

# First-time Homebuyer's Guide

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Property Address Here, Any Town, USA

## Home Buyer

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Your Name Here (Sample Report)  
123 Any St.  
Any Town, USA

## Finance presentation by

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David Bernat  
Wintrust Mortgage  
524 W. State St., Suite C  
Geneva, IL 60134  
[www.DavidBernatCRMS.com](http://www.DavidBernatCRMS.com)  
(708) 558-8434

# Rent vs. Own Analysis

David Bernat, Wintrust Mortgage, 524 W. State St., Suite C, Geneva, IL 60134, phone (708) 558-8434

Your Name Here (Sample Report)

Property Address Here  
Any Town, USA

Loan Information		Annual Rates (assumptions):	
Program	30 Year Fixed	Real Estate Appreciation	3%
Sales Price	\$225,000	Inflation	3%
Rate	4.375%	Incremental Tax Rate	28%
Points	0	Alternative Investment	5%
Loan Amount	\$213,750	Cost to Sell Property	6%
Loan-To-Value	95.00%		

Initial Monthly Payment		Cash Required to Close	
Principal & Interest	\$1,067	Down Payment	\$11,250
Property Tax	413	Closing Costs	3,740
Hazard Insurance	62	Prepaid & Escrow	-858
Private Mort. Ins.	139	Paid Outside Closing	-350
<b>Total</b>	<b>\$1,681</b>	<b>Total Cash Required</b>	<b>\$13,782</b>
		Cash Reserves Required	\$3,362

First Year Average Cash Flow	
Monthly Payment Cost	\$-1,681
<u>Tax Benefits</u>	<u>332</u>
Monthly Cash Flow	\$-1,349
Rent Savings	1,295
Equity Gain	823
<u>Investment Cost</u>	<u>-67</u>
Monthly Economic Gain	\$702

Economic Value Forecast				
	<u>Initial Payment</u>	<u>Year 10 Payment</u>	<u>Net Cost 10 Years</u>	<u>Net Cost 30 Years</u>
Rent	\$1,295	\$1,690	\$148,947	\$451,554
Own	\$1,681	\$1,700	\$75,453	\$58,713
<b>Breakeven in 2 years</b>				

Payments shown above are in "then-year" dollars. Net costs are shown in "current-year" dollars. For more details on this calculation, please contact David Bernat.

# Rent vs. Own Analysis

## *explanation of calculation*

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The attached *Rent vs. Own Analysis* is intended to show the true financial value of home ownership for a specific scenario. Since the calculations and rationale are somewhat complex, this sheet is included with the *Analysis* printout, to explain the information presented in each section.

### **Loan Information**

Shows the details of the mortgage financing upon which the analysis calculations are based.

### **Annual Rates**

These are the assumptions upon which the Analysis is based. The first rate, "Real Estate Appreciation," is used in the calculations to estimate the increases that will occur, over time, to home values, rent costs, property taxes, and homeowner's insurance costs. The next figure, for "Inflation", is used to relate figures for money in different years. The effect of inflation is often neglected in financial calculations, but it is vital for long term considerations and is included in our calculations. Next, the "Incremental Tax Rate", also known as a *tax bracket*, is used to estimate the tax savings you will receive for your deductible payments for property tax and mortgage loan interest and points. It is also used to find the amount of income tax that you would have to pay on alternative investments. The "Alternative Investment" figure shows the returns that you could reasonably expect from your money if you chose to invest it in interest bearing bank accounts, bonds, or stocks. Finally, the "Cost to Sell Property" represents the one-time cost you will incur when you sell your home. This cost comes from real estate agent commissions as well as any closing costs that you might pay as the seller.

### **Initial Monthly Payment**

Breaks out the payments you will make in the first month after you purchase your home.

### **Cash Required to Close**

Describes the Down Payment, Closing Costs, and Prepaid & Escrow fees which you would pay at closing. This represents your total cash investment in your property.

### **First Year Average Cash Flow**

Presents your home investment from the point of view of cash flow and value during the first year. First, your monthly payment is presented as a negative number, representing the average amount you will pay during the first year. Because you will now own a home, you will receive a tax break for deductible interest and property tax payments. This amount is therefore shown as a positive cash flow; you will actually be able to increase your paycheck by this amount by adjusting your withholding information on the IRS Form W-4 that you provide to your employer. The impact, if any, of rental income and maintenance is also shown. Adding these numbers together gives your total "Monthly Cash Flow", which is shown as a subtotal. You may compare this cash

flow number with what you would have been paying every month if you had continued to rent. Thus, your "Rent Savings" are added as a positive number.

The remaining numbers deal with the *investment value* of your home. Every year, the value of the home may be expected to increase. Also, part of each monthly payment is applied to the principal value of your loan. Adding the monthly appreciation and principal gives the amount by which your *equity* in your home increases. This increase is shown as "Equity Gain". Finally, we must account for the "Investment Cost", or *time value* of the money which you will invest at closing. This is the interest which you would have received if you had chosen not to purchase and had instead placed the money in an alternative investment. This amount is subtracted from your investment returns.

