



Unit 10:

Acquiring a Home

Personal Financial Literacy

Objectives

- Compare the advantages and disadvantages of renting and owning a home.
- Define terms related to financing a house.
- Distinguish among types of mortgages
- Arrange in order the steps in buying a home.
- State guidelines for estimating a budget for housing.

Advantages of Renting

- Greater flexibility in moving
- Not responsible for home repairs or improvements
- No down payment
- No huge mortgage
- No property taxes



Advantages of Renting - Continued

- No worry about property values
- Limited responsibilities
- Predictable costs



Advantages of Owning

- Cost may be less over period of time
- Has more control of property
- May build up equity
- Tax advantages: interest and property taxes are deductible
- Privacy



Disadvantages of Owning

- Huge responsibility
- Down payment
- Must be approved for financing
- Must pay for home maintenance and repairs
- Costs tend to be higher
- Harder to move
- Higher insurance premiums
- Property tax

Disadvantages of Renting

- Security deposit
- No tax deductions
- Renters insurance needed to protect belongings
- No sense of ownership
- Unable to make permanent changes to residence
- Often aren't allowed to have pets
- Lack of privacy
- No equity

Mortgage



- Financial and legal agreement between borrower and lender
- Lender gives loan in exchange for lien on property
- If borrower can't make payments, lender can take house

Choosing the Right Mortgage

- How long do you expect to have mortgage?
- What kind of monthly payment can you afford?
- Willing to take a risk with fluctuating interest rate?
- Member of the Armed Forces?



Types of Mortgages

- Fixed rate mortgages
 - Not insured or guaranteed
 - Lender may require Private Mortgage Insurance (PMI) until a borrower has 20% equity
 - Fixed interest rate for life of loan

ARMs

- Adjustable rate mortgages
 - Rate increases or decreases according to economic indicators
 - May start with lower interest rate than conventional loan
 - Interest rate can rise

Balloon Mortgages

- 30-year amortization
- Requires balance of mortgage at end of much shorter term



Special Loans

- Insured or guaranteed by federal government
- Lower interest rates
- Low down payment
 - VA (Veterans Administration) for veterans and active duty military personnel
 - FHA (Federal Housing Administration) based on income

Reverse Mortgages

- Usually retirees with a lot of equity
- Lender “purchases” house by making payments to seller
- At time of death, lender owns home
- Very costly, high fees



Types of Housing

- Single
- Condominium
- Townhouse
- Duplex



What are You Looking For?

- Location
- Size
- Type
- Amenities
- Need vs. optional
- Budget
- Buyer's market vs. seller's market



Pre-Approval

- Tells you exactly what lender will loan
- Only an estimate
- More reliable indicator of what you can afford than prequalifying
- Shop around

Purchase Agreement

- Describes property, including location and furnishings or equipment
- Conditions and terms of sale
- Both buyer and seller sign
- Buyer deposits earnest money



Appraisal and Title Search

- Appraisal assesses value of property
- Includes survey of property lines
- Title search
 - Title gives history of property; warns of potential problems

Costs Related to Closing

- Down payment
- Origination fee for processing loan application
- Title search
- Survey fees
- Title insurance
- Appraisals
- Credit reports
- Filing or recording fee
- Inspections (paid at inspection, not closing)

Housing Expense Ratio

- Borrowers can afford up to 28% on housing payments (including property taxes and homeowners insurance)
- Based on *gross income*



Debt Ratio Formula

- Debt payments, including housing payments, should not exceed 36%.



Unit Review

1. Distinguish between advantages and disadvantages of renting a home.
2. Discuss the costs and benefits of owning a home.
3. Explain what a mortgage is.
4. How is a mortgage payment calculated?
5. What are the types of questions you should ask yourself before shopping for a mortgage?

Unit Review - Continued

6. What mortgage term would allow you to build equity in a home faster?
7. Compare and contrast fixed rate mortgages with adjustable rate mortgages.
8. If a home buyer with a fixed rate mortgage of \$100,000 wanted to avoid paying PMI, how much would he or she need for a down payment?
9. Discuss special mortgage loans and the agencies affiliated with them.
10. Discuss types of housing a home buyer might consider.

Unit Review - Continued

11. Distinguish between prequalifying and preapproval for home financing.
12. What are the advantages of using a realtor to buy a home?
13. Discuss what occurs during the approval process of buying a home.
14. List at least five of the fees associated with a closing.
15. Distinguish between the housing expense ratio and the debt ratio formula estimating a housing budget.

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