To Buy or to Rent?

Divide your class into groups of at least four students each. Every group is to first read the following.

Ian and Tami, a young couple with a child, live in a rented apartment. After taxes, Ian earns $38,180 per year and Tami's part-time job brings in $7000 per year. In the foreseeable future, their earnings probably will just keep pace with inflation. They are presently operating on the following monthly budget.

Rent	$1050
Food	600
Day care	525
Clothing	420
Utilities	120
Entertainment	300
Savings	450
Other	300

They have accumulated $36,000 in savings.

Having found a house they would like to buy, which is priced at $162,500, they have consulted several lenders and have discovered that, at best, purchasing the house would involve costs as shown here.

Down payment required (20%)	______
Closing costs (required at closing):	
Loan fee (1 point)	______
Appraisal fee	300
Title insurance premium	375
Document and recording fees	70
Prorated property taxes	650
Prorated fire insurance premium	270
Other	230
Total immediate costs:	______

Ongoing monthly ownership costs would be as follows.

Fixed-rate 30-year mortgage at 7.5%	______
Taxes ($1350 annually)	______
Fire insurance ($540 annually)	______

In order to own their own home, Ian and Tami are willing to cut their clothing and entertainment expenditures by 30% each and could decrease their savings allotments by 20%. (Some savings still will be necessary to provide for additional furnishings they would need and for expenses of an expanding family in the future.) They also figure that the new house and yard would require $130 monthly for maintenance and that

Now divide your group into two "subgroups." The first subgroup is to answer these questions:

1. What amount would the home purchase cost Ian and Tami in immediate expenditures?
2. Do they have enough cash on hand?

The second subgroup is to answer these questions:

3. What amount would the house cost Ian and Tami on an ongoing monthly basis?
4. What amount will their monthly budget allow toward this cost?
5. Can they meet the monthly expenses of owning the house?

Within your group, decide whether Ian and Tami can afford to purchase the house. Select a representative to report your findings to the class.

Compare the evaluations of the various groups, and try to resolve any discrepancies.