Cynthia Dawkins: And now, let me turn the program over to Jenny Erwin, our Regional Administrator for Regions 9 and 10 of the Women’s Bureau to introduce our first speaker. Jenny….

Jenny Erwin: Thank you, Cynthia. I’m very pleased to introduce Pam Krueger. Pam is the Executive Producer, Co-Anchor and the creator of the national public television Money Track series.

Prior to this, Pam co-anchored and was the segment producer of ABC TV’s Emmy award-winning program “Marketplace” in San Francisco. She also co-anchored and produced TechTV’s “The Money Machine” during the technology boom of the 1990s.

Many of you may know of Pam’s work with NETworth, a one-hour special that was broadcast on 70 different PBS stations. This program talked about how you use the internet to manage [money] and invest.

Another program that Pam produced was called “IPO - Investing Pays Off.” This program introduced young teens to the world of investing, saving and philanthropy. And she won a CINE Award and was nominated for an Emmy in 2004 for this program.

Her most exciting recent activity was that last week she was in Omaha interviewing Warren Buffett for part of the program that she’s working on. Pam, welcome to our Wi$e Up call.
Thank you so much, Jenny, and thanks Cynthia for the first remarks as well. Yes, I was just in Omaha, Nebraska. Fortunately, I was able to sit down one-on-one with Warren Buffett, who is known and regarded as the most successful stock market investor of all time. And we did hit on some other topics to do with borrowing which pertain to today’s call as well.

Well, good afternoon everybody. I am delighted to participate in today’s call.

We’re focusing today on home ownership, and it’s kind of in the context of some not so good news that we’ve all been hearing about with the sub-prime [mortgage market crisis], if you will, the market of creditors or borrowers borrowing to have mortgages and home loans who have not been able to meet those obligations. It’s been all over the news recently.

But first of all some good news. Overall, a greater percentage of American households own their homes than at just about any other time in history. Maybe in 2005 it might have been slightly higher. But almost 69% of Americans now own their homes, and most of these people bought their homes with the intention of living there, you know, like a roof over their heads. And a home, as we know, can easily become the most valuable asset we ever have maybe in addition to or equal to or greater than the value of a 401(k) or a pension plan. [An asset is anything of monetary value that is owned by a person or company.]

But the term “asset,” when it comes to home ownership, is the key. Because a house usually doesn’t start off as an asset. We all know you have to start off with a house as a liability if you’re borrowing to buy it.

You’re borrowing a hefty sum of money, and those monthly mortgage payments include both a tiny bit of principal at the beginning and a big chunk of interest. And that has to be an obligation that’s met month over month.
So again, we’ve been hearing about some downs right now, dangerous borrowing trends that have been in the news lately, mostly, because of the fact that there are mismatches between the people who are qualified to borrow and these more exotic and high risk loans. Like the ones where they offer you a low rate in the beginning to entice you perhaps to buy a bigger house or more expensive housing than you can really afford versus buying something that’s, you know, maybe much more in your real – realistic budget.

Another exotic loan is, you know, an interest only loan. And we’ll get into that a little bit later. These are where you only make interest payments and you still owe the principal amount at the end. [Principal is the amount of money borrowed or the amount that has not yet been repaid to the lender. This does not include the interest you pay to borrow that money.]

So these are all sorts of crafty ways that the mortgage industry has come up with some what we call “products” that help people become owners and help keep that home ownership rate in the United States as high as it is.

But in order to really use what the mortgage industry has to offer in the best possible way for you -- which is all we care about here today -- you need to number one, understand all of the products that are out there and understand if you really are qualified to borrow and to own a home.

Now, what I consider to be the most important consideration is starting right on the doorstep there, right at the beginning of the threshold, wanting to look at buying a home versus renting. And everybody has this appetite to want to buy, but just stop and look at the financial aspect of it, and take the emotional part of that decision out of it, if you can.
And that’s not easy to do, because we get emotionally attached to the idea of owning a home. But the rent versus buy decision needs to be really well thought out. Affordability going in is the most important consideration. Can you really afford the mortgage payment?

