



# ***Deciding to Buy a Home***

## ***Deciding to Own***

# Deciding to Buy a Home: Deciding to Own

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Many or most Americans want to own a home but it may not be for everyone. There are many advantages to home ownership but there also are disadvantages to be considered. Some benefits are the pride of homeownership and the equity that you build in your home over time. Also, many people prefer to live in a home they own or are buying and want something they can pass on to family members. There are challenges as well, such as the responsibility for property maintenance and upkeep.

## Benefits of Ownership

- **Belonging and Independence.** Some benefits of ownership cannot be measured in money. One of these is the positive feelings that come from a sense of community and belonging to a neighborhood. Another comes from the freedom to make improvements to suit your tastes. Besides these, there are practical financial advantages to ownership.
- **Automatic Savings.** The part of the monthly payment which goes to principal is actually a savings plan which builds equity for future use. Equity is the difference between what the house is worth and the amount you owe. Equity can be used to buy a larger house. You also can borrow against the equity to finance home improvements. Caution: It is very tempting to use a home equity loan to buy costly items such as a giant screen home theater system. Some aggressive sub-prime lenders may encourage you to borrow large amounts of money using your home equity as security. This added debt may be more than you can repay. You risk losing your home if you get involved in these deals. Instead of financing purchases with such loans, it might be better to postpone some optional items. Consider saving for these items or buying on layaway.
- **Credit Worthiness.** Homeownership can help build a better credit history. Simply making the monthly mortgage payment on time each month over a period of years can increase credit worthiness. The longer you have a good record of such on-time payments, the more likely you can obtain future credit at favorable interest rates.
- **Investment.** A home can serve as a long-term investment. The value of housing goes up and down depending on the economic situation of an area. Over the long run, however, the value of most housing tends to increase more than it decreases. It is important to remember that timely and proper maintenance of your house will help it to increase in value over the long term.
- **Stable Monthly Expense.** Buying a home can mean that your monthly housing expense is relatively stable, especially if you have a fixed-rate mortgage. Over time the monthly payment may change due to increases in property taxes and casualty insurance. These changes will be relatively slight compared to possible large increases facing renters at renewal of the lease.

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- **Tax Benefits.** Certain one-time costs involved in the initial purchase of the house can be deducted from your income tax. These may include the loan origination fee when it is expressed as points (that is, a percentage of the loan amount) and mortgage interest discount points (also stated as a percentage of the loan amount). Pre-paid interest and pre-paid property taxes which may have been collected at the time of closing are deductible. Each year that you own the home, mortgage interest and property taxes can be deducted. Talk with a tax advisor about the deductions that you can legally take. Challenges to Ownership

### Challenges to Ownership

- **Initial Expenses.** A key challenge, especially for first-time homebuyers, is the initial one-time expense of buying. You need enough resources to pay earnest money, loan application, credit check and inspection fees, and the down payment and closing costs. Additional expenses may include the cost of moving, buying appliances and landscaping.
- **Continuing Expenses.** Ownership requires paying the mortgage and utility costs each month. You also might have to pay monthly or annual homeowner association dues. In some locations, you might have to pay an annual flood insurance premium. Another continuing expense factor is home maintenance. Because the house is an asset, the mortgage lender and property insurance company require that you maintain the property. There will be unexpected expenses for repairs. If you do not have the time or talent to fix problems, you will need to pay skilled technicians for the repairs.
- **Insurance Coverage.** Property insurance is required by the mortgage lender to cover casualty losses such as wind, water and fire. The policy should offer enough coverage to repair

or rebuild the house, provide for temporary shelter and allow replacement of your contents. It is important to keep the policy updated.

- **Household Mobility.** Another factor to consider is your mobility. If you are concerned about being able to move from the area because of your occupation or industry, owning a home may limit your mobility. It does take a certain amount of time to sell a property and close the deal.
- **Legal Restrictions.** Most people who buy a house do so in part to be free to make improvements and changes as they see fit. There may be limits to changing the house in local zoning ordinances and building codes. You may be required to buy a permit to paint the home or receive special permission to change the exterior color. Also, if the home is covered by homeowner association covenants it is likely there will be certain legal restrictions. The covenants may include prohibiting the parking of boats and recreational vehicles on the property, building storage sheds or other buildings and changing the color or character of the house without written permission from the association.

*This resource is one in a series on Deciding to Buy a Home which include:*

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