity arises (for example, if you receive a bonus or inherit a lump sum).

Some lenders offer biweekly payment plans so that you make more frequent payments at a lower amount. This requires you to make 26 payments each year — one every other week — so that you end up paying a full extra month's payment each year.

Be aware that some lenders charge a fee for this option so it might be better to simply make that extra monthly payment on your own.

Whichever way you choose to pay your mortgage loan, avoid "deals" asking you to pay a fee to reduce the term. In many cases, these probably aren't a "good deal" for you at all.







# NOTATIONS

# NOTATIONS

Handwriting practice lines consisting of 20 horizontal dotted lines.



# ACCESS MORE FREE EDUCATIONAL MATERIALS TODAY

- ▶ Financial Planning and Goal Setting
- ▶ Building Your Savings
- ▶ Understanding Credit
- ▶ Managing Debt
- ▶ Buying or Renting a Home
- ▶ Buying a Vehicle
- ▶ Basic Investing
- ▶ Planning for Retirement
- ▶ Individual Retirement Accounts (IRAs)
- ▶ Financing College









# PERSONAL FINANCE FOR MILITARY LIFE

This publication is not intended to be or provide financial, tax, investment or legal advice. It is only a general overview of the subject presented and is solely for your information. Personal Finance for Military Life does not provide professional services for financial, accounting or legal matters. Applicable laws are complex, the penalties for non-compliance may be severe, and the applicable law of your state may differ. Consult your tax and legal advisers regarding your specific situation.

Personal Finance For Military Life 2019. All rights reserved.

90400-0219