If it’s a condo, it’s going to have the extra association dues every single month. And if it’s a house, it’s going to have to have an extra budget attached to it for maintenance.

The second consideration is your timeframe--how long do you really expect to own this house? That is the second most important consideration. Your financing options obviously are going to play a big role in determining your fate as a homeowner.

Are you going to be successful at this or are you going to fail? So the question that I’m going to help you answer right now is, “How do you know whether buying or renting will really pay off for you in your circumstances?”

So first of all understand no matter where you live, real estate is local. Just because we hear that homes in La Jolla, California, are gaining 15 or more percent every single year and we get excited, houses in Omaha, Nebraska, where I just was last week, are probably appreciating or gaining in value more at a rate of about 4% a year or 5% a year.

Condominiums in certain parts of Florida right now that were going up 15% a year two years ago might be going down 2% right now. So it’s all a big patchwork quilt of local real estate markets.

So, the question is, “How long do you intend to stay in your house?” It is a key determinant and drives a lot of your decision-making. The longer your timeframe going in, walking in the door, and the longer you are willing to
commit to that property, the better your chances are of coming out way ahead and actually owning a home as an asset.

So think about it this way. Study the area that you plan to live in. Look at how much it costs to rent. Say it’s a two bedroom condominium and … or an apartment or even a house. Compare that rent to how much it would cost you to own a mortgage plus maintain that same type of condo, apartment, or house.

Try to stay within the same neighborhood just like the realtors do when they look at the “comps” or comparables. You want to try to compare an apple to rent versus an apple to own. And you’re looking at cost. You’re not looking at an emotional decision here. You’re just looking at what’s going to make me more money at the end of the road.

So, include in your owning scenario that extra amount that you’re going to have to pay—lop it on to the mortgage payment. This is for maintenance if it’s a house or for association dues if it’s a condominium or co-op.

If you rent, you know, you can call the landlord and say, “Got leaky pipes. Come fix them. I don’t care how much it costs you.” If you buy and you own this house, you’re either going to pay a plumber or pay the homeowner’s association or somebody else to come fix it. It’s all up to you.

And that is one of the biggest mistakes that people make going into buying. They don’t factor in those extra costs. They just somehow think that, “Oh, that is not going to be a big deal.” But it is a big deal.

So let’s say that you can rent a really nice place for half of what it would cost you to buy the very same place. So you sit back and you say, “Hmm. Sounds like renting makes more sense. It’s half the money.” Maybe, maybe not.
Again, how long are you planning on staying in the property? Because every single month that you’re paying rent at half of what it costs to buy, that money goes out the window, and you’re not going to get it back. It’s rent. It’s paying for your living space.

But your savings of what you would have paid to your mortgage versus how cheap it is to rent, that is the important consideration. Are you going to take that savings and invest it someplace else? Or are you just going to not account for that money and it goes and disappears into the air?

If that’s the case, you know, then renting might not work out as well, even though it’s only half the cost of buying. If your timeframe…and you’re looking at the buy versus rent, and you’re saying, “Oh gosh, five years.”

Five years is the timeframe that most experts will tell you is where you’ll really break even. Because the longer you stay in the property and commit to it as an owner, the better your chances of getting ahead and giving the market a chance to catch up, giving you a chance to have a solid foothold, giving you a chance to pay down your mortgage, et cetera.

But people in La Jolla, California, might look at it and say, “Hah, I’m going to flip the house. I’m going to sell the house next year. I know my house is going to always go up in value.” That risk may pay off for them. It might turn around and it might not work out for them.

But that’s the gamble somebody in that kind of a market is willing to take versus Omaha, Nebraska, when houses are only going up 3% or 4% or 5% a year. Somebody really needs to look at staying in their house.
The most successful homeowners are the ones who stay in the house for a period of time beyond five years. That’s how you sort of anchor yourself and reduce your risk.

Now on the other hand, let’s say that you’re looking at renting the same space versus owning it. Let’s go back to that doorstep where we’re making that initial decision.

If rents are almost the same as a mortgage then again it’s the timeframe that’s going to help you determine what’s going to work out better for you in your local market, using realistic expected appreciation rates.

