

Rent vs. Buy Analysis Courtesy of the Residential Pacific Mortgage Calculator



@ <http://rpm.mortgagexsites.com/scripts/MortgageRentvsBuy.html>

Rent vs. Buy

| | | | |
|----------------------|---------------------|----------------------------|---------------------|
| Price of home: | \$650,000 | Cash on hand: | \$141,000 |
| Interest rate: | 5.250% | Term: | 30 years |
| Property tax rate: | 1.100% = \$7,150 | Home insurance rate: | 0.300% = \$1,950.00 |
| Loan origination: | 0.500% = \$2,600.00 | Points paid: | 1.00 = \$5,200.00 |
| Other closing costs: | \$3,200 | Assoc. dues & maintenance: | \$200 per month |

| | | | |
|-------------------------|------------------|-------------------------------|-------------------|
| Mortgage amount: | \$520,000 | Total monthly payment: | \$4,046.46 |
|-------------------------|------------------|-------------------------------|-------------------|

| | | | |
|-----------------------|---------|------------------------------|-------|
| Monthly rent payment: | \$2,600 | After-tax investment return: | 2.00% |
| Income tax rate: | 30.00% | Expected inflation rate: | 2.50% |
| Home appreciates at: | 2.50% | Future sales commission: | 5.00% |

Chart selection:

Monthly payment breakdown

Projected monthly payments

Home equity vs. investment

Use of cash on hand

Other options:

Limit downpayment to 20%

Show schedule by year

Show schedule by month

Monthly Payment Breakdown

| | |
|-------------------|---------|
| Rent payment | \$2,600 |
| House payment | \$3,830 |
| Tax savings | \$852 |
| Principal payment | \$626 |
| Net house payment | \$2,977 |

Worksheet Assumptions

\$2600/month rent versus \$650,000 home purchase with 20% down, with a 30-year fixed rate loan at 5.25%.

Down Payment = \$130,000

Closing Costs = \$11,000

Inflation & Home Appreciation at 2.5%/year

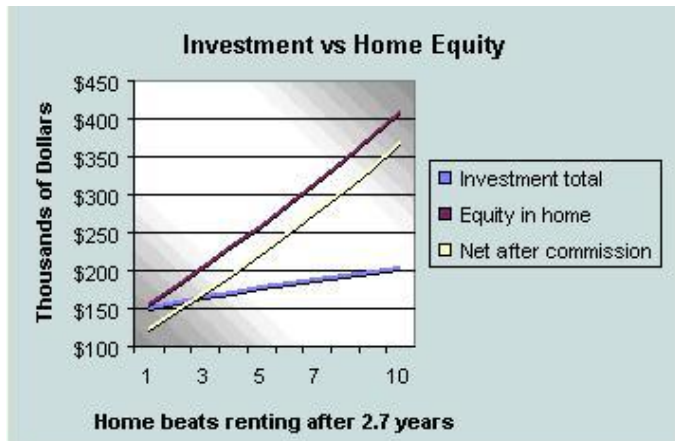
Bank CD Rate at approximately 3%/year – to adjust for use of down-payment monies.

Combined State & Federal Tax Bracket of 30% -- to calculate tax savings on interest and property tax deduction.

In this example, monthly home ownership costs after tax savings and loan pay-down = \$2351/month vs. \$2600/month to rent.

Worksheet does not include potential \$8,000 Federal & \$10,000 California Tax Credits – see details for eligibility requirements.

Since everything depends on the details – rates, down payment, costs, assumptions regarding inflation and appreciation – please feel free to perform your own calculation.



Your home purchase breaks even after 2.7 years.

This is based on your home's equity minus a 5.00% sales commission paid to brokers or real estate agents when you sell your home. It also assumes your home will appreciate at 2.50% per year and you have an income tax rate of 30.00%.

We calculated your breakeven point by examining how long it would take to create enough equity in your home to exceed the value of investing your cash on hand. We also accounted for differences in your monthly rent and house payments. If your rent payment is less than your net house payment, we add that monthly savings to your investment. If your house payment is less than your rent payment we subtract that amount from your investment. You may notice that on the schedule at the bottom of this report the investment value can be reported as negative. This happens if your house payment is significantly lower than your rent payment. It illustrates that if you continue to rent the extra cost of renting would, in effect, use up your cash on hand.

