Building **Wealth**

In the Classroom

Lesson 4

Save and **Invest**—Owning Versus Renting

Federal Reserve
Bank of Dallas

Instructional objectives

You will:

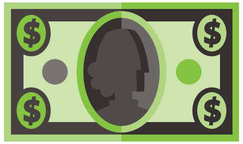
- Identify the responsibilities and risks of being a homeowner and renter.
- Compare the costs and benefits of buying a home and renting.
- Analyze the impact of buying and renting on an individual's net worth.

Assuming you had the financial resources to do so, would you prefer to own or rent housing?

Renting

What should you expect?

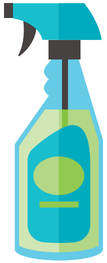
Renting



Up-front costs

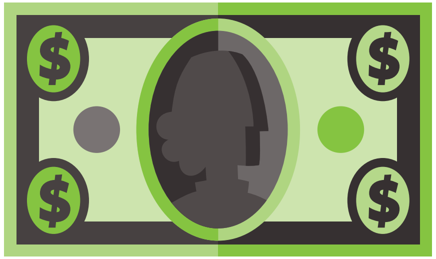
Renters insurance

Lease agreement



Responsibilities

Up-front costs



Costs include:

- Security deposit.
- Application fees.
- First/last month's rent.
- Pet fees.

Renters insurance

Renters insurance includes:

- Insurance to protect personal property while leasing.
- Loss of furniture and other personal property due to damage or theft.
- Extra living expenses if you live in temporary housing during home repairs.

Understanding the lingo

Landlord
The owner of property that is leased or rented to another.

Tenant
One who rents or leases a property from a landlord.

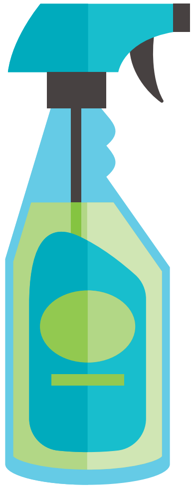
Lease agreements
Rental agreements.

Lease agreements

Legally binding and can include:

- Names of parties.
- Description of the property.
- Term length.
- Deposits and fees.
- Tenant responsibilities.
- Early termination fee.

Responsibilities



Tenant responsibilities are outlined in the lease agreement. They may include:

- Paying rent on time in full.
- Keeping rental unit clean.
- Reporting issues as they arise.
- Following pet restrictions, notices and fees outlined in the rental agreement.
- Paying for damage above normal wear and tear.
- Performing seasonal maintenance: cutting grass, replacing air filters.
- Fixing things you break or damage.

Lease agreement

Use handout 1 to record your answers.

Read through the sample lease agreement.

Highlight all tenant responsibilities.

Research 3 additional sections that can be found in a lease agreement and complete the questions on page 2.

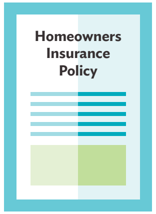
Owning

What should you expect?

Owning

Property value

Mortgage loan



Homeowners insurance

Equity

Responsibilities of homeownership

Risks of homeownership

Property value

The estimated price of a property.

- Determined by the appraised value.
- Appraisals are used to determine:
    - Property tax.
    - Loan considerations when buying a home.

Mortgage loan

Loan acquired to purchase a home.

- Includes loan amount plus interest.
- Up to 30-year term lengths.
- Down payment required for most loans.
- Mortgage is considered a liability.

Homeowners insurance

Insurance purchased to protect the contents and structure of a home.

- Protects homeowner from losses such as natural disasters, fire, crime.
- Mortgage companies require homeowners to keep insurance if there is a loan against the house.

Equity

The difference between the appraised value and the balance on the mortgage loan.

Positive equity
The value of the home is greater than the balance of the loan. Positive equity is considered an asset.

Negative equity
The value of the home is less than the balance of the loan.

What would happen to equity if the appraised value decreased?

How would this affect a homeowner’s net worth?

Equity example

$260,000	Home appraised value
$245,000	Mortgage loan balance
$15,000	Equity

$230,000	Home appraised value
$245,000	Mortgage loan balance
-$15,000	Equity

Responsibilities of homeowners

Responsibilities include:

- Paying mortgage, taxes and insurance.
- Routine upkeep and maintenance.
- Following city and homeowners association requirements.

Risks of homeownership

Risks include:

- House is destroyed.
- Property value falls.
- Responsible for maintenance or large uninsured event.
- Unfavorable real estate market.

Summarize learning objectives

Renters insurance is insurance to protect personal property while leasing.

A ***landlord*** is the owner of property that is leased or rented to another.

A ***tenant*** is a person who rents or leases a property from a landlord.

A ***lease agreement*** is a legal document that describes the terms and responsibilities for a rental agreement.

Summarize learning objectives

Property value is the estimated price of a property.

A ***mortgage*** is the loan acquired to purchase a home.

