

Build Equity with a Home Mortgage, or Pay Rent?

The interest rates for a home mortgage have dipped to levels not seen since the 1970s. Since rates have dropped, banks have seen an increase in applications for mortgages. The percentage of applications that are approved, however, is not as high as it was prior to the credit crisis. Banks are requiring that borrowers meet more rigid requirements. Consumers need a high credit score to be considered for mortgages at the lower rates. 20 percent equity in a current home or a 20 percent down payment are becoming the norm to be eligible for a new mortgage. Those who do not meet the criteria can often still obtain a home mortgage, but at a higher interest rate and with a requirement to purchase home mortgage insurance. Some consumers have decided to stay out of the real estate market until it steadies. Many fear home values are not yet at their bottom. Other consumers are just not comfortable taking on the burden of a home mortgage when the economy is in such a rocky state. Real estate columnists are abuzz with the idea of renting versus owning. The decision is an individual one that should be dictated by your own financial and personal goals.

Anticipating the length of time you plan to live in the property is an important first step when deciding whether to take on a home mortgage or become a tenant. The bulk of payments made on a home mortgage the first handful of years is heavily weighted toward paying interest, rather than equity. Additionally, you will need to pay for an inspection, appraisal, documentation details, lawyer fees and other closing costs. Being a tenant might be more economically beneficial, if you expect to only be in the property for a few years. Interest paid on your home mortgage is tax deductible, but rent is not. In many markets, though, rent is not on par with house prices. For example, to rent a house in Washington DC, your monthly rent would be significantly lower than what your monthly mortgage payments would be for the same house. The money you do not have to put toward a home mortgage can then be invested elsewhere, which could earn you more money as a renter. There are emotional considerations when you compare renting versus buying. As a homeowner, you can remodel, paint and modify your home, which you cannot typically do as a tenant. As a tenant, you may also have to move out at the end of the term on your lease. You may have the responsibility of a home mortgage as a homeowner, but you also have pride of ownership and will build equity while you have a roof over your head.

Some analysts predict that interest rates on a home mortgage will stay low throughout 2009. Some borrowers are betting that low rates will not stick around, and are choosing to purchase or refinance their homes now. If you decide that buying makes more sense for your financial plan and future than renting, then now is a great time to shop around for a home mortgage.

About the Author

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