



Managing Money

Benefits and Challenges of Homeownership

Managing Money: Benefits and Challenges of Homeownership

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When you are financially ready to consider buying a home you will want to look at both the benefits and the challenges and think about how these will affect the way you want to live.

Some of the benefits of owning a home are:

- You can build equity. Equity refers to the value of the home minus the debt you owe on it. As you pay down the loan you build up equity. One of the benefits of equity is that you can borrow against it for many purposes, usually at a lower interest rate. For example, you can pay for a child or other family member's education.
- Homes generally increase in value over time, so it can be a good way to invest your money. This also increases the amount of equity that you have in your home.
- You have the freedom to decorate your home to your tastes.
- Once your mortgage is paid in full, the home is yours. A mortgage is a loan to purchase a home.
- Homeownership may reduce the amount of income tax you owe since mortgage interest and property taxes are deductible (consult your tax preparer for more details).
- A mortgage provides a stable monthly payment in comparison to annual rent increases.
- You can pass your home on to family members.

Homeownership also has some challenges. When you own a home, property maintenance and

upkeep are your responsibility. You are also responsible for the additional cost of:

- Homeowner's insurance
- Real estate taxes—the home owner is responsible to make sure these are paid even if the taxes are included in the mortgage payment.
- Homeowner's association fees, in some cases. These fees pay for maintenance of the common areas and the exterior of the buildings and grounds.
- Unexpected regular costs of home maintenance (such as replacing a hot water heater).

Most mortgages are for 15, 20 or 30 years in duration. You will want to be sure that you are you ready to commit to a long-term debt.

When you own a home, it is not as easy to move as when you rent. You will typically have to sell or rent your home before you can afford to buy or rent another. There also are costs involved with selling your home. Additionally it is important to understand you can lose your home, and your investment in it, if you do not make timely mortgage payments. If this were to happen, it would be extremely difficult for you to purchase another home.

Buying a home is a big decision and one that comes with benefits and challenges. Only you can determine if the benefits outweigh the challenges for you at this time. If you are ready to buy a

home, you may want to read the sections on Choosing a Home and the Home Buying Process. If you decide that you want to rent for awhile before you buy, read the section on Renting: Precursor to buying.

Reference:

Federal Deposit Insurance Corporation. (2002). Welcome to your own home! Money Smart. Division of Compliance and Consumer Affairs, Washington DC. Author.

*This resource is one in a series on **Managing Money** which include:*

Making your Money Work:

Determining What Is Important to You
Where Are You Now? (Net Worth Statement)
Stop Spending Leaks
Developing a Spending Plan

Using Credit:

What Is Credit and How Much Credit Can I Afford?
Types of Credit: What Are Your Choices?
Credit Cards
Credit Reports

Building Savings:

Ways to Save
How Your Money Can Grow
Where to Save
Investment Options

Selecting Financial Institutions:

Selecting a Financial Institution
Checking Accounts
Savings Accounts

Creating a Record System:

Keeping Records in Order
Where to Keep Records

Determining Readiness:

Financial Readiness
Benefits and Challenges

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