

# Decisions, decisions: Owner, loaner or borrower



Due to my reputation as a very stable – er, no. Let's go with...rational thinker steeped in financial analysis. Yeah. Anyhoo, I get asked a lot (a lot!) by people trying to decide what to do about where they live. It all depends, I tell them, and then I go into decisions, decisions: owner, loaner or borrower.

**Decisions, decisions: Borrower's freedom...and chains**

One of my questioners asks me whether they should stop renting and buy a home. In this case, the person previously owned a home but is renting now.

A big part of my discussion centers around employment. Considering a change of venue in both job and location suggests renting is a good alternative to buying. Especially if you have to move but can't sell your home quickly...oboy, two homes on the books!

That freedom is the chief advantage of renting. For most terms, you're only locked in for a year. No taxes. No insurance, other than the relatively inexpensive renter's insurance. And no repair costs.

The chains, however, are significant. For one, you hope you get a good landlord. Sure, you don't pay for repairs, but you also don't get them promptly without a good landlord.

Also, you can't customize. And you give up your deposit on a whim, if the aforementioned landlord wishes to nitpick.

Most rents are usually higher than an actual mortgage payment. Makes sense, of course, since the landlord wants to recoup his costs plus make money over the top.

Finally, all that rent money is lost money. At the end of the year, you've paid thousands of dollars and don't have anything tangible to show for it.

Still, renting's biggest advantage is its flexibility. If ease of movement is most key, the decision is heavily weighted to "borrower".

## **Decisions, decisions: The loaner dilemma**

Another set of situations presented to me arise from a desire to purchase a first home or another home. Again, each individual decision is unique, but some generalities can be drawn.

First homes are magical things. Yes, you won't own it for decades, but tell that to your heart when you walk in the door of "your" new home. Whee!

Don't like the colors? Paint as you wish. Want to hang stuff? Bang away. It's all yours to customize and decorate to your heart's content.

Pets and kids are no issue, respective of the community rules. You trade the freedom of flexibility for the freedom of customization.

And, all your money goes to you...eventually.

Of course, that's where the downside begins. The bank owns your home. In some senses, you are still "renting", but without the benefits.

Yes, you have a tangible asset. You also now have a huge debt load on your credit report. Obligations related to late payments that have far greater repercussions than a rent payment.

And then there's those now sizable insurance and tax bills. Plus homeowner's fees, if you live in a community.

The safest plan is not to purchase a home until you know your job is stable and your budget is manageable. Defaulting on a home loan has catastrophic effects on your future that a broken lease can't begin to suggest.

As for buying a new home, well, financially, that's fine until you get to a certain age/employment status.

Generally, once money stops flowing in from a job, "buying up" in a home makes little sense and could actually cause you severe financial issues later in life. Best bet: get to your end home before you get to your retirement.

Decisions, decisions: owner, loaner or borrower suggests turning into a "loaner" should be carefully looked at from the head, not the heart.

**Decisions, decisions: Owner – dream or nightmare?**

A little of both, really.

I'm typing this while waiting for the installer of my new water heater. It's not broken. Not yet. It is, however, going on 12 years old with a large (and growing) rust area across the top of the tank. And, recently, a rare "surprise!" shower. Brr.

But, yes, just as anyone who has paid off their car knows, the feeling of not owing anymore on a large item is exquisite. Nothing like it.

And, as a pure asset that, generally, increases in value, the home tends to be a rock solid investment over time.

But, I consider again the water heater. And earlier this year the ant problem that required a couple of hundred dollars of professional pest control. And the several thousand dollars of roof repairs from multiple hurricane-driven tree damage.

Plus, living that long in the same home (the only conclusion to having paid off the loan), means replacing appliances. No doubt new flooring. And most likely paint, inside and out. And...

Yes, home ownership is wonderful. The American Dream. Just, no one explains to you how much it's going to cost you to maintain that dream. Yikes!

**Using the head and not the heart**

I have no real estate background. Nor am I retirement planner. So I'm always a little queasy giving out advice on major financial decisions.

On the other hand, I am good with money and strategic planning. I try to offer up scenarios rather than suggestions.

People trust my judgment. That's a flattering feeling and a heavy responsibility. My goal is to hopefully illustrate the choices they have and the possible results of those decisions.

Decisions. Decisions. Owner, loaner or borrower. It's rarely the same situation twice.