CHAPTER 7
The Finances of Housing

What You’ll Learn

When you have completed this chapter, you will be able to:

Section 7.1
- Evaluate various housing alternatives.

Section 7.2
- Assess the advantages and disadvantages of renting.
- Identify the costs of renting.

Section 7.3
- Identify the advantages and disadvantages of owning a residence.
- Explain how to evaluate a property.
- Discuss the financing involved in purchasing a home.
- Describe a plan for selling a home.

Reading Strategies

To get the most out of your reading:
-- Predict what you will learn in this chapter.
-- Relate what you read to your own life.
-- Question what you are reading to be sure you understand.
-- React to what you have read.
In the Real World . . .

Charles and Susan James have been renting an apartment and saving money to buy property in Chicago. Finally, they have enough for a down payment. Both are excited about moving to the Windy City. However, they have different ideas about what type of housing to get.

Susan likes the idea of buying a house that needs to be fixed up. By purchasing an older house that requires repairs and improvements, they could afford a larger property for less money. Susan thinks they can renovate a house on their own. However, Charles does not like the idea of having to do yard work, much less major home improvements. Charles thinks it is a better idea to buy a townhouse and let property managers handle the maintenance and upkeep.

As You Read Consider the factors that go into making a housing decision.

Housing Options

Q: My older sister loves her new job and has decided that she would like to work for her company at least five years. Is this a good time for her to buy a house, or should she continue renting?

A: A home can be an excellent investment, but your sister will need to take some things into consideration before she makes this decision. For example, she will need to assess her finances to determine if she can afford to buy a house. She must also consider whether she wants to spend time maintaining a house; if not, it may be best for her to continue renting.

Ask Yourself What could be some advantages of owning a house?

Go to finance07.glencoe.com to complete the Standard & Poor’s Financial Focus activity.
Housing Options

Your Lifestyle and Choice of Housing

How does your lifestyle affect your choice of housing?

Finances play an important role in housing decisions. Whether you are renting a small apartment in a city or buying a house in the country, you will have to consider your financial situation. You can use your budget and the other personal financial statements discussed in Chapter 3 to determine how much you should spend for housing.

One major factor you will need to consider when making housing decisions is your lifestyle, which is the way you choose to spend your time and money. For example, when looking at your housing choices, you might consider if you like hosting big family gatherings. If so, you would probably want a large living room or family room. Figure 7.1 lists types of housing for people in different life situations. Your lifestyle will determine several housing decisions:

- How close to work you want to live
- How long you plan to stay in one place
- How much privacy you would like to have

Opportunity Costs of Housing Choices

What are some opportunity costs to consider when purchasing a home?

A housing decision requires many trade-offs, or opportunity costs. For example, buying a handyman’s special—a home that is priced lower because it needs repairs and improvements—may allow you to purchase a larger property for less money, but it also means that you will have to work on the house. Renting an apartment may give you more mobility, which is the ability to move easily from place to place. However, you will give up the tax advantages that homeowners enjoy. When you make choices about housing, you cannot look at only the benefits. You also have to consider what you will be giving up in terms of time, effort, or money.
Renting versus Buying

Why would you rent a home if you could buy one?

One of the most basic considerations about housing is whether to rent or buy. Your decision will depend on your lifestyle and on financial factors.

Renting is a good choice for young adults who are beginning their careers. It also appeals to people who want or need mobility. Renting is also a good choice for people who do not want to devote time or money to maintenance. Because renting is often—though not always—cheaper than owning a home, it appeals to people whose funds are limited.

In contrast, owning property also has advantages. It is a wise choice for people who want a certain amount of stability in their lives. Buying a home also gives the owner privacy and some freedoms that may not be available to a renter. For example, you may not be allowed to have pets or large parties in an apartment, but you can do so in a house that you own. While ownership can be costly—at least in the short run—it offers financial benefits, such as tax advantages. In addition, the value of a house may increase, making the purchase of a home a good long-term investment. See Figure 7.2 on page 200 for more information about renting and buying.
Housing Information Sources

Where can you research housing options?

