

## Rent vs. Own

Everything you need to know about converting renters to buyers.

**Introduction:** This class will outline the most important financing topics that a real estate should address when assisting a client on renting or buying a new home. Below are the talking points of the course:

1. Top reasons why consumers rent vs. buy
  - a. Down payment funds not available
  - b. Credit issues
    - i. Poor credit
    - ii. Previous short sales or foreclosures
  - c. Recent to the area
  - d. Newly separated or divorced
  - e. Don't know about programs that they may qualify for
2. Loan programs
  - a. In depth look at FHA, Conventional, USDA, VA and VHDA financing to assist the consumer in understanding their options
3. Funds allowed for home purchases
  - a. Gift from family
  - b. Personal savings
  - c. Retirement or 401k funds and the benefits of those funds
4. Tax benefits of a home purchase
  - a. Analyzing income tax brackets
  - b. Rent payment v. mortgage payment comparisons

c. Rent payment correlated to local sales prices

5. Benefits of home ownership

a. Equity build up

b. Creation of healthy and strong credit

c. Tax benefits

6. Rent v. Buy Calculator

a. Review scenarios using a rent v. buy calculator

b. Attendees will complete 3 scenarios on their own to be shared

## Rent vs. Buy

### Exhibit A

**Table 1. 2015 Taxable Income Brackets and Rates**

Rate	Single Filers	Married Joint Filers	Head of Household Filers
10%	\$0 to \$9,225	\$0 to \$18,450	\$0 to \$13,150
15%	\$9,225 to \$37,450	\$18,450 to \$74,900	\$13,150 to \$50,200
25%	\$37,450 to \$90,750	\$74,900 to \$151,200	\$50,200 to \$129,600
28%	\$90,750 to \$189,300	\$151,200 to \$230,450	\$129,600 to \$209,850
33%	\$189,300 to \$411,500	\$230,450 to \$411,500	\$209,850 to \$411,500
35%	\$411,500 to \$413,200	\$411,500 to \$464,850	\$411,500 to \$439,000
39.6%	\$413,200+	\$464,850+	\$439,000+

## Rent vs. Buy

### Exhibit B

#### Comparison of Monthly Payment, Tax Advantage, and Equity Position

##### Assumptions:

Annual household income of \$120,000

Rent Payment: \$2500 (average townhome in Northern VA)

OR

Purchase Price \$400,000 with 5% down conventional financing with lender paid PMI

<b>Principal and Interest</b>	\$	<b>1,842</b>
<b>Estimated Monthly Hazard Insurance</b>	\$	<b>58</b>
<b>Estimated Monthly Real Estate Taxes</b>	\$	<b>358</b>
<b>Mortgage Insurance</b>	\$	<b>0</b>
<b>Condo/HOA Fee</b>	\$	<b>75</b>
<b>Second Trust Payment</b>	\$	<b>0</b>



##### After 5 years:

Rent paid assuming no annual increases = \$150,000

Equity = NONE

OR

Total Mortgage Payments = \$120,420

Mortgage balance after 60 payments = \$344,389

Down payment used at time of purchase = \$20,000

Net equity gain = \$35,611

Using a 2.5% rate of appreciation the estimated market value of that same home is now \$452k, yielding an estimated total equity gain of \$87k plus \$30k in total payment savings.