Homeowners insurance is insurance a person purchases to protect the contents and structure of a home.

Equity is the difference between the appraisal and the balance of the mortgage loan.

Summarize learning objectives

Owning

Costs

- Mortgage loans.
- Mortgage interest.
- Homeowners insurance.
- Property taxes.
- Maintenance and upkeep.

Benefits

- Potential to build worth through equity.
- Often freedom to make changes to property.
- Opportunity to sell property at a profit.
- Income tax deductions.

Summarize learning objectives

Renting

Costs

- Deposits and fees.
- No equity or opportunity for an increase in net worth.
- Restrictions on activities, per lease agreement.
- No income tax deductions.

Benefits

- Limited maintenance and upkeep.
- No risks associated with selling.
- No property taxes.
- No risk of falling property values.

Building Wealth

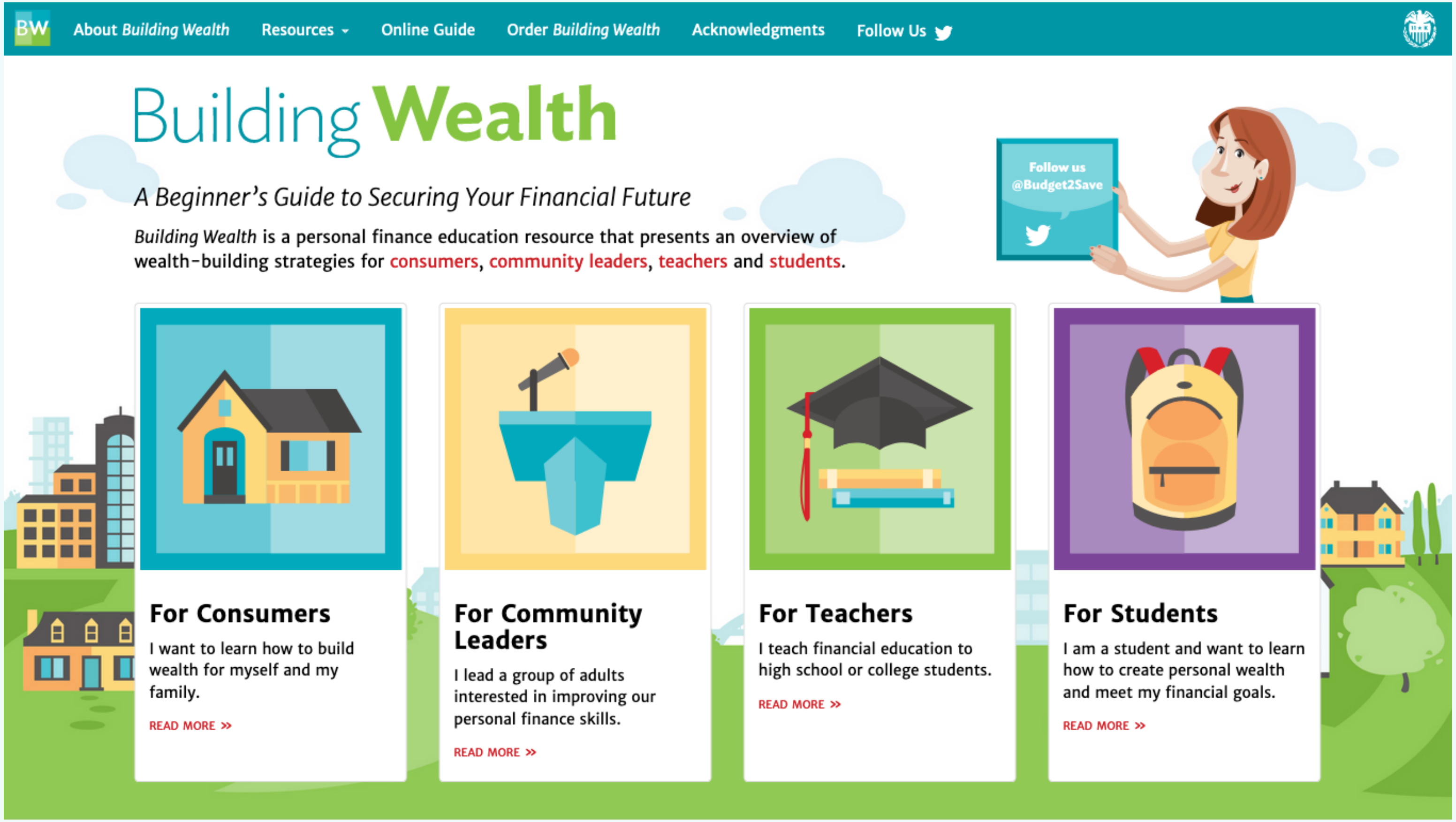
In the Classroom

Up Next: Lesson 5

Save and Invest—Role of Financial Markets

Federal Reserve Bank of Dallas

Have you explored **buildingwealth.org?**



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