The final total, "Monthly Economic Gain", represents your net gain (or cost, if negative) due to buying a house, as opposed to renting. In other words, this is the amount by which your personal wealth will increase every month while you own your home.

### **Economic Value Forecast**

Demonstrates the long-term benefits of owning a home. The two rows allow you to compare cost and savings figures for both renting and owning. The first column shows the monthly payments for the first year. The next column gives the same figures for year 10, showing the actual dollar amounts you could expect to pay. Note that these are *inflated* dollars, or the actual cash amounts you would be paying. The last two columns show the *net comparative economic cost* (or simply "net cost") for two different years. These are the bottom-line figures upon which you should base your home buying decision. Therefore, the *economic cost* and its calculation deserve some explanation.

In evaluating a financial option, there are two major considerations. The first is cash flow. You must be able to afford the payments on the home. For this, you will want to compare the "Monthly Cash Flow" figure as described above with your current monthly rental payments.

The second consideration is net cost. This is the difference in money that you will see at the end of some period, depending upon the investment decision you make. When you purchase a home, you will typically begin by paying more in down payment for the home than you would pay in rental deposits. Moreover, your initial monthly payments may be higher when you own than when you rent. Much of this difference will be returned to you in the form of tax deductions. However, over time, your monthly home ownership payments will actually become less than the rent you would otherwise be paying. This is because most of your home payment is determined by an amortization schedule and is protected from both inflation and property appreciation. (Eventually, after you have paid off your mortgage, your home ownership payments will consist only of taxes and insurance.) Rental costs, however, tend to increase over time at about the same rate as property values.

Home ownership has other financial benefits. Part of your payment, each month, goes to pay the principal amount of your loan. This, plus the appreciation of your property, increases your equity. This equity becomes cash when you sell (or refinance) your home, less any selling costs. Another major consideration in the net cost computations is the "Alternative Investment" rate. Since home ownership usually requires a higher down payment and higher initial monthly payments, it is only fair to assume that, if you didn't purchase a home, you would invest the money in some other form. Thus, the Rent vs. Own calculation includes the effect of this "Investment Cost" by subtracting it

from the net cost for renting. Eventually, as stated above, your home ownership payments will actually become less than the rental payments. At this point, the alternative investment income is subtracted from the net cost of home ownership. The final consideration in the net values is inflation. Since the home ownership costs are incurred over a period of many years, the net cost figures are presented in constant 2011 dollars. This is intended to allow you to see the benefits of home ownership, using dollar values with which you are familiar.

Now that we've covered all of the rationales and the method involved in the calculation, let's look at the actual Net Costs given on the analysis. You will want to compare the Rent and Own figures. Where the Rent figures are higher than the Own figures, that represents the actual economic gain that you realize from owning your home.

The last piece of information presented is the "breakeven" period. This is simply the point at which your net costs as a homeowner become less than your net costs as a renter. In other words, if you expect to own the home for at least that number of years, then you would do better to buy than to rent.

If you wish, you may also request a *Annual Rent vs. Own Comparison*, which will allow you to see these payment and cost figures for each year of your loan.

# Annual Rent vs. Own Comparison

David Bernat, Wintrust Mortgage, 524 W. State St., Suite C, Geneva, IL 60134, phone (708) 558-8434

## Your Name Here (Sample Report)

Property Address Here

Any Town, USA

30 Year Fixed

Loan Amount of \$213,750

Interest Rate of 4.375%

Year	Rent Payment	Own Payment	Net Rent Cost	Net Own Cost
1	\$1,295	\$1,681	\$12,573	\$18,537
2	1,334	1,683	27,733	25,574
3	1,374	1,685	42,892	32,480
4	1,415	1,687	58,048	39,237
5	1,458	1,689	73,203	45,822
6	1,501	1,691	88,355	52,217
7	1,546	1,693	103,506	58,399
8	1,593	1,695	118,654	64,347
9	1,640	1,698	133,801	70,039
10	1,690	1,700	148,947	75,453
11	1,740	1,599	164,090	79,627
12	1,793	1,602	179,232	83,441
13	1,846	1,604	194,372	86,870
14	1,902	1,607	209,511	89,889
15	1,959	1,610	224,648	92,472
16	2,018	1,612	239,784	94,591
17	2,078	1,615	254,918	96,220
18	2,140	1,618	270,051	97,330
19	2,205	1,621	285,183	97,892
20	2,271	1,625	300,314	97,876
21	2,339	1,628	315,443	97,253
22	2,409	1,631	330,571	95,989
23	2,481	1,635	345,697	94,053
24	2,556	1,638	360,823	91,412
25	2,632	1,642	375,947	88,032
26	2,711	1,646	391,071	83,876
27	2,793	1,650	406,193	78,909
28	2,877	1,654	421,315	73,092
29	2,963	1,658	436,435	66,388
30	3,052	1,491	451,554	58,713

Payments shown above are in actual, "then-year" dollars. Net costs are shown in "current-year" dollars. For further explanation of assumptions and calculations, please contact David Bernat.

