Buying vs. renting a home

There are thousands of resources available on buying and renting housing. Our guide will assist you in obtaining helpful and relevant resources to aid you in making a decision on whether to rent or buy and, if you decide to buy, to guide you through the home-buying process.

Use this mortgage calculator to compare the monthly cost of renting vs. buying a home and you will get a better financial picture of the costs and benefits of each based on your circumstances.

Buying a property

Buying a home has historically been considered a good investment. Before looking at properties, get a mortgage prequalification or preapproval letter by contacting a lender.

What is the difference between prequalification and preapproval? The preapproval process is much more complete than prequalification. For prequalification, the loan officer asks you a few questions about your income and debt and provides you with a prequalification letter.

Preapproval includes all the steps for a full loan approval (including a look at your credit score), except for the appraisal of the property (which helps to determine value) and the title search (which ensures there are no liens against the property). A preapproval can help you to set a realistic price range before you begin a search for a home, and it makes your offer stronger because the seller knows you will most likely be able to obtain financing.

A new home and your budget

Follow these steps when searching for a home:

- Set a price range based on your budget. Taking on too much mortgage debt could result in a default, which will negatively impact your credit score and present a future financial burden for you and your family. (Note that many mortgage loans include escrow for homeowners insurance and property taxes.)
- List the anticipated expenses associated with owning a home (maintenance and any remodeling planned prior to moving in).
- Add a savings plan for unanticipated expenses. This can include replacing a furnace, fixing

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a roof, plumbing repairs, etc.
Also, make sure to have a safety net of at least 3 months (ideally 6) for living expenses in case there are changes in your job situation.

Next, establish criteria for your home search, including type of house, location and features. List the features you need and those that you want as separate categories—this will provide you with a starting point to help narrow your search.

Your home and interest rates

When you are ready to obtain a mortgage, a number of factors will determine the interest rate you receive and the total cost of the home over the life of the loan.

- **Size of down payment:** Large down payments—20% or greater—will get you the best available rates. Down payments of 5% or less will bring higher rates because you are offering less equity as collateral.
- **Amount financed:** The more of your total house payments that you finance, the larger your amount of interest paid over time will be.
- **Loan term:** Loan terms can be from 5 - 30 years in length. The longer your loan rate, the more interest you will pay over time.
- **Adjustable vs. fixed-rate:** An adjustable-rate mortgage may initially give you a lower rate than a fixed-interest mortgage, but your payments are subject to change if interest rates adjust. Fixed-rate mortgages do not fluctuate, since the interest rates have been established for the life of the loan.
- **Credit and income level:** Your credit and income level will also affect your interest rates because they determine your FICO score, which is used when calculating loan terms. If you have excellent credit and your income surpasses the amount of debt you owe, you will likely receive a lower rate. However, if your monthly income is insufficient to meet your minimum debt obligations—even if you have a good FICO score—you will likely receive a higher interest rate, if you can obtain financing, at all.

*Disclaimer:* This information is provided for informational purposes only and should not be construed as financial or investment advice. Consult a professional regarding your specific situation.

AMA member resources

PhysiciansLoans

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Since 1993, PhysiciansLoans has focused exclusively on serving the unique financial needs of doctors buying homes.