WHAT DOES IT TAKE TO BE A HOMEOWNER OR RENTER?

What Does It Take to Be a Homeowner?

Owning a home is a big financial investment. It may take time to have enough money to purchase a home. A home purchase usually requires a **down payment,** which is a percentage of money determined by the lender. The down payment is a partial payment for the loan, with the rest of the loan paid over a long period of time—as much as 30 years. To purchase a home, the applicant completes a loan application. The bank, credit union, or mortgage company is the **lender**. The **lender** investigates the applicant's credit history, current debt, assets, and the applicant's ability to repay the loan. Applicants with a large amount of debt (money owed), poor credit history, or few assets (valuable resources) may be denied a loan.

When the loan is in place and the seller of the home has agreed to a price, there are additional costs or fees to acquire the property. These are called **closing costs.** Some of these fees include mortgage preparation costs, home inspection, appraisal of the property, and other fees.

Once the applicant's loan is approved and the down payment and closing costs are paid, the applicant signs a mortgage loan agreement and becomes a homeowner. The mortgage agreement includes the monthly mortgage payment, insurance fees, property taxes, and the **interest rate** added to the loan. This **interest rate** is how the lender makes their profit on the loan. The money borrowed for the cost of the home is called the **principal.** Included with the **principal** are **homeowner's insurance** and **property taxes**. These are part of the monthly mortgage payment. The lender places these monthly added fees for insurance and property taxes in **escrow. Escrow** is an account held by the lender, who keeps these funds to pay property taxes or homeowner's insurance when they are due. The interest rate and property tax portions of the mortgage payment are **tax-deductible**. Homeowners, unlike renters, can deduct their interest payment and property taxes from their annual income tax report. Once mortgage payments begin, they usually remain stable—that is, the amount paid remains the same over time.

A new homeowner becomes responsible for all current and future repairs to the home and property. **City ordinances or regulations** may require that the outside property look neat and maintained. Large appliances like refrigerators and stoves may need to be purchased for the home. If both the home and outside property are cared for, the value of the home within the community usually increases. This is the advantage of homeownership. If the homeowner needs to sell their home, it may be worth more than the original cost. This allows the homeowner to make a profit.

Homes offer privacy from neighbors. Homes also offer opportunities for families to grow. Homeowners become part of a neighborhood or community. While homeownership is a long-term commitment, it can also give many years of happiness and become a source of pride.

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What Does It Take to Be a Renter?

Renting a home or an apartment has multiple benefits. For people who are on their own for the first time, renting often looks attractive. Rent, especially for small apartments, is cheaper than owning a home. An added advantage of renting is that a renter can move easily once the rental agreement is up or with written notice to the landlord. Maintenance and repairs to the property are usually the responsibility of the property owner or landlord, not the renter.

When someone becomes a **renter** or **tenant**, they must sign a **lease or rental agreement** with the **landlord** or **property manager**. This lease is binding for the renter and the **landlord or owners** of the property. It is important for a first-time renter *to read the lease agreement carefully and ask questions.*

Lease agreements address the terms of renting the apartment or home. The lease identifies whether the landlord or the renter pays gas, electric, water, trash, or other utility bills. This is important to know because utilities often require a separate deposit fee and vary in monthly costs based on usage. Utility companies can tell the renter the average cost of water, gas, or electricity in the area. The lease agreement should specify who pays these utility bills.

Most rental agreements include a **deposit fee.** This deposit fee is sometimes refunded after the tenant or renter leaves. The deposit fee is intended to cover the cost of any damage to the home or apartment that may occur during the renter's stay (or **occupancy**). This might include cleaning fees, minor repairs, or repainting costs. If the rental property is left clean and in good condition, some landlords will refund the deposit fee.

Many rental agreements set a specific date when the rent payment is due each month. A **late charge** may be added to the rent if it is not paid by a certain date. Late charges may **accrue,** or increase, for each additional day that the rent is not paid. Monthly rent should be no more than 30% of the renter's income, according to experts at Quicken Loans.

The length of the rental agreement can vary in length. Many leases last around a year; some last as few as three months. The renter or tenant is not required to move out when the lease ends. Typically, the landlord asks the renter to renew the lease. However, at the end of the term of the agreement, the landlord can increase the monthly rent if they choose. If the renter breaks the lease before the end date, consequences vary. Some agreements may require the renter to pay the last month's rent in addition to a deposit fee. This is to protect a landlord from tenants who leave suddenly or earlier than planned. Most agreements require a written or verbal notice *prior* to leaving the rental property.

Renters should purchase **renter's insurance**. If a burglary or fire occurs, renter's insurance helps with replacement costs for personal possessions. The cost to replace damaged furniture, electronics, and personal items can add up.

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