

The Pros and Cons of a Home Mortgage Compared to Renting

The old adage is that it is always better to own a house than to rent. When you have a home mortgage, you put money towards equity each month. Instead of wasting your money in rent, you get to live in the house and have a secure investment. The recent downturn in the economy has turned that old adage on its head, however, as many consumers have lost equity in their homes due to decreasing home values. When you buy a house, you take on many financial obligations that you would not have if you rented. You will have to take care of the roof, plumbing, painting, gardening, insurance and pay taxes on the property. As a tenant, you will probably want to pay for insurance for your belongings, but it will be significantly less than if you owned the home and needed to insure the entire property and your belongings. Your landlord is most often responsible for maintenance and upkeep, if you rent. Looking at those financial obligations, it appears that renting would be cheaper. But, as a homeowner, you would own the home and build equity. Theoretically, the home mortgage payments you make each month as a homeowner (instead of renter) are building your investment via equity in the house. The claim that rent is wasted money is not exactly true, since you get to live in and enjoy the property. Your rent payments, however, are not put toward equity like they would be if they were mortgage payments.

If you buy a home with cash and purchase it at fair market value, a home is a solid investment when compared to renting. But most consumers do not buy homes with cash and opt for a home mortgage instead. The expenses incurred with a home mortgage may tip the scales in favor of renting in many situations. When a consumer obtains a home mortgage, the majority of the payments each month goes toward interest. That is money he does not get back and it does not add to his equity. The percent allocated to interest decreases over the term of the home mortgage, but not significantly until the end of the term on the loan.

The decision to rent or own is a very personal one. Analyze your budget and financial plan to determine what is best for you in the short and long term. In most cases, it is not wise to buy a home in the current market strictly as an investment. Historically, your returns will be much greater if you invest in the stock market. If you plan to live in the property, however, weighing the costs and benefits of renting versus owning should be part of your calculations. If you plan to be in a home for a long time, want a place to call your own, and can afford the costs of that particular home, owning may be the right choice.

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