Loan Information

Total monthly payment was calculated as \$3829.79. Your down payment was calculated as \$130,000 and you had a home price of \$650,000. This is for a 30 year mortgage at 5.250% in the amount of \$520,000. Total closing costs for this loan are estimated at \$11,000.00. Your current monthly rent is \$2,600. The expected inflation rate of 2.50% annually was used to estimate future rent and property taxes. The rate of return use for investments was 2.00% per year after taxes.

| Your \$3829.79 monthly payment consists of: (unadjusted for tax savings and loan pay-down) | |
|--|------------|
| Principal and interest | \$2,871.46 |
| PMI | \$00.00 |
| Taxes | \$595.83 |
| Insurance | \$162.50 |
| Association dues & maintenance | \$200.00 |

Analysis of Future Payments (“Value of Investment” pertains to renting and appreciation of down-payment monies)

| Year | House Payment (PITI) | Payment After Tax Savings | Rent Payment | Value of Investment | Home Equity |
|-------------|-----------------------------|----------------------------------|---------------------|----------------------------|--------------------|
| 1 | \$3,829.79 | \$2,977.35 | \$2,600.00 | \$148,336 | \$120,270 |
| 2 | \$3,853.75 | \$3,006.93 | \$2,665.00 | \$155,386 | \$143,820 |
| 3 | \$3,878.31 | \$3,037.55 | \$2,731.62 | \$162,139 | \$168,181 |
| 4 | \$3,903.48 | \$3,069.24 | \$2,799.92 | \$168,580 | \$193,386 |
| 5 | \$3,929.28 | \$3,102.04 | \$2,869.91 | \$174,696 | \$219,467 |
| 6 | \$3,955.73 | \$3,136.01 | \$2,941.66 | \$180,473 | \$246,461 |
| 7 | \$3,982.83 | \$3,171.18 | \$3,015.20 | \$185,898 | \$274,404 |
| 8 | \$4,010.62 | \$3,207.60 | \$3,090.58 | \$190,955 | \$303,335 |
| 9 | \$4,039.10 | \$3,245.34 | \$3,167.85 | \$195,631 | \$333,293 |
| 10 | \$4,068.29 | \$3,284.44 | \$3,247.04 | \$199,910 | \$364,321 |
| 11 | \$4,098.21 | \$3,324.96 | \$3,328.22 | \$203,778 | \$396,463 |
| 12 | \$4,128.88 | \$3,366.96 | \$3,411.43 | \$207,219 | \$429,765 |
| 13 | \$4,160.31 | \$3,410.49 | \$3,496.71 | \$210,218 | \$464,275 |
| 14 | \$4,192.53 | \$3,455.64 | \$3,584.13 | \$212,760 | \$500,044 |
| 15 | \$4,225.56 | \$3,502.46 | \$3,673.73 | \$214,829 | \$537,123 |
| 16 | \$4,259.41 | \$3,551.02 | \$3,765.58 | \$216,409 | \$575,569 |
| 17 | \$4,294.11 | \$3,601.40 | \$3,859.71 | \$217,485 | \$615,440 |
| 18 | \$4,329.68 | \$3,653.68 | \$3,956.21 | \$218,039 | \$656,795 |
| 19 | \$4,366.13 | \$3,707.93 | \$4,055.11 | \$218,058 | \$699,698 |
| 20 | \$4,403.50 | \$3,764.25 | \$4,156.49 | \$217,523 | \$744,215 |
| 21 | \$4,441.80 | \$3,822.73 | \$4,260.40 | \$216,420 | \$790,416 |
| 22 | \$4,481.06 | \$3,883.45 | \$4,366.91 | \$214,732 | \$838,374 |
| 23 | \$4,521.30 | \$3,946.52 | \$4,476.09 | \$212,443 | \$888,165 |
| 24 | \$4,562.55 | \$4,012.04 | \$4,587.99 | \$209,538 | \$939,869 |
| 25 | \$4,604.82 | \$4,080.12 | \$4,702.69 | \$206,000 | \$993,570 |
| 26 | \$4,648.16 | \$4,150.87 | \$4,820.25 | \$201,815 | \$1,049,355 |
| 27 | \$4,692.57 | \$4,224.41 | \$4,940.76 | \$196,966 | \$1,107,317 |
| 28 | \$4,738.10 | \$4,300.87 | \$5,064.28 | \$191,439 | \$1,167,551 |
| 29 | \$4,784.77 | \$4,380.37 | \$5,190.89 | \$185,219 | \$1,230,160 |
| 30 | \$4,832.60 | \$4,463.06 | \$5,320.66 | \$178,292 | \$1,295,248 |