Housing information is plentiful and often free. You can begin researching on your own, using a variety of sources:

- **Libraries**—The public library will probably have books and other basic resources on the subject.
- **Newspapers**—You can find articles on renting, buying, and other housing topics in the real estate section of a newspaper.
- **Internet**—The Internet can provide home buying tips, the latest mortgage rates, and information on available housing in your area and in other parts of the United States.
• **Friends and Family**—Friends and family can also be good sources of information on housing. They can share some of their own housing choices.

• **Real Estate Agents**—You might seek the services of an experienced real estate agent who is familiar with the local housing market.

• **Government Agencies**—You can also write to government agencies, such as the U.S. Department of Housing and Urban Development (HUD).

Any combination of these sources will provide the information you need to make wise housing decisions, whether you decide to rent or buy your home.

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**Section 7.1 Assessment**

**Quick Check**

1. What should you consider when you evaluate available housing alternatives?
2. When would buying a residence be a better choice than renting one?
3. What are at least three sources of housing information?

**Think Critically**

4. Write a short paragraph explaining the probable housing needs of a family that consists of two working adults and three school-age children. Decide whether this family should rent or buy, and explain why you think so.

**Use Communication Skills**

5. **Housing Options** Your uncle Manny’s company has transferred him to your area, and he and his wife, Karen, will be moving within the next two months. Because Manny’s work requires fairly frequent moves, he and Karen are not interested in purchasing a home at this time. Manny and Karen are both busy with their jobs, so they have little time to research a place to live. You have offered to do some background work to get them started.

6. **Housing and Lifestyle** Your cousin Lavani, who is 25 years old and single, tells you that she is thinking of buying a house. She has been at her job for eight months and loves it so far, but she has not made many friends yet. The house she is looking at is 10 miles from her workplace. Lavani says that the house needs a new roof, and the basement sometimes floods, but otherwise it is in good shape. She thinks that she will be able to afford it when she gets her first raise.

**Present** Review the classified section of your local newspaper. Choose several houses and apartments for Manny and Karen that are about the same size and for rent, and prepare a chart that compares the prices, locations, and features of each option. Display it in class.

**Solve Money Problems**

Analyze Help Lavani determine the opportunity costs of this potential purchase. Would buying the house be a good decision for Lavani? Explain your answer.
Renting a Residence

Selecting a Rental Unit

What should you know before signing a lease?

Are you interested in a “3-bdrm apt., a/c, w/w carpet, pvt back ent, $800 + util, ref req’d”? This is not a secret code. It is just a short way of describing an apartment for rent listed in the classified ads of a newspaper. Decoded, the message reads: “Three-bedroom apartment for rent. It has air conditioning, wall-to-wall carpeting, and a private back entrance. The rent is $800, and the renter must also pay for utilities. The renter must provide references.” The ability to read and understand such ads is one of the skills you will need if you are going to look for some type of rental housing.

When you rent the place where you live, you become a tenant—a person who pays for the right to live in a residence owned by someone else. Your landlord is the person who owns the property that is rented. You should consider the differences in the size, cost, and location of rental units when making a selection.

Size and Cost

Most people who rent live in apartments. These units may be located in a two-story house, in a high-rise building, or in an apartment complex. An apartment building contains a number of separate living units that can range in size from one room (an efficiency or studio) to three-bedroom or larger units.

<table>
<thead>
<tr>
<th>Location</th>
<th>Description</th>
<th>Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>HAMILTON TWP</td>
<td>2 bdrm 1 bath, off str prkg. quiet nghborhd. Use of cellar. $800 mo. 602-989-7767.</td>
<td></td>
</tr>
<tr>
<td>PRINCETON</td>
<td>Close to campus. Ptv 1st flr, 1 bdrm. apt., wood flr., Indry. &amp; prkg. No smkg/pets. $925/mo + util. Avail 7/1 or 8/1. 1 yr lse. 616-433-8756.</td>
<td></td>
</tr>
<tr>
<td>TRENTON</td>
<td>Historic dist. Attractive apt. Refinished wood fire, 1 large bdrm, lg liv rm, lg kit, yard. $850/mo. 677-547-6400.</td>
<td></td>
</tr>
<tr>
<td>SIERRAS</td>
<td>2 bdrm 1 bath, beautiful view, quiet nghborhd. $700 mo. 612-999-7647.</td>
<td></td>
</tr>
<tr>
<td>AUSTIN</td>
<td>Close to stores. 1 bdrm. apt., wood flr., Indry. &amp; prkg. No smkg/pets. $825/mo + 1st and last. Avail 10/2 or 11/2. 788-997-8211.</td>
<td></td>
</tr>
<tr>
<td>UPSTATE</td>
<td>Affordable rental. Spacious apt. Refinished wood floor, 2 large bdrm, lg kit, din rm, bsmt storage. $950/mo. 565-989-5466.</td>
<td></td>
</tr>
</tbody>
</table>

