RENT vs BUY

TIRED OF PAYING FOR YOUR LANDLORD'S MORTGAGE?

The only one who benefits financially from a rent check is the landlord. Renters never see their monthly payments again, and they can't use any of that money as a tax deduction. Home buyers, on the other hand, spend part of their monthly payments buying an asset they can eventually sell. The remainder of their monthly outlay pays interest to their lender, which is fully tax deductible in most cases.

If you are currently renting — or you're moving and debating whether to rent or buy — take a look at how your housing payment could be put to better use purchasing a home. The real question may be whether you can afford *not* to buy your own home.

Stabilize Housing Costs

As a renter, you may be subject to a rent increase each time your lease period expires. You can end up paying more and more every year for a place to live — with no limit and no financial return in sight.

Homeowners who take out a fixed-rate mortgage, however, can look forward to the same monthly principal and interest (PI) payment as long as they own their home. Even with an adjustable-rate mortgage, payments could increase if interest rates rise, but the increases would be "capped" to a maximum amount for each adjustment and over the life of the loan. (Will your landlord limit rent increases?)

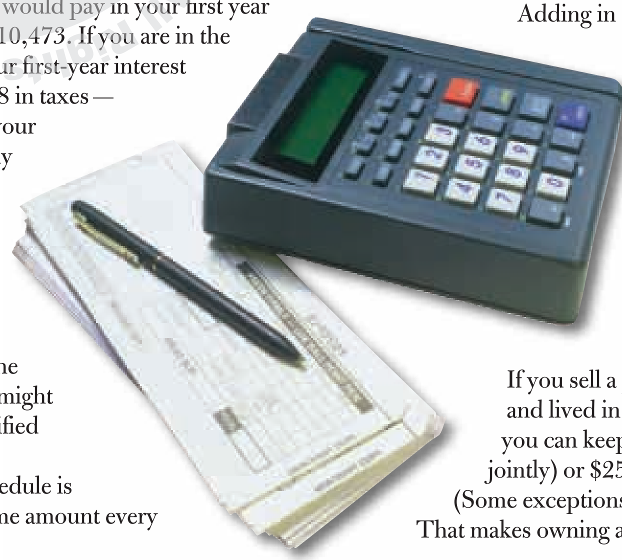
Whether buying with a fixed-rate or an adjustable-rate mortgage, when the loan is paid off, homeowners enjoy a place to live with *no* required housing payment except, perhaps, for real estate taxes.

Add Up Tax Savings

While holding housing costs constant, most homeowners can also take an annual tax deduction for mortgage-interest expenses. The tax savings alone make the purchase of a home a wise financial decision for most people.

As an example, let's say your rent payment is (or would be) $1,000 per month. If you turned that into a mortgage payment, you could buy a home worth $167,009 with a 10% down payment on a 30-year mortgage at 7% interest. (Ask us about current rates to get a better picture about how much home your rent payment could buy.)

The mortgage interest you would pay in your first year of homeownership would be $10,473. If you are in the 25% tax bracket, deducting your first-year interest expense would save you $2,618 in taxes — $218 per month. That means your $1,000 PI payment would really be $782 with tax savings taken into account. After five years of ownership, your tax savings would total $12,795. (In fact, you could save even more in taxes. With mortgage-interest expenses higher than the standard deduction, itemizing might allow you to deduct other qualified expenses as well.)



Because your payment schedule is "amortized" so you pay the same amount every month, in the early years of your loan most of each payment will go toward paying interest, with only a small portion paying off principal (the loan amount). Still, every month you will pay less than the previous month toward interest and more toward principal. As your interest expenses decrease over time, so will your annual tax savings, but your equity (owned value) in the home will increase.

Build Wealth

Using the same example, after 12 months of homeownership you will have paid off $1,527 of principal. After five years, you'll have paid back $8,820. If that doesn't sound like much, consider how your home may increase in value over five years. (Although there's no *guarantee* your home will appreciate, historically, property values do tend to increase over time.)

Let's assume your home's value grows by a modest 4% per year for five years; it would be worth $203,192. With the original loan amount down to $141,488 after five years, your equity would be $61,704. You'll have made $45,003 on your original $16,701 down payment. Adding in tax savings, your investment will have grown by 446% ($12,795 + $61,704 ÷ $16,701).

Look Ahead

Most homeowners eventually sell their homes. When they do, they can take advantage of a terrific tax break — a capital gains tax exclusion — which renters can't reap on other types of investments.

If you sell a primary residence you have owned and lived in for two of the previous five years, you can keep profits up to $500,000 (filing jointly) or $250,000 (filing single) tax free. (Some exceptions apply. Ask your tax professional.) That makes owning a home an even better investment.