

Buying verses Renting

Buying a house is probably the biggest financial commitment we make in our lives, so it's not a decision to be taken lightly. Many people dream of a home of their own however making such a big commitment when you are young can be a tough call to make. On the other hand, when you are older you can look back with relief that you made the investment earlier in your life. Sure, you may have had to do without, but bricks and mortar certainly provide a sense of security.

To buy a house, most people need to borrow money. Although this is important, there is more to buying a house than just money. There are personal and lifestyle goals to consider.

How long do you plan to live in the house? Depending on your circumstance, it might not make much sense to go through the hassles and set-up costs of buying a house if you are only going to be in it a short while. If you buy and sell a house within a short term there could be a risk of making a financial loss.

What is your comfort zone? Can you really afford the repayments on the loan? Just because you can borrow the money doesn't mean you have to. Can you live the lifestyle you want and afford the repayments? If travel, starting a family, or committing money to a hobby or sport is important to you, then maybe you should consider a less expensive house and smaller loan. The mortgage is just part of your own financial puzzle, it shouldn't take over your life.

Should you rent instead? Renting means you only have a week-to-week financial commitment and the flexibility to move on if you want to with little cost. On the other hand, owning your home can give you security, ownership of an appreciating asset and potential tax-free capital gains when you eventually sell. This is definitely a personal decision nobody can make but you.

How do I get a loan? Applying for a loan can be a harrowing experience. You'll be asked all sorts of nousey questions - income and savings (or lack thereof), debts (like credit cards) as well as other assets (like shares, managed funds, cars and boats). Be prepared to disclose all, and obviously, always tell the truth.

Ideally, you need a deposit of a least 20% of the value of the house to avoid mortgage insurance (an extra charge to protect the lender, not you, if you default on the loan). Lenders will be more impressed if you saved the deposit because that shows you have financial discipline.

Lenders want to see that you can repay the loan and will look at how much of your income it will take up. They will also be interested in your credit rating – your track record of paying bills on time.

Your house will become collateral for the loan. If you fall behind on the repayments, the lender can repossess the house and sell it. They will take this step only as a last resort but it means you are out on the street. And even worse, it will be very hard to ever borrow money again.

Where do you go to find the best loan? If you decide to buy, this is the next question. Talk to your financial adviser or broker about the options currently available to you. Weigh up the pros and cons and make your decision wisely.

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Phone: 1300 66 77 02

Website: www.aspireretire.com.au

Important Information

The information and any advice do not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it.
