

Activity 10.1

Rent an Apartment

Name _____ Date _____ Hour _____

Introduction

There are many things to consider before renting an apartment, including the location, size, whether utilities are included, and extra costs.

Directions

Emma is looking for an apartment to rent. Ideally, she would like something close to the college campus where she attends classes and works part-time. Her annual housing budget, including utilities, is \$6,000. Emma finds four apartments to look at in the ads. Help Emma find the best apartment to fit her needs.

The average utility costs in Emma's area are:

all-electric apartments: \$42 a month

electric/gas combination: \$14.50 for electricity; \$16 for gas

water: \$12.50 a month

Apartment 1

1 BR (bedroom) includes electricity only (electric/gas apt.) for \$475 a month. First half month free.

Monthly rent: _____ Annual rent: _____

Monthly utilities: _____ Annual utilities: _____

Monthly total: _____ Annual total: _____

Apartment 2

1 BR, all-electric, but no utilities paid for \$390 a month.

Monthly rent: _____ Annual rent: _____

Monthly utilities: _____ Annual utilities: _____

Monthly total: _____ Annual total: _____

Apartment 3

2 BR (all electric), all utilities paid for \$525 a month. First month free.

Monthly rent: _____ Annual rent: _____

Monthly utilities: _____ Annual utilities: _____

Monthly total: _____ Annual total: _____

Apartment 4

1 BR, (electric/gas apt) water paid for \$425 a month, but is across town. Emma estimates commuting costs to be \$25 a month.

Monthly rent: _____ Annual rent: _____

Monthly utilities: _____ Annual utilities: _____

Monthly total: _____ Annual total: _____

Total up the monthly and annual costs. What apartments are within her housing budget?

Which apartment would you choose for Emma and why?

Emma also has the opportunity to share a 4 bedroom, 2 1/2 bath apartment with three other friends. All utilities are included and the price is \$1525 a month. What would Emma's share be and how does that compare to renting her own one-bedroom apartment?

Activity 10.2

Mortgage Shopping

Name _____ Date _____ Hour _____

Directions

Just like financial accounts and credit cards, it pays to shop around for a mortgage in order to get the best deal. Fixed rate mortgages have their benefits, but consumers should look at all their options before applying for a mortgage. Talk to financial institutions in your area and fill out the worksheet on the following page.

Mortgage Shopping Worksheet

	Lender 1		Lender 2	
Name of Lender:				
Name of Contact:				
Date of Contact:				
Mortgage Amount:				
	mortgage 1	mortgage 2	mortgage 1	mortgage 2
Basic Information on the Loans				
Type of Mortgage: fixed-rate, adjustable-rate, conventional, FHA, other? If adjustable, see below				
Minimum down payment required.				
Loan term (length of loan)				
Contract interest rate.				
Annual percentage rate (APR)				
Points (may be called loan discount points)				
Monthly private mortgage insurance (PMI) premiums				
How long must you keep PMI?				
Estimated monthly escrow for taxes and hazard insurance				
Estimated monthly payment (principal, interest, taxes, insurance, PMI)				
Fees				
Different institutions may have different names for some fees and may charge different fees. We have listed some typical fees you may see on loan documents.				
Application fee or Loan-processing fee				
Origination fee or Underwriting fee				
Lender fee or Funding fee				
Appraisal fee				
Attorney fees				
Document preparation and recording fees				
Broker fees (may be quoted as points, origination fees, or interest rate add-on)				
Credit report fee				
Other fees				
Other Costs at Closing/Settlement				
Title search/Title insurance				
For lender				
For you				
Estimated prepaid amounts for interest, taxes, hazard insurance, payments to escrow				
State and local taxes, stamp taxes, transfer taxes				
Flood determination				
Prepaid private mortgage insurance (PMI)				
Surveys and home inspections				
Total Fees and Other Closing/Settlement Cost Estimates				

Mortgage Shopping Worksheet—continued

	Lender 1		Lender 2	
Name of Lender:				
	mortgage 1	mortgage 2	mortgage 1	mortgage 2
Other Questions and Considerations about the Loan				
Are any of the fees or costs waivable?				
Prepayment penalties				
Is there a prepayment penalty?				
If so, how much is it?				
How long does the penalty period last? (for example, 3 years? 5 years?)				
Are extra principal payments allowed?				
Lock-ins				
Is the lock-in agreement in writing?				
Is there a fee to lock in?				
When does the lock-in occur—at application, approval, or another time?				
How long will the lock-in last?				
If the rate drops before closing, can you lock in at a lower rate?				
If the loan is an adjustable-rate mortgage:				
What is the initial rate?				
What is the maximum the rate could be next year?				
What are the rate and payment caps each year and over the life of the loan?				
What is the frequency of rate change and of any changes to the monthly payment?				
What is the index that the lender will use?				
What margin will the lender add to the index?				
Credit life insurance				
Does the monthly amount quoted to you include a charge for credit life insurance?				
If so, does the lender require credit life insurance as a condition of the loan?				
How much does the credit life insurance cost?				
How much lower would your monthly payment be without the credit life insurance?				
If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers?				

Activity 10.3

Home Loan Matching

Name _____ Date _____ Hour _____

Introduction

Buying a house is expensive. According to the Oklahoma Association of Realtors, the median price for a home in Oklahoma in early 2011 was \$103,737. That's not an amount of money most people have socked away in their savings account, which is why people take out home mortgages to purchase homes. The most common mortgage has been the long-term fixed-rated home loan, but that's not the only way to finance a house.

Directions

Match the type of mortgage with the details or descriptions that match.

- | | |
|-------------------------------------|--|
| _____ 1. adjustable rate mortgage | a. guaranteed by HUD |
| _____ 2. graduated payment mortgage | b. no down payments required |
| _____ 3. conventional home mortgage | c. interest rate adjusts to national index |
| _____ 4. FHA-insured loan | d. often for 15 years |
| _____ 5. short-term, fixed rate | e. often 10 percent down payment |
| _____ 6. VA loan | f. starts with low monthly payments |

Activity 10.4

Mortgage Budget

Name _____ Date _____ Hour _____

Introduction

In many cases, mortgages cost more at the beginning than renting, but cost less in the long run, particularly with the tax breaks available to home owners. It's important to know what you can afford. Lenders often decide on the amount of a mortgage by looking at the gross income of a household. Generally, monthly mortgage payments (principal, interest, taxes) should be about 25 to 29 percent of gross income. In cases where there is no debt (this includes car loans), some financial institutions may loan slightly more.

Mortgage loans

While banks vary and you want to look at the whole picture, use the standard formula of three times the amount of your gross income.

Housing Budget formula

1. Divide the loan amount by 1,000. For example, a \$90,000 loan divided by 1000 is equal to 90.
2. Locate the interest rate for the loan.
3. Multiply the "monthly amount per \$1,000" by the answer you had in Step 1. That is the monthly payment.

MONTHLY PAYMENT PER \$1,000 FOR 30-YEAR MORTGAGE AT FIXED RATE			
Interest rate	Monthly payment per \$1,000	Interest rate	Monthly payment per \$1000
4%	\$4.77	8%	\$7.34
4-1/2%	\$5.07	8-1/2%	\$7.69
5%	\$5.37	9%	\$8.05
5-1/2%	\$5.68	9-1/2%	\$8.41
6%	\$6.00	10%	\$8.77
6-1/2%	\$6.32	10-1/2%	\$9.15
7%	\$6.65	11%	\$9.52
7-1/2%	\$6.99	11-1/2%	\$9.90

Directions

Calculate mortgage budgets according to housing budget guidelines and formulas. Unless otherwise stated, assume that all the following will pay a 10% down payment and the loan will be for 30 years.

1. Jerry's gross annual income is \$58,000. How much home can he afford? After the down payment, what would the loan amount be? With a home loan at 8% interest, what would his monthly payments be?

2. The Albertsons' combined income is \$81,000 per year. They're looking at a \$199,000 home. Their credit union is offering home loans at 5-1/2% interest but requires a 20% down payment. How much would the loan be and how much are the monthly payments? In your opinion, would this be a good loan for the Albertsons?

3. Jackie is looking at a fixer-upper that is only \$50,000. After a 10% down payment, her monthly payments would be \$378.45. What is the interest rate?

4. The Szalkowski's have a combined \$100,000 gross income and qualify for a VA loan at 6% interest with no down payment required. What price range should they be looking in for a home? What would their monthly payments be?

5. Dana's grandmother is selling her house and moving into a condo near Dana's family. The grandmother has received an offer on her home, and once everything goes through, she will receive \$80,000 that she plans to apply to the purchase of the condo. She's found a condo that she likes in a retirement community for \$115,000. Monthly housing association dues are \$300 a year. The grandmother's retirement income and Social Security benefits give her \$900 a month to live on. Should she buy the condo for a 15-year loan at 7½%? Why or why not? (Hint: the monthly payment per \$1,000 at this rate for a 15-year loan is \$2.28 higher than a 30-year loan)

6. Derrick makes \$45,000 a year and is interested in buying a townhome for \$150,000. He wants to keep his monthly payments under \$700 a month. What interest rate does he need to look for in a loan?

If the property tax is 1.04% of the value of his home, what would the annual property tax be? _____

7. With a \$300,000 home loan, what should the gross annual income of the mortgage holder be? _____
Calculate the monthly mortgage payments for a \$300,000 loan at the following interest rates. Don't forget to subtract the down payment!

4% _____

5-1/2% _____

7% _____

8-1/2% _____

10% _____

11-1/2 _____