

About.com Home Buying / Selling

Buying vs. Renting a Home

When Renting Instead of Buying Makes More Sense

By [Elizabeth Weintraub](#), About.com Guide

Words you will hear few real estate agents mutter: *Not everybody should own a home!* Some people aren't cut out for home ownership, for a variety of reasons. Are you one of those who should rent and not buy? Here are some ways to tell.



Sometimes it's better to rent.

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Bad Credit Report

Does your credit report tank? If your [FICO](#)¹ score is below 620, you're not going to receive a good interest rate for a loan and, in fact, that kind of score could dump you into the hands of a [predatory lender](#)². Not a good sign.

- If you want to [buy with bad credit](#)³, you should work on fixing it before applying for a loan.
- Four late payments is enough to disqualify you from obtaining a loan.
- You can order your [credit report free](#)⁴ online.

High Debt Ratios

Lenders consider two ratios: front-end and back-end. The front-end is your mortgage payment, plus taxes and insurance divided by your monthly salary. The back-end adds your monthly debt payments to your PITI payment before dividing that total figure by your salary. A 50% debt ratio is a high ratio. A high [debt ratio](#)⁵ means you may not qualify for the loan. If you should find an unscrupulous lender that is willing to [fund](#)⁶ such a loan, you may not be able to afford to feed yourself, even if you eat dirt.

Job Instability or Relocation

How secure is your job? A high-rolling Sacramento buyer purchased a home in Midtown. His mortgage payments were \$3,500 a month, which was a lot for a 25-year-old. However, that payment was affordable while this guy was earning an annual \$120,000 salary. But when he lost his job, he also lost his home to [foreclosure](#)⁷.

• Is Your Job in Jeopardy?

Is your company laying off? Could you be fired and, if so, how hard would it be to get another job right away? Unemployment compensation is rarely enough to cover mortgage payments.

• Relocation.

Are you likely to be transferred to another city within the next two to three years? If you had to sell due to a job transfer, your property would need to appreciate at least 10% to cover the cost of selling; otherwise, you would lose money on the sale. When you buy a home, you should plan to stay put for a while.

Maintenance Issues

All homes require upkeep and maintenance. Not everybody has the where-with-all, much less the desire, to tackle home repair projects. In addition, many first-time home buyers can not afford to hire a professional to fix things that break. Experts suggest you set aside 5% of the purchase price to cover maintenance and repairs when you buy a home.

When Renting Costs Considerably Less

If your mortgage payment would be triple the amount (or more) you would pay for rent, it might not make financial sense for you to buy. For example, if it would cost you \$2,000 a month to rent what would cost you \$6,000 per month to own, does it make sense to pay \$48,000 a year more to own a home?

If you are in a 30% tax bracket, you might not come close to recouping the difference you paid. Say your deductible expenses are \$5,000 a month; 30% of that is only \$1,500, which would be your true tax savings per month. Would you spend \$6,000 to save \$1,500? For more information, please consult a tax accountant or CPA.

At the time of writing, Elizabeth Weintraub, DRE # 00697006, is a Broker-Associate at Lyon Real Estate in Sacramento, California.

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