

Local Voices



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## Renting vs. Owning, Using an FHA Loan

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### **With home prices at record lows, getting an FHA Preapproval is a smart financial decision.**

A big concern for a lot of folks, seeking FHA Preapproval unemployment. People simply do not buy homes if they are worried about losing their job. However these people need to live somewhere and more often than not, they most likely still have a monthly rental obligation which they are responsible for. Getting an FHA Preapproval can certainly help. There is also a small number of folks who hesitate to purchase a home because they are unrealistic.

They want their castle at the lowest possible price in a rapidly changing [Sonoma County mortgage market](#). There are also other folks who are frightened by the idea of owning a home and feel safer by renting. It's actually costlier overtime to rent a property that it would be to purchase property by getting FHA Preapproval. Is there something to fear? Absolutely, paying too much for the cost of living is a very real concern, so its makes sense to obtain FHA Preapproval.

## **The best mortgages are available for buyers seeking an FHA Preapproval.**

For the majority of people seeking a mortgage in Sonoma County, who are [preapproved](#) or who are going to get preapproved and do not like renting anymore and want to have a tax reduction and want to have a place that they can call home, buying a house in Sonoma County today is smart financial decision.

Ask any tax professional, they will confirm buying a home makes sense. Getting FHA Preapproval to purchase Sonoma County real estate is the first step in the bigger picture of actually making the decision to stop renting and move into the phase of homeownership. Everyone talks about the fact that buying a house is a smart move provided affordability is there. Let's take a look at the numbers.

Let's assume for a second somebody can choose to pay \$1650 per month in rent versus purchasing a home for \$280,000. The total monthly mortgage payment for \$280,000 home in Sonoma County will be \$1952. A mortgage from an FHA Preapproval will likely be lower.

Other assumptions we want to factor in are \$9800 in the bank, a 1% property appreciation which has been typical for the last 30 years in Sonoma County, five year and 10 year projections for comparison purposes, seller paid closing costs of 3% of the purchase price which is very typical on prices in the \$250,000-\$300,000 price range, a 28% tax bracket for the borrower, and a 4.75 30 year fixed [FHA](#) insured loan. A solid FHA Preapproval will also contain different loan scenarios.

In doing our comparison for FHA Preapproval, we can see the immediate net cost of homeownership is \$419 per month lower than renting. This is evidenced by a \$1650 per month rent payment versus a \$1231 per month home ownership payment considering deductibility. If we take a look five years into the future that \$1650 rent payment plus annual increases of 2% compounds to \$103,098 in five years. That is how much of the borrower's income is going to their landlord's mortgage payment.

On the homeownership side of getting a mortgage in Sonoma County we see the net cost of homeownership factoring in tax-deductibility is \$71,981. Also on the homeownership side because the borrower is paying the principal balance of the mortgage down they are building equity in their home. This results in amassed equity of \$47,055. On the renting side of things they're equity is zero.

To obtain an FHA Preapproval, you must be willing to apply for a mortgage home loan and run payment scenarios.

Taking this one step further, in getting an FHA Preapproval for Sonoma County, in 10 years the net cost of renting \$216,595. The net cost of homeownership is \$139,555 and the amassed equity has grown to \$91,182. After 10 years assuming the renter had a 1% return on his \$9800 in the bank he would have gained \$20,291 in assets. The homeowner that got a mortgage in Sonoma

County has built \$91,182 in equity and in addition has a tax-deductible mortgage loan for the remaining 20 years of his 30 year fixed-rate mortgage. He is also on his way to paying his home off in full and having no mortgage at all.

Which person got better use of their money? My bets are on the [homeowner](#) because of their sheer tax deduction alone. So getting FHA Preapproval to buy a house and using a mortgage in Sonoma County to do it for property appreciation should be an afterthought. Getting an FHA Preapproval to buy a home as a place to enjoy, raise a family, enjoy a tax benefit as well as a lower cost of renting are terrific reasons to get an FHA Preapproval.

The final comparison reveals that after 10 years renting versus buying in the above referenced scenario is that the homeowner will be \$70,891 wealthier. Those are some significant numbers.

Another benefit of getting an FHA Preapproval that a mortgage loan will dramatically impact the borrower's credit score in a positive way. Renting a house has no bearing on your credit worthiness when seeking new credit. The other thing we haven't even touched on is that mortgage interest rates are presently at their historic lows. As long as rates on mortgages in Sonoma County remain under 5% affordability will stay with us.

Interest rates on mortgages in Sonoma County have risen in the last few months which impacts purchasing power to purchase a property with FHA Preapproval with lowest possible payment and the highest purchase price.

An FHA Preapproval will allow a Sonoma County home buyer to purchase a home with only 3.5% down.

For everyone seeking FHA Preapproval, there only two ways interest rates can rise. No matter what the media says, or what people say interest rates can only rise in one of only two ways for an FHA Preapproval.

The first is inflation. Inflation being defined as the rise of the costs of goods and services to the consumer. If we have runaway inflation like we did from 1975 to 1981 mortgage interest rates can rise sharply and dramatically. There is a very low probability of that previous inflation cycle ever happening again.

The other way rates can rise is during a Fed tightening cycle. Mortgage interest rates in Sonoma County can rise during a Fed tightening cycle. This is when the Federal Reserve is hiking interest rates to combat inflation and slow down a growing economy, like they did for 17 strike hikes from 2004- June 2006, however if the scenario such as that should occur home prices would soon have to follow suit and start rising in value again with appreciation because the economy would be growing.

Unemployment would be reduced and job growth would be beefy. Beyond that in either one of these cycles if interest rates are higher your bank account is now paying you higher yields on your money. Your stocks and bonds, 401(k), all of these items are to start generating higher

yields if rates rise. On an FHA Preapproval, rates in Sonoma County remain stable to increasing. See this post for more info on [buying](#).

Getting an FHA [Preapproval](#) to get a mortgage in Sonoma County to purchase Sonoma County Real Estate should be a priority Give me a telephone call Scott Sheldon Senior mortgage loan officer at 707-217-4000. I can help you get an FHA Preapproval to purchase a home with a Sonoma County Mortgage Loan. An FHA Preapproval will help you buy a home.

Read more: [FHA Preapproval Renting Vs Owning Sonoma County - Sonoma County Mortgage Lender- Best Mortgage Rates](#)  
<http://www.sonomacountymortgages.com/2011/01/31/fhapreapprovalrentingvsowningsonomacounty/#ixzz1MIUrhPr>

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