



UNIT 1 – 2

Renting vs. Buying

Let's face it, unless you still live with your parents, you either own the home you are living in or you are renting from someone else. And, if you are still living with your parents, chances are good that they either own their home or are renting from someone else.

The point is that a choice between the two options –renting or buying– is about the only choice that we have. In that case, it makes sense to spend some time addressing the pros and cons of both strategies, and that is what this unit attempts to do.

The first question to be answered is whether or not homeownership is right for you.

Case Study Application

In this unit, we'll continue with the case study introduced in Unit 1-1. Only this time we'll assume that Bill and Rhonda decided that the advantages of home ownership outweighed the advantages of renting. However, while the decision was generally expected, there are a number of other things to consider such as having a suitable credit history, a suitable income, possible lifestyle changes, and much, much, more.

In short, there are a whole host of things to consider, and many of them—such as building a good credit history—may take some time. So the bottom line is that wanting a home is a lot easier than getting one, and a lot of preparation is required to get there.

It turns out that Bill and Rhonda have a lot to consider before they ever get to the point where they buy a home.



CASE STUDY: BILL AND RHONDA'S CHOICE

When Bill and Rhonda were first married, they rented a small apartment while they got established in their careers. They had a lot of tasks ahead of them as they had to learn how to set their financial goals and learn the basics of budgeting so that they could accomplish what they actually set out to do, but a nagging question remained – whether or not they should even think about becoming homeowners.

They had heard arguments both ways, so they thought they would start out by looking at the advantages of home ownership. Then they would tackle the issue of renting vs. buying so that they would have a much better idea of what to do.

They would be first time home buyers and perhaps because of that they have had a lot of advice from friends and family – especially their parents. Even so, it was important to them that this be their decision, not one that was forced on them by someone else.

Is Homeownership Right for You?

Freddie Mac, known more formally as the Federal Home Loan Mortgage Corporation, is a federally chartered, stockholder-owned corporation set up by the U.S. Congress to increase the supply of funds to lenders of mortgage funds, recommends that people first look at their current situation and then consider the following before they decide to buy a home:¹

“Are you ready for homeownership? Look at your current situation and determine if:

- You have a steady, reliable source of income and a steady employment history for at least two years.
- You have a credit history.
- Your total debt is manageable and you can afford to take on the costs associated with homeownership.

¹ http://www.freddiemac.com/corporate/buyown/english/preparing/right_for_you/



- You have money saved for a down payment and closing costs or you have access to other sources of funds, such as an employment bonus, tax refund, or a gift from a relative.

Think about your future plans that might affect your ability to manage the costs of homeownership.

- Consider whether you need to make lifestyle changes that might include not taking expensive vacations or purchasing luxury cars, and dining out less.
- Consider the costs of a growing family when looking at your homeownership budget.
- Consider whether your future plans might include a wedding or college education for yourself or your children.

And remember, the mortgage is not the only expense you need to consider. Homeownership comes with other potential budget items such as repairs, maintenance, taxes, landscaping, etc.”

As we said earlier, Bill and Rhonda have a lot to consider before they decide to buy a home, but at least this gives them a starting point. Better yet, they can also think about the problem without spending any money.

- Given the information in the case study, are they ready for homeownership?
- What type of additional information would you like to have before you answer the previous question?



The PACED Decision-Making Model

Directions: Use the PACED Decision-Making Model below to contrast the advantages and disadvantages of your problem. After you have evaluated the issue, discuss the choice you would make. Complete the analysis by using these five steps in the decision-making model:

Step 1: State the **P**roblem: _____.

Step 2: List the **A**lternatives in the first column.

Step 3: List the **C**riteria in the first row.

Step 4: Evaluate each alternative by placing a “+” or a “-” in the box below each criterion.

Step 5: Make your **D**ecision: _____
_____.

Criteria ↓ → Alternatives	1.	2.	3.	4.
1.				
2.				
3.				
4.				
5.				

Using the space below, explain why the alternative in step 5 above is the best solution to your problem:

