



Should I Rent or Should I Buy?

Homeownership is the American dream and has been since the formation of the nation. Unfortunately realizing that dream can be difficult and sometimes it is not even the smartest option. Every year, many Americans ask themselves the important question, Should I continue to rent or should I buy a home? If you are also considering the feasibility of buying a home compared with the benefits of renting, take a look at the following guidelines to make the best decision for your situation.

Your Credit Score

Whether or not you should buy right now may heavily depend on the health of your credit report. If your score is low due to a poor repayment history, lots of debt, or other issues, you may want to consider renting while you repair your credit. Trying to get a home loan with bad credit will mean turning to sub-prime dealers. This means that because of your very risky credit background, you will be required to pay a much higher interest rate than you would get with a good credit score. You may also have to pay a lot in points or other fees. It may simply be more cost effective to wait until you have resolved your credit issues and can qualify for a more manageable mortgage.

Your Debt Load

Another important factor is how much debt you are carrying currently. Lenders will look at that total to determine if you really can afford to take on a house payment. If you want to buy a home you should make sure that your current debt load is small enough that you could add a sizeable mortgage payment and still live within your means each month. Ideally your mortgage payment should be no more than 28% of your total monthly income, and your total debt, including your mortgage payment, should not be more than 36% of your monthly income. If your debt ratio is higher than this, you may want to consider continuing to rent while you pay off some of those debts.

Job Outlook

Before you decide to buy, you should consider the stability of your job. Have you been at risk during previous company lay-offs? If you lost your job, would you quickly be able to find a similarly-paying one? Is there room for growth and advancement in your company? Would you be better off waiting to buy until you get that expected raise? You should also realize that if you have to be transferred to a new city or state in a couple of years, your home value may not have appreciated enough to cover all the selling costs.

There are other factors that you should take into account when deciding whether to buy or rent. These might include how much money you are prepared to contribute as a down payment, whether you'll have the funds and/or desire to do all the required maintenance on a house, and whether annual renting costs are considerably lower than buying costs. Still, determining the answers to the questions in the above categories will give you a good idea of whether or not now is the right time for you to realize your American dream.