Do not use national appreciation figures to make your decision as to how long [you’re going to stay in a house you are considering buying] or how much of a gamble you’re willing to take. The other reason that the timeframe is really important--if you walk away with nothing else than the message that what’s most important here is timeframe-- to consider in the rent versus buy decision is because of the financing.

These days the loans are geared to your timeframe and to your specific circumstances within that timeframe. Mortgages can be pegged to five years, to 10 years, to 30 years. They can be fixed for 1, 2, or 3 years. So this is why your most important buy versus rent consideration is how long will you really realistically stay in that house. And then when you do go out and you borrow, you might want to consider matching your timeframe to the timeframe associated with that mortgage.

It sounds complicated, but if you use these products to your advantage--these loans--and you understand going in timeframe—remember, timeframe is driving this—you will be able to select the right loan that matches your true objective.
So someone who really intends to have a family and stay in the house and stay in the area for a long time might be best off to go with a long-term 30-year type of mortgage versus someone who says, “I’m going to be moving to another place in the country within ten years.” Then maybe you want to match the mortgage to that timeframe.

So that’s why I’m harping and nagging on the point of timeframe being so incredibly important here, but the buy versus rent decision--the difference between the rent payment and the mortgage payment--is not the only consideration [although] it is a big consideration.

But it’s most important to consider what are you going to do with the difference between the mortgage payment that you would have paid every month if you bought and the amount of rent that you really are paying.

So if buying puts your mortgage at $2,000 a month and renting is only $1,000, that’s all well and fine. You make out like a bandit. So long as you take the other $1,000 that you didn’t have to pay on the mortgage, that you save by paying rent, and you take that extra $1,000 and do something constructive with it and not spend it.

That’s how you come out ahead as a renter. That is the case where renting might make more sense. And renting might very well make more sense in terms of reducing your risk if you really do think you might move in a year.

Be very, very careful about the one- to five-year timeframe, even if you live in La Jolla, California, and you are convinced that houses are going to keep going up in value at some stupendous rate, and that you can’t lose because houses only go up.
They don’t only go up. They do stall. There are expenses. They are drag effects on your finances over time. And the only way it’s going to work out for sure is if you can walk in the door and afford to buy and afford all of the maintenance and those extra expenses and your timeframe is really conservative enough so that you don’t have to worry about risking selling within two years and biting your fingernails about how long it will take for that market to really go up.

And so, in summary, the times when it does make sense to rent, you really have to look at is renting going to make more sense for me? Is it that it is a very short period of time and you’re not certain you’re going to commit to an area?

Or you say, “Heck with owning. I’m going to rent for half the cost. It’s so much cheaper to rent, and I promise myself I’m going to take the savings--the difference in what I didn’t pay to my mortgage--all of that savings--that $1,000 to $2,000 difference--and I’m going to invest it wisely.” And that could work out financially better than owning at the end of the day.

But obviously home ownership, we know it ends up being such a big asset in most people’s lives. As long as you’re in charge, you take the emotion out of it, you look at it like it’s strictly a decision about where is my money best invested.

Is it [your money] going to be in this property for a long time or is it going to be in a different type of investment, and I’ll just rent? In other words, rent, and invest the difference.

One of my favorite resources for making this decision between whether to buy or whether to rent is what I… There are sort of buy versus rent calculators
that are available on the Web, and they’re totally no cost. You can just go on for free and play around.

And I’m going to give you a website right now--URL--where you can go and you can plug in your own variables and determine whether or not renting will make more sense than buying or buying will make you more money than renting.

And it’s www.dinkytown--d-i-n-k-ytown, t-o-w-n.net-- and they have a rent versus buy calculator. This is one of my favorite calculator sites. It’s got the goofiest name in the world. It’s one of my favorite calculator sites.

But just to sum up one more time considerations on whether you can really afford to buy or whether you should rent, what’s going to make you more money--your affordability factor, your timeframe, and then matching those considerations to the available financing options out there. And remember, you’re in the driver’s seat, not your emotions, not anybody else, not your loan broker. You’re in total control.

Cynthia Dawkins: Thank you very much for those words.