

CSCPA Financial Literacy Program
Getting A New Place to Live - Rent or Buy? - Outline

Key Facts:

- Purchase Price of home
- Down payment required
- Amount Borrowing and Monthly Payment Estimate
- Earnings necessary to achieve a monthly targeted savings amount
- Savings Plan
 - Review time frames of savings
 - Calculate a rate of return using modest to moderate risk
 - Understand how much earnings is necessary to save after tax
 - Some of that is offset by the expected rate of return

Sample Closing Analysis

- Cost of home v amount of borrowings. Plus or minus some tax deductions and personal items.
- Example of how to review the cash requirements amount to the purchase amount

Summary Annual Budget

- Review a five year plan to owning a home
- The discipline to save can be offset by paying rent
- If you are renting and saving at the same time then the minimum income would be higher by the before tax earning necessary to pay for your savings.
- Review the discussion:
 - Tax Savings for owning a home by generating deductions
 - Earnings necessary to pay for estimated budget
 - Negative cash flow can only come from savings unless you have another type of beneficial interest
 - Benefits of financial independence
 - Should savings be considered a payment?
 - Three pillars of tax savings
 - Homeownership
 - Family benefits with children under 17
 - Education - Extend the reach of income dollars
 - Consider the five year and annual in terms of a monthly budget
 - Divide annual salary by two and drop zeros and that is essentially the hourly rate. Thus \$25 an hour is \$50,000 annual salary excluding benefits such as vacation and health insurance. However to pay 10,800 in rent it will consume about \$5.40 per hour of your income but after tax its about 6.50 [Divide by about .80]
 - Once you buy the home you actually need a bit more to pay not only the mortgage company/Bank interest but also a portion of principal, property taxes and potential repairs & maintenance or other improvements offset by tax savings. The first year being the most financially difficult until the tax savings come in [Feb to April].
 - Keep financing cost as low as possible however paying points [fee to get a better deal] could be a good option. If rates are low go with a fixed rate.
 - Establish a savings plan based on sound investment principles without excessive risk.
 - Time is on your side once you buy the home. First year is the most difficult try to buy the home early in year to maximize tax deductions. Benefits include:
 - Return on your investment.
 - Home Equity Loans – Use with care