

**Radio Glencoe Podcasting**

***Real Life, Real Answers***

**Episode 2 – Renting or Owning a Home**

Jasmin interviews a loan officer about the advantages and disadvantages of renting or owning a home.

**Jasmin**

Hey everyone, this is Jasmin host of ***Real Life, Real Answers***, your source for direct, useful information about situations young people deal with once they enter the grownup world. Today, we're going to tackle the question of whether it is better to rent or own the place where you live. To get some real answers, because we do try to keep it real, we turn to Kyle Stewart, a mortgage loan officer specializing in helping out young, first-time home buyers. Welcome, Kyle.

**Kyle**

Hello, Jasmin. Thanks for having me on your show.

**Jasmin**

Okay, Kyle, right from the jump I'm confused. "Mortgage loan"? What's that?

**Kyle**

The home-buying process can be overwhelming if you haven't dealt with it before, but once you learn the basics it's not so difficult. A mortgage loan is money you borrow from a lender, such as a bank, to buy a house. You typically pay off your loan over a long period of time, usually 15 or 30 years. My job is to help people get qualified to receive mortgage loans.

**Jasmin**

A mortgage is something you have only if you own a home?

**Kyle**

That's correct. For example, if you rent an apartment, you just pay your monthly rent to your landlord. Your landlord pays the mortgage on the apartment building.

**Jasmin**

Got it. Let's talk about the different reasons you might want to own or rent.

**Kyle**

Jasmin, buying a home is one of the biggest financial decisions you can make. It requires planning, responsibility, and self-examination.

**Jasmin**

Tell us some reasons why we might want to buy a home instead of renting.

**Kyle**

One big reason is the investment potential. The real estate market does have its risks, but generally a property's value will go up over the long term, allowing you to build

up equity, which is the difference between what a property is currently worth and what you owe on it. Another is that the home belongs to *you*—you can paint the walls the color of your choice, you can renovate your kitchen, retile your bathtub, and so on.

**Jasmin**

I like that! I definitely have some ideas about how my dream house would be decorated.

**Kyle**

Another advantage if you own a home is that you get a break when paying your federal income taxes. You can deduct the interest you pay on your mortgage loan, as well as what you pay in property taxes. Also, if you own, you avoid the hassle of paying a security deposit that renters have to pay just to get into a home.

**Jasmin**

Security deposit? Now I'm confused again. Could you explain that, please?

**Kyle**

Sure. The security deposit is a one-time payment you make when you sign a lease to rent an apartment or house. Usually it's several hundred dollars, but sometimes it's more. The security deposit is used by the landlord to pay for cleaning, to change locks, or repair any damage to the rental unit at the end of the rental agreement.

**Jasmin**

But it's a "deposit," so that means you get your money back, right?

**Kyle**

Well, maybe, maybe not. When I got my first apartment, I paid a \$700 security deposit. At the end of the lease, the landlord charged \$250 for cleaning and new locks. I thought I'd get back the remaining \$450, but there were grape juice stains on the living room carpet that wouldn't come out and the landlord said it would cost \$350 to replace that area of carpet. I received only \$100 back from my deposit.

**Jasmin**

Wow, what a pain! Well, you've got me ready to call a real estate agent.

**Kyle**

Not so fast. Buying and keeping a home comes with its own set of expenses and complications.

**Jasmin**

I thought you might say that.

**Kyle** Real estate can be very expensive for someone who hasn't been working very long and doesn't have much money saved up. You're going to need to make a down payment on a property before you can get a mortgage loan to pay the rest.

**Jasmin** A down payment is money I have to come up with upfront, right?

**Kyle** Yes, Jasmin, and reputable lenders require buyers to pay down between 10 and 20 percent of the sale price. So if a house costs \$200,000, the down payment is somewhere between \$20,000 and \$40,000. That's a lot of money to save up, but it can be done if you live within your means and carefully maintain a budget. A lot depends on whether you're ready to commit to a full-time career right out of school, giving you the stability and income needed to save that much money.

**Jasmin** OK. So after the down payment and mortgage loan, what else do you have to pay when you buy a home?

**Kyle** You pay interest on your loan; the percentage depends on your credit rating, your income, and the amount of your down payment. You pay closing costs, which are fees for documents and services at the time you buy your home. You pay property taxes and home insurance premiums. You may also have to pay mortgage insurance.

**Jasmin** We've got a couple of callers, so let's get them on the air. Caller, you have a question for Kyle?

**Caller (female)** Hi! Well, I hear what you're saying about all the costs involved in getting into your house and paying for the mortgage. But what about the little things you have to pay for as a homeowner?

**Kyle** Well, like renters, you have to pay for utilities, including some, such as water and garbage service, that renters don't have to pay for in many states. Then there's maintenance, which can provide all sorts of unwelcome surprises.

**Jasmin** Let me guess...the toilet overflows. Potato

peels clog the garbage disposal.

**Kyle**

Or your furnace breaks down or your roof begins to leak. Whatever it may be, you can't call on a landlord to fix it for you. It's your responsibility and your expense. On the other hand, you don't have to worry about a negligent landlord failing to make repairs in a timely manner.

**Jasmin**

Well, I'm glad there's a bright side to all these costs! We've got another caller. Go ahead.

**Caller "Brandon" (male)**

Hey, this is Brandon. You had me excited at first about buying a house, but with all these costs, I'm thinking renting sounds OK. It just sounds a lot less expensive.

**Kyle**

It's not easy to compare the costs of renting to buying a home. You might pay more for a mortgage than in rent, but then you have to consider the value of the equity you build, or the savings on your taxes from the mortgage interest deduction. What's important to remember is that there's no right or wrong answer to the own-or-rent question. It all depends on your situation and what you want out of life. Let me pose a hypothetical situation to you, Brandon.

**Caller "Brandon" (male)**

I'm hearing you, Kyle.

**Kyle**

Picture yourself in your mid-to-late twenties. You're not ready to settle down yet. You have a flexible job that allows you to take time off and backpack in different places all over the globe.

**Caller "Brandon" (male)**

I like the sound of that! I'm going to picture myself on a beach in Thailand.

**Kyle**

Okay. Now, do you think you would find owning or renting a home to make the most sense in this situation?

**Caller "Brandon" (male)**

Hmm. Well, I'd like to keep my expenses down, so a smaller apartment would make sense. I'd also want flexibility in my living situation. And what if I decided to take a new job in some place I'd traveled to? I wouldn't want to have to sell my house, or rent it out to someone else. So I'd definitely want to rent. Am I right?

**Kyle**

For that situation, renting is a good option. But plenty of young adults are already in a career they enjoy and are ready to settle

down and start a family. If their financial outlook is healthy, buying a home is an option they may want to explore.

**Jasmin**

And on that note we're going to wrap this edition of *Real Life, Real Answers*. Kyle, thanks for coming on the show and sharing your expertise.

**Kyle**

You're very welcome.

**Jasmin**

And this is Jasmin signing off with a little real advice for everyone: don't splurge on that couch for your new apartment until you've got enough money saved up for the security deposit!