

UNIT 3: ASSESSING YOUR FINANCES

In this lesson you will:

- Learn about the advantages of buying vs. renting
- Understand interest rates
- Find out what closing costs are

A. What is better, buying or renting?

1. In Spain, it seems that people prefer to buy property than to rent it. Why is that?

Now, read the following text, which compares the costs of buying with the cost of renting in English-speaking countries, such as Britain or the United States. Decide if this description could apply to Spain.

Buying vs. renting: the costs

If, like most first-time buyers, you are presently renting, it's easy to calculate your cost - simply, the monthly rent you pay. Utilities (i.e. water, gas, electricity, etc.), phone, and other costs can be ignored in this comparison because they'll be approximately the same whether you rent or buy.

However, calculating the cost of homeownership is much more complicated, because income tax considerations affect your final decision. And there is, in addition, the uncertainty about how much the value of your home will rise (or even fall) in the coming years.

As a tenant, you can benefit from a standard deduction on your income tax return. This is the time to compare that standard deduction with the amount you'd be able to subtract from income if, like most homeowners, you could benefit from itemized deductions instead. Such deductions can be:

- Home mortgage interest;
- All real estate taxes on any property you own;
- Personal property taxes; and
- Certain moving expenses.

Between the mortgage interest and the property tax deductions, you can figure that the State is paying for part of your monthly mortgage - 28% of it, in fact, if that's your tax bracket.

(adapted from various pages in <http://www.san-diego-real-estate-search.com>)

1. Find in the text words and expressions corresponding to the following definitions:

_____ : amount of money taken away from the taxes one has to pay

_____ : amount of money earned by a person

_____ : a contribution to State revenue which is paid proportionally depending on the volume of one's income, property or business

_____ : tax paid on the money earned by a person

_____ : amount of earnings (for example, between 60001 euro and 100000 euro) determining how much tax you pay on your income.

2. Give the appropriate Spanish terms equivalent to the previous definitions.

3. Answer the following questions about the text:

- a) Are there any costs which are exactly the same for homeowners and tenants?
- b) Why is it very easy to calculate the monthly cost of renting a property?
- c) Why shouldn't people use only the mortgage installments as an indicator of the cost of homeownership?
- d) Is the uncertainty about the future value of property a problem for prospective buyers in Spain?
- e) Are tenants entitled to deductions from their income tax?
- f) According to the text, who pays less tax, owners or tenants?
- g) Are moving expenses tax-deductible in your country? Are there any other benefits for people moving home?

3. Now, translate the following sentences into English.

Los recibos normalmente representan los mismos costes para los que tienen vivienda en propiedad que para los arrendatarios; los impuestos son diferentes.

En España la incertidumbre sobre el precio de la vivienda es más importante para los arrendatarios, porque no saben cuánto subirán los precios en el futuro.

En España, a diferencia de (*unlike*) otros países, tanto los intereses como el capital son deducibles.

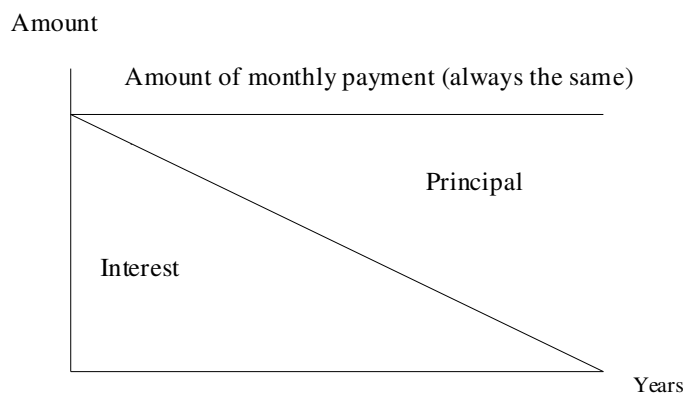
El gobierno está pensando en reducir las deducciones para las hipotecas y en crear deducciones para los alquileres.

B. Interest rates and loans

1. If you apply for a mortgage, do you pay always the same, every month? How is that possible, if you pay interest on the money you owe, and not on the whole principal?

At the start of a mortgage repayment schedule, when the debt hasn't been reduced yet, almost all of your monthly payment corresponds to interest. A bit goes toward reducing principal (the amount borrowed), so that the next month you're borrowing a bit less, and owe a little less interest. That allows more of your next payment to go toward reducing principal. However, this process is very slow in the beginning and the interest portion remains high for many years.
(<http://www.lisahyte.com/buying.htm>)

The paragraph you have read is very important for borrowers. Therefore, try to memorize it, for you will need it in the future. You may practice by referring to (or drawing) a graph in which the horizontal axis represents the years, and the vertical axis represents the amounts.



C. Closing costs

1. If the selling price of a home, after all the negotiations, is 120,000 euros, does that mean that is the final amount the purchaser will have to pay? If not, list the additional costs that a buyer has to consider in Spain (and therefore, have an extra amount of money for that purpose)

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2. Now, read the following paragraph, describing the nature of closing costs in general and listing the specific costs in the United States.

Closing Costs

On the day you actually buy your new home, in addition to your down payment and the prepaid property tax and homeowners insurance premiums, you'll need cash for various fees associated with the purchase. These expenses are known as closing costs and are paid by both buyers and sellers.

Some closing costs you pay up-front when you apply for a mortgage loan. That includes money for a credit check on all applicants and an appraisal on the property. Keep in mind that even if you don't eventually receive the loan, that money is not refundable.

Other closing costs are possible and should be considered when evaluating your financial situation. These may include, but are not limited to:

- Title insurance fee;
- Survey charge;
- Loan origination fee;
- Attorney fees or escrow fees;
- Document preparation fee;
- Garbage or trash collection fees;