Including closing costs on sale, comparing owning to renting, by year 5 , your assets have grown by an extra \$45,000; by year 10, by an extra \$164,000; by year 20, by over \$500,000; and by year 30, by over \$1,000,000.

Information and interactive calculators are made available to you as self-help tools for your independent use and are not intended to provide investment advice. We can not and do not guarantee their applicability or accuracy in regards to your individual circumstances. All examples are hypothetical and are for illustrative purposes. We encourage you to seek personalized advice from qualified professionals regarding all personal finance issues.

Definitions for RPM Rent vs. Buy Calculator

Price of home: Purchase price of the home you wish to buy.

Cash on hand: Cash you have for the down payment and closing costs.

Interest rate: The current interest rate you can receive on your mortgage.

Term in years: The number of years over which you will repay this loan.

Property tax rate: Your property tax rate. 1% for a \$100,000 home equals \$1,000 per year in property taxes.

Home insurance rate: Your homeowner's insurance rate. 0.5% for a \$100,000 home equals \$500 per year for homeowner's insurance.

Loan origination rate: The percentage the lending institution charges for its origination fee. 1% for a \$100,000 home equals \$1,000.

Points paid: The total number of points paid to reduce the interest rate of your mortgage. Each point costs 1% of your mortgage balance.

Other closing costs: Estimate of all other closing costs for this loan. This should include filing fees, appraiser fees and any other miscellaneous fees paid.

Association and maintenance fees: Any association fees you are required to pay with the ownership of this home. Also include any other maintenance costs you expect to incur with the ownership of this home that you are not paying while you continue to rent.

Total for down payment: Total funds remaining for down payment.

Mortgage amount: Total amount of loan.

After-tax investment return: The rate of return, after taxes, you could receive if you invested your closing costs and down payment instead of purchasing a home. The actual rate of return is largely dependant on the type of investments you select. Savings accounts at a bank pay as little as 1% or less. It is important to remember that future rates of return can't be predicted with certainty and that investments that pay higher rates of return are subject to higher risk and volatility. The actual rate of return on investments can vary widely over time, especially for long-term investments.

Monthly rent payment: Amount you currently pay for rent per month.

Income tax rate: Your current marginal income tax rate.

Expected inflation rate: What you expect for the average long-term inflation rate. A common measure of inflation in the U.S. is the Consumer Price Index (CPI), which has a long-term average of 3.1% annually, from 1925 through 2004. Inflation rate is used to adjust amounts subject to annual increases.

These amounts include rent, insurance and tax payments.

Home appreciates at: Annual appreciation you expect in the home you are purchasing.

Future sales commission: The percent of your home's selling price you expect to pay to a broker or real estate agent when you sell your home.

House payment: Total of principal, interest, taxes and insurance (PITI) paid per month for your home. Insurance includes Principal Mortgage Insurance (PMI) and homeowner's insurance.

Principal payment: Total of principal paid per month on your mortgage.

Tax savings: The value of the tax deduction you receive on your mortgage's interest and home's property taxes. For example, if you have \$900 in interest and \$100 property taxes per month, the value of the tax deduction would be \$280. (At a tax rate of 28%).

Net house payment: Your house payment minus the value of the tax deduction and principal payment.

Net home price: Net selling price of your home after subtracting any sales commissions.

Monthly PI: Monthly principal and interest payment.

Monthly PMI: Monthly cost of Private Mortgage Insurance (PMI). For loans secured with less than 20% down, PMI is estimated at 0.5% of your loan balance each year.

Calculate other Rent versus Buy scenarios at <http://rpm.mortgagexsites.com/scripts/MortgageRentvsBuy.html>