# Estimated Cash to Close Worksheet

<b>Prep. By:</b>	David Bernat	<b>Program:</b>	30 Year Fixed
<b>Of:</b>	Wintrust Mortgage	<b>At a note rate of:</b>	4.375%
	524 W. State St., Suite C	<b>Points:</b>	0
	Geneva, IL 60134	<b>Sales Price:</b>	\$225,000
	www.DavidBernatCRMS.com	<b>Loan Amount:</b>	\$213,750
<b>Borrower:</b>	Your Name Here (Sample Report)	<b>Base Loan Amt.:</b>	\$213,750
<b>Property:</b>	Property Address Here	<b>Down Payment:</b>	\$11,250
	Any Town, USA	<b>Loan-To-Value:</b>	95.00%

## Estimated Closing Costs

-	Administrative Fee	\$850
-	Appraisal	350
-	Attorney Fee	500
-	Credit Report	30
-	Flood Certification	10
-	Title Company Closing Fee	600
-	Title Company CPL	150
-	Title Insurance	1,100
-	Title Recording Fees	150
<b>Total Closing Costs</b>		<b>\$3,740</b>

## Prepaid Closing Costs and Escrows

901	15 Days Prepaid Interest	\$390
-	0 Months R.E Tax Prorations	-3,300
1002	2 Months Mortgage Insurance	278
-	4 Months Property Tax	1,650
-	2 Months Hazard Insurance	125
<b>Total Prepays &amp; Esc.</b>		<b>\$-858</b>

## Monthly Payments

Principal & Interest	\$1,067
Property Tax	413
Hazard Insurance	62
Private Mort. Ins.	139
<b>Total Monthly Payment</b>	<b>\$1,681</b>
<b>Cash at Closing</b>	
Down Payment	\$11,250
Closing Costs	3,740
Prepaid & Escrow	-858
Paid Outside Closing	-350
<b>Total Cash Required</b>	<b>\$13,782</b>
<b>Cash Reserves Required</b>	<b>\$3,362</b>

*This is an estimated cash to close worksheet, and does not constitute a loan approval, or commitment to lend. As interest rates change daily, the monthly payment information listed above is subject to change. All approvals are subject to underwriting guidelines. Program rates, terms, and conditions are subject to change at any time. The closing costs and prepaid amounts reflected on this form are estimated figures used to estimate the amounts of funds you may need at settlement. If a property has not yet been identified, and all required data required by the Real Estate Settlement Procedures Act has not been obtained, this transaction is not subject to the Real Estate Settlement Procedures Act disclosure requirements.*

# Annual Amortization Table

David Bernat, Wintrust Mortgage, 524 W. State St., Suite C, Geneva, IL 60134, phone (708) 558-8434

**30 Year Fixed**  
Loan Amount of \$213,750  
Interest Rate of 4.375%

Year	Avg. Monthly Payment	Annual Principal	Annual Interest	Remaining Balance
1	\$1,067.22	\$3,525.20	\$9,281.44	\$210,224.80
2	1,067.22	3,682.58	9,124.06	206,542.22
3	1,067.22	3,846.95	8,959.69	202,695.27
4	1,067.22	4,018.66	8,787.98	198,676.61
5	1,067.22	4,198.06	8,608.58	194,478.55
6	1,067.22	4,385.45	8,421.19	190,093.10
7	1,067.22	4,581.21	8,225.43	185,511.89
8	1,067.22	4,785.70	8,020.94	180,726.19
9	1,067.22	4,999.33	7,807.31	175,726.86
10	1,067.22	5,222.48	7,584.16	170,504.38
11	1,067.22	5,455.60	7,351.04	165,048.78
12	1,067.22	5,699.15	7,107.49	159,349.63
13	1,067.22	5,953.54	6,853.10	153,396.09
14	1,067.22	6,219.29	6,587.35	147,176.80
15	1,067.22	6,496.89	6,309.75	140,679.91
16	1,067.22	6,786.90	6,019.74	133,893.01
17	1,067.22	7,089.88	5,716.76	126,803.13
18	1,067.22	7,406.35	5,400.29	119,396.78
19	1,067.22	7,736.96	5,069.68	111,659.82
20	1,067.22	8,082.32	4,724.32	103,577.50
21	1,067.22	8,443.10	4,363.54	95,134.40
22	1,067.22	8,819.97	3,986.67	86,314.43
23	1,067.22	9,213.68	3,592.96	77,100.75
24	1,067.22	9,624.97	3,181.67	67,475.78
25	1,067.22	10,054.59	2,752.05	57,421.19
26	1,067.22	10,503.41	2,303.23	46,917.78
27	1,067.22	10,972.27	1,834.37	35,945.51
28	1,067.22	11,462.05	1,344.59	24,483.46
29	1,067.22	11,973.70	832.94	12,509.76
30	1,067.35	12,509.76	298.47	0.00

This chart provides total annual principal and interest payments during the term of the loan program shown. All adjustable loan program payments are calculated assuming that worst case increases will occur.