

## The Pros and Cons of a Home Mortgage Compared to Renting

The old adage is that it is always better to own a house than to rent. When you have a home mortgage, you put money towards equity each month.

The old advice was that rent is like throwing away money, since you do not get to build equity while you live there. The slump in the real estate market, drop in home values and rocky economic times have made many people ignore that old advice and consider renting in lieu of buying.

Owning a home comes with financial responsibilities. You will have to take care of the roof, plumbing, painting, gardening, insurance and pay taxes on the property. If you rent, it would be wise to have insurance for your things, but it will be a lot less than insuring a house. Renters do not pay property tax and usually do not cover maintenance costs. If you compare those expenses, you will pay more as a homeowner. But, as a homeowner, you would own the home and build equity. Theoretically, the home mortgage payments you make each month as a homeowner (instead of renter) are building your investment via equity in the house. The adage that rent is like throwing away money is a little skewed, because you do have a roof over your head and get to benefit from living in the home. But, you do not build equity like a homeowner would.

If you buy a home with cash and purchase it at fair market value, a home is a solid investment when compared to renting. But most consumers do not buy homes with cash and opt for a home mortgage instead. There are costs involved with having a home mortgage that do not necessarily give it a strong advantage over renting. When a consumer obtains a [home mortgage](#), the majority of the payments each month goes toward interest. Interest does not go towards equity; it is simply money paid to the bank. The percentage paid in interest is large for most of the duration of the home mortgage, but does go down incrementally as the end of the term on the loan draws nearer.

Determining whether you should buy or rent a property depends on your own financial situation. Analyze your budget and financial plan to determine what is best for you in the short and long term. In most cases, it is not wise to buy a home in the current market strictly as an investment. Over time, your earning potential with that same money invested elsewhere might be much better. That being said, you have to live somewhere. If you plan to be in a home for a long time, want a place to call your own, and can afford the costs of that particular home, owning may be the right choice.

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