▲ MEET THE PRESS Newspaper ads are one way to find out about available rental units. What information is usually included in an ad for a rental unit?
If a unit features a patio and a bit of lawn, it may be called a garden apartment. Some apartments are located in complexes with on-site conveniences such as swimming pools, tennis courts, and laundry facilities.

A family or individual who needs more space than an apartment provides may prefer to rent a house. The trade-off for the extra space is usually higher rent. A single person with very few possessions might choose to rent a private room in a house. He or she may have to share common areas, such as the kitchen and bathroom.

Sources of Information

To find a rental unit, you can check the classified section of the local newspaper. Friends and coworkers are good sources of suggestions, too. You can also check with real estate and rental offices. Figure 7.3 describes what to look for when selecting an apartment.

**Figure 7.3** Selecting an Apartment

<table>
<thead>
<tr>
<th>Location</th>
<th>Finances</th>
<th>Building</th>
<th>Layout and Facilities</th>
</tr>
</thead>
</table>
| • Near school or work  
• Near place of worship  
• Near shopping  
• Near public transportation  
• Near recreation: parks and museums | • Amount of monthly rent  
• Amount of security deposit  
• Cost of utilities  
• Length of lease | • Condition of building and grounds  
• Parking facilities  
• Recreation on premises  
• Security system  
• Condition of hallways, stairs, and elevators  
• Access to mailboxes | • Size and condition of unit  
• Type and controls of heating and cooling systems  
• Plumbing and water pressure  
• Type and condition of appliances  
• Condition of doors, locks, windows, closets, and floors |

**On Your Own**

Many considerations go into renting an apartment. Which of the four broad categories above would be most important to you right now?
Advantages of Renting

What are some of the advantages of renting?

The three main advantages of renting over buying a home are greater mobility, fewer responsibilities, and lower initial costs.

Mobility and Fewer Responsibilities

For many people, the appeal of renting is the mobility it offers. If you want to move, you can usually notify your landlord 30 days before you plan to leave, and he or she can find a new tenant. If you are offered a job in another town, you can move quickly and simply. This is also an advantage for growing families who need more space. If your landlord increases your rent beyond the amount you have budgeted, or if you decide that you want to live in a different community, making a change will be fairly easy if you rent an apartment.

Tenants do not have many of the responsibilities that homeowners have. Making major repairs and maintaining the property are the landlord’s concern. Tenants do not have to worry about property taxes or property insurance. Of course, they must pay the rent and any utility bills on time, and keep their homes clean.

Low Initial Costs

A third advantage to renting is cost. Buying a house typically requires many thousands of dollars for the down payment and other costs. In contrast, you usually pay the equivalent of only one or two months’ rent to move into a rental unit.

ON THE MOVE Many people like to rent because it allows them to move easily to different places. What types of individuals might find such mobility most attractive?
Disadvantages of Renting
What are some of the disadvantages of renting?

Renting is a good option for many people, but it has some disadvantages. Renting offers few financial benefits, and it can contribute to a more restrictive lifestyle. In addition, renting may involve various legal issues for tenants.

Financial and Lifestyle Restrictions

Although it has lower initial costs, renting may actually be more expensive than owning property in some cases. Certain financial benefits are available to homeowners but not to tenants. Homeowners, for example, are eligible for various tax deductions. They also benefit as the value of their property increases. Over time, homeowners pay back the money they borrowed to buy their home, eventually eliminating their monthly housing payments after many years. Tenants, on the other hand, must continue to pay housing costs each month for as long as they continue to rent. They are also subject to rent increases.

Tenants must accept certain limitations regarding their activities in the places they rent. For example, you might not be allowed to paint your walls without first getting permission from your landlord. Homeowners have more freedom to do what they want on their own property.

Legal Issues

If you decide to rent, you will probably have to sign a lease, a legal document that defines the conditions of the rental agreement between the tenant and the landlord (see Figure 7.4 on page 206 for an example of a lease).

Never sign a lease without making sure that you understand and agree with what it says. Pay special attention to the amount and due date of the monthly rent and the length of the rental period. Also, check to see whether you have the right to sublet the property if you want to move out before the lease expires. To sublet is to have a person other than the original tenant take over the rental unit and payments for the remaining term of the lease. If you disagree with any of the terms of the lease, discuss those issues with the landlord before you sign the lease—not afterward. Sometimes landlords are willing to negotiate changes to the document.

A lease is designed to protect the rights of both the landlord and the tenant. The tenant is usually protected from rent increases during the lease term. In most states, the tenant cannot be locked out or forced to move without a court hearing. However, the lease gives the landlord the right to take legal action against a tenant who does not pay his or her rent or who damages the property.
Figure 7.4  A Typical Lease Agreement

Description of the property, including its address

Names of owners and tenants

Dates during which the lease is valid

Amount of the security deposit

Amount and due date of monthly rent and penalties for late payment

List of restrictions regarding pets, remodeling, activities, and so on

Tenant’s right to sublet the rental unit

Conditions under which the landlord may enter the apartment

Charges to the tenant for damage or for moving out of the unit early or refusing to pay rent

RENTAL AGREEMENT OF PROPERTY
- AT 4744 LEMONA STREET, EAST TROY, WISCONSIN 53120

Parties in agreement are Blanca Romero and April Shullman. Blanca Romero has rented the second floor apartment to be used as a private residence, for his or her (one person) use only and for no other purpose, for a term of six months.

The term of this agreement will be from June 1, 20--, to November 30, 20--, at which time another six-month agreement will be drawn.

The rent will be $650 per month. There will be a security deposit of one and one-half months’ rent, for a total of $975. The monies held as security will be held until such time that the tenant desires to move or until he/she is asked to vacate the premises. The security deposit along with any interest it accrues will be returned to the tenant, minus any monies held for repair of damages, rubbish removal, or cleaning to be done.

Rent will be due from the tenant on the first of each month and not later than five days after the first of each month. A late penalty of 5% of the monthly rent will be assessed for any rent not paid by the end of the five-day grace period.

The tenant is personally responsible for paying the monthly expenses, including electric, telephone, and cable service. These expenses are not included in any monthly rent payment.

The tenant was advised that there is to be NO SMOKING in the apartment, while he/she is in residence at this address.

There will be no pets allowed at any time in the apartment while he/she resides here.

If the tenant or landlord decides that the tenant must vacate the apartment, a thirty (30) day notice must be given before the first of the month.

The tenant may not sublease (rent to another person) this property without the landlord’s written permission.

The tenant must provide his/her own insurance on the contents of the apartment, such as furniture, jewelry, clothes, etc. The tenant will not hold the landlord or landlord’s agent responsible in the event of a loss.

The tenant agrees to let landlord enter property at reasonable hours to inspect or repair the property. Landlord will notify the tenant 24 hours in advance and give the time and reason for the visit.

This place of residence shall be occupied by no more than one (1) person.

At the expiration of tenancy, the tenant will surrender the premises to the landlord in as good condition as when received. The tenant will remove all rubbish from the premises. Failing to do so, the tenant will forfeit part of the security deposit in order for the landlord to pay for removal. If tenant breaks the lease for any reason, the landlord may keep the security deposit.

This agreement is between Blanca Romero and April Shullman. On this day, this agreement is signed by both parties.

Tenant Blanca Romero Date 6/1-- Landlord Date 6/1--

Making a Deal

A lease is a legal document extending protection to both tenant and landlord.

Which components of a lease are likely to be most negotiable?
The Cost of Renting
What are the factors affecting the cost of renting besides basic rent?

Several factors affect and determine the price of renting a home: location, living space, utilities, security deposit, and insurance.

Location

The amount of your monthly rent will depend on the location, or neighborhood, in which you choose to live (see Figure 7.5). You may decide that you are willing to live near the freeway if it costs less than living elsewhere. However, you may be willing to pay more for an apartment that is close to a park or work.

Living Space

The price of a rental unit will also depend on the amount of living space that you require. The least expensive choice might be a private room in a house, but you have to be willing to share common areas. Apartments, which are more expensive, often feature one to four bedrooms. Your most costly option might be to rent a townhouse or single-family house. You might consider living with one or more roommates to share expenses.

Figure 7.5 Finding and Living in Rental Housing

Step 1: The Search
- Choose a location and a price that fits your needs.
- Compare costs and features among possible rental units.
- Talk to people who live in the apartment complex or the neighborhood where the units are located.

Step 2: Before Signing a Lease
- Be sure that you understand and agree with all aspects of the lease.
- Note the condition of the rental unit in writing; have the unit’s owner sign it.

Step 3: Living in Rental Property
- Notify the owner of any necessary repairs.
- Respect the rights of neighbors.
- Obtain renters insurance to protect personal belongings.

Step 4: At the End of the Lease
- Leave the unit in good condition.
- Tell your landlord where to send your refunded security deposit.
- Ask that any deductions from your deposit be explained in writing.

Seeing Eye to Eye
Renting involves more than just finding a desirable apartment. How do these steps protect the rights of both tenant and landlord?
Utilities

You may also have to pay for utilities, such as electricity, gas, water, and trash. Before you sign a lease, be sure to ask your landlord if the rent payment includes any utilities.

Security Deposits

When you sign a lease, you may have to pay a security deposit, an amount of money paid to the owner of the property by a tenant to guard against any financial loss or damage that the tenant might cause. Security deposits usually equal one or two months’ rent.

When you move out, your landlord must return the security deposit, minus any charges for damage you may have caused or for any unpaid rent. Most states require landlords to return the security deposit within one month. In California, however, it must be returned within three weeks.

Renters Insurance

Another expense is renters insurance, a type of insurance that covers the loss of a tenant’s personal property as a result of damage or theft. Many tenants neglect to buy renters insurance, wrongly assuming that their possessions are covered by their landlord’s insurance. Most tenants who buy it find the cost worth the peace of mind it brings.

Section 7.2 Assessment

QUICK CHECK

1. What are the three main advantages of renting a residence?
2. What are the disadvantages of renting a residence.
3. What are the costs of renting a residence?

THINK CRITICALLY

4. Explain which types of apartments would best suit two friends who plan to become roommates.

USE MATH SKILLS

5. Sharing Costs Raji is currently paying $675 a month to rent a one-bedroom apartment. The cost of all utilities is included in the rent. However, he is thinking about renting a house with his friend Jon. The monthly rent on the house is $900. Utilities will be $300 a month. Raji and Jon have agreed to split all costs evenly.

   Calculate How much would the move save or cost Raji each month and over the course of a year?

SOLVE MONEY PROBLEMS

6. Lease Terms Jaycee is a college student who has a small apartment for which she pays $450 a month in rent. The lease she signed in August specified that no pets were allowed. However, while visiting her parents over winter break, Jaycee found a stray cat, and she would like to keep it.

   Analyze What options does Jaycee have? Consider all possibilities and rank them from most to least desirable.
Chapter 7
The Finances of Housing

Buying and Selling a Home

The Home-Buying Process

How do you buy a home?

Many people dream of owning a home. Buying a home, however, is a huge financial commitment. It will probably be the most costly purchase you will ever make. There are a number of steps that you will need to take to purchase a home. You will need to determine your home ownership needs, find and evaluate a property to purchase, price the property, obtain financing, and close the transaction.

STEP 1: Determine Your Home Ownership Needs

What are some of the benefits and drawbacks of owning a home?

To make an informed decision about whether to buy a home, you will need to consider the benefits and drawbacks of ownership. You will also need to consider the types of homes that are available and how much you can afford to spend.

Owning Your Residence: Benefits

While renters may be attracted to the idea of mobility, homeowners may enjoy a sense of stability and permanence. Home ownership also allows individual expression. You have more freedom to decorate and change your own home and to have pets. Many people find this type of flexibility very appealing.

As a homeowner, you will also gain financial benefits. You can deduct the interest charges on your loan payments from your federal income taxes each year. Your property taxes are also deductible. Moreover, the value of many homes rises steadily. Therefore, homeowners can usually sell their homes for a profit, depending on their equity, which is the value of the home less the amount still owed on the money borrowed to purchase it. In addition, once the borrowed money is paid off, homeowners have no further payments to make other than property taxes, homeowners insurance, and maintenance costs.

Focus on Reading

Read to Learn

• How to identify the advantages and disadvantages of owning a residence.
• How to explain how to evaluate a property.
• How to discuss the financing involved in purchasing a home.
• How to describe a plan for selling a home.

Main Idea

Understanding the processes involved with homeownership is necessary when you buy or sell a home.

Key Terms

• equity
• escrow account
• private mortgage insurance (PMI)
• mortgage
• points
• amortization
• fixed-rate mortgage
• adjustable-rate mortgage (ARM)
• home equity loan
• refinance
• closing
• title insurance
• deed
• appraisal
Owning Your Residence: Drawbacks

Of course, buying a home does not guarantee happiness. Home ownership can involve financial risk. Saving money for a down payment to buy a home is very difficult for many people. Moreover, the tax deductions may not make up for high loan payments. Property values do not always go up; in some cases, they may even decline.

A second drawback is limited mobility. A homeowner who wants to move must either sell his or her property or arrange to rent it to tenants. These processes can be slow and may result in financial loss.

Owning a home can involve high expenses. Homeowners must pay for all maintenance and repairs, such as fixing a leaky roof, clearing out a flooded basement, putting up new wallpaper, and replacing or repairing broken appliances. The cost of taking good care of a home can be quite high, even if homeowners do most of the work themselves.

Types of Housing

Homes come in all shapes and sizes, providing housing alternatives for a range of budgets and lifestyles.

Single-Family Dwellings The most popular type of housing in the United States is the single-family house. A single-family house usually stands on a separate lot with a lawn and some outdoor living space. The home is not attached to any other buildings. Because a single-family dwelling provides the most privacy of any type of housing, it is often the most expensive.
**Multiunit Dwellings**  This category of housing includes duplexes and townhouses. A duplex is a single building divided into living spaces for two families—or two units. A building divided into three units is a triplex. A townhouse is one of many single-family units attached to other units. For these types of housing, each unit has its own outside entrance.

**Condominiums**  A condominium is one of a group of apartments or townhouses that people own instead of rent. Condominium owners pay a monthly fee to cover the cost of maintenance, repairs, improvements, and insurance for the building and its common spaces. The unit owners form a condominium association, which manages the housing complex. Common spaces, such as hallways, lawns, elevators, and recreational areas, belong to the association, not to individual owners.

**Cooperative Housing**  Cooperative housing is another apartment-style living arrangement in which a building that contains a number of units is owned by a nonprofit organization. Members of the organization do not actually own the property. Members pay a monthly fee which covers their rent and the operating expenses of the organization.

**Prefabricated Homes**  Prefabricated houses are manufactured and partially assembled at a factory. The pieces are then transported to a building site and put together there. Prefabricated homes are often cheaper than other single-family houses because the mass production of their pieces and partial assembly at the factory help keep costs down.

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**OPTIONS TO BUY**

Attractively designed prefabricated homes are a less costly alternative for housing. *Who might be interested in purchasing these homes? Why?*
Mobile Homes  Another type of manufactured home is known as a mobile home. Most mobile homes are not truly mobile because they are rarely moved from their original sites. Mobile homes are fully assembled in factories. They contain many of the features of larger houses, such as fully equipped kitchens, bathrooms, and even fireplaces. Some mobile-home owners purchase the land on which their houses are located. Spaces can also be rented in mobile-home parks where access to community recreation facilities is often included.

Compared with other housing choices, mobile homes are relatively inexpensive. However, they are not as well constructed or as safe as many other types of housing, and they usually do not increase in value at the same rate as single-family houses do.

Affordability and Your Needs

Selecting a type of dwelling is only one part of determining your home ownership needs. You will also need to consider the price of a home, its size, and its quality.

Price and Down Payment  To determine how much you can afford to spend on a home, you will need to examine your income, your savings, and your current living expenses. Can you afford to make a large down payment when you buy a home? A down payment is a portion of the total cost of an item that is required at the time of purchase. You will need to make monthly payments on a loan, pay property taxes, and buy homeowners insurance. The exact amounts will depend on interest rates and local economic conditions. Is your income enough to cover these costs as well as other current expenses?

Before you look for the home of your dreams, it is smart to know exactly what you can afford to pay. To determine how much you can afford to spend on a home and if you will be approved for a loan, talk to a loan officer at a mortgage company or other financial institution. Many companies and banks will prequalify loan applicants so that prospective home buyers will know in advance if they can get a mortgage loan. This service is usually provided without charge.

Size and Quality  Ideally, the home you buy will be big enough for your needs and will be in good condition. If you are a first-time buyer, though, you may not be able to get everything you want.

Trading Up  Most financial experts recommend buying what you can afford, even if you have to sacrifice the size and features you would love to have. As you advance in your career and your income increases, you may be able to “trade up” and purchase a home with some extra comforts. For example, eight years ago, Kanya bought a condominium that had only a tiny garden and one small bathroom. Last week she sold it, made a profit, and moved into a larger house, where she will be able to plant a vegetable and flower garden and enjoy the convenience of two full baths.

Furnishing Your First Apartment

1. Buy large items such as sofas and tables at thrift shops.
2. Shop for items such as kitchenware at discount stores.
3. Browse garage or moving sales to find great buys.
4. Ask friends and relatives if they want to get rid of household items they do not use.
5. Be creative: Make curtains from colorful sheets.
STEP 2: Find and Evaluate a Property to Purchase

Why is the location of your home important?

When you know what type of residence you would prefer and what you can afford, you will be able to start searching for a property to purchase.

Selecting a Location

The location of your home is very important. Ask yourself if you would rather live in a city, in the suburbs, or in a small-town or country setting. Perhaps you want a neighborhood with parks and trails that accommodate cyclists and runners. If you commute to work by bus, you will have to make sure that your house is close to the bus lines. The distance between home and work, the quality of the local school system, your interests and lifestyle, and other factors all help determine where you will want to live.

Careers in Finance

REAL ESTATE AGENT Carlos Garza
RealTime Real Estate, Inc.

Carlos has always had a knack for putting people at ease. This ability has proven very useful in his job as a real estate sales agent. Carlos is also very good at handling the complicated procedures involved in selling real estate. He sees his job as being a matchmaker between buyers and sellers. He works well with both sides, advising sellers on how to make homes more appealing to potential buyers and advising buyers on the suitability and value of the homes they visit. As a real estate agent, he relishes the challenge of making his clients happy and the satisfaction of closing a deal.

SKILLS: Sales, marketing, administration, time-management, communication, negotiation, math, and legal skills

PERSONAL TRAITS: Personable, highly disciplined, persistent, trustworthy, and self-starting

EDUCATION: High school diploma or equivalent; training through a real estate company or organization; and state license

ANALYZE If you were looking for a home to buy, what qualities, in addition to trustworthiness, would you look for in a real estate agent?

To learn more about career paths for real estate agents, visit finance07.glencoe.com.
Investigate: Calculating a Mortgage Payment
A worksheet to calculate an affordable mortgage payment contains the following information:
- Your monthly income
- Your monthly expenses
- Difference between your monthly income and expenses

Your Motive: You may not realize all of the expenses you incur each month. Therefore, when considering purchasing a home, you must carefully calculate your cash flow to be sure you are not overestimating your ability to pay for expenses.

Key Points: A mortgage payment for a house is usually the single largest monthly expense you will incur. It is important that you are able to pay it each month. By determining your monthly income and expenses, you will be able to calculate how much you can afford to pay each month for a mortgage.

Find the Solutions
1. What are some other possible expenses?
2. Why are income taxes monthly expenses?
3. Does LeBron have enough money to cover monthly mortgage payments and closing and other costs?
4. Should LeBron spend all of the money he has left after paying his monthly expenses on a mortgage payment?
5. What expenses would you be willing to cut if your mortgage payment was $1,500 per month? Why?
Local Zoning Laws  Some communities have strict zoning laws, which are regulations that limit how property in a given area can be used. The existence of such laws may also affect your housing decisions. William wanted to live in an all-residential area, so he bought a duplex in a neighborhood where local zoning laws ban any commercial construction of stores or business buildings. In contrast, Alicia bought a condominium in a much less restrictive community because she wanted to be able to walk to nearby restaurants and businesses.

Hiring a Real Estate Agent

Real estate agents are people who arrange the sale and purchase of homes as well as other buildings and land. They are good sources of information about the location, availability, prices, and quality of homes. Potential home buyers often use real estate agents to help them find housing. The agents can also negotiate the purchase price between buyer and seller. They help buyers arrange financing for the purchase, and they can recommend lawyers, insurance agents, and home inspectors to serve the buyers’ needs.

Real estate services are usually free to the buyer. The agents may represent the sellers, who pay them a commission of 3 to 6 percent when the property is sold. Some real estate agents also represent buyers. In this case, the agent may be paid by either the buyer or the seller.

Conducting a Home Inspection

Before you make a final decision to buy property, it is important to get an evaluation of the house and land by a qualified home inspector. (See Figure 7.6 on page 216.) When Josh Samuels called in a home inspector to check the house he wanted to buy, the inspector found cracks in the foundation, an overloaded electrical system, and problems with the water quality. Josh still wanted the house, and he was able to negotiate a lower price because he had the inspector’s report. A home inspection costs money, but it can save you from problems and unplanned expenses in the future.

Some states, cities, and lenders require inspection documents. The mortgage company will usually conduct an appraisal to determine the fair market value of the property. An appraisal is not a detailed inspection. It is an estimation of the value of the property usually in comparison with other similar properties that have recently sold in the particular area.

STEP 3: Price the Property

What price should you offer to pay?

After you have checked out the property as thoroughly as possible, it is time to consider making an offer to the current owner. This is usually done through a real estate agent, unless the owner is acting as his or her own agent.
Taking steps to evaluate a home before you buy it may save you unplanned expenses and disappointments later.

The Exterior  The buyer does a “walk-through” of the neighborhood to check the condition of streets and sidewalks. It is also important to check the exterior features of the home.

The Interior  The buyer looks at the interior design of the home to be sure that it will meet his or her needs.

Professional Home Inspection  The buyer hires a home inspector who checks the exterior: windows, foundation, chimney, and roof. The home inspector will also look at the interior construction: wiring, plumbing, heating system, walls, and floors.

Inspection Report  The buyer reviews the home inspector’s report to decide whether this is the right home to buy.
Determining the Price of the Home

Every home that is for sale has a listing price—the price that the owner is asking for it. That price is not necessarily the price you will pay, however. You are free to make a lower offer. What should you offer? Here are some questions to consider:

- How long has the home been on the market? If a home is on the market for a while, the owner may accept a lower price.
- What have similar homes in the neighborhood sold for recently? If a listing price is too high, you should offer less.
- How tight is the housing market? In a “seller’s market,” homes are in high demand, and sellers can get the highest prices. In a “buyer’s market,” there is an abundant supply of homes for sale, and buyers can pay lower prices.
- Do the current owners need to sell in a hurry? If so, they may be willing to accept less than they feel the home is worth.
- How well does the home meet your needs? If a home fits your needs, you may be willing to pay more.
- How easily can you arrange financing? If interest rates are high, your payment will be higher.

Negotiating the Purchase Price

Once you have decided on a reasonable amount to offer, the real estate agent will communicate it to the seller, who may either accept or reject it. If your offer is accepted, congratulations! You will soon have a new home—and at a price you are willing to pay.

Sometimes the seller will not accept your offer if it is below the listing price. In that case, you will have to make a second, higher offer, or start looking for a different home. A seller may also make a counteroffer in response to your bid. Making a counteroffer means dropping the asking price. For example, Jian Wang offered $178,900 for a condominium that was listed at $186,000. The sellers rejected his offer but made a counteroffer of $184,500. Jian thought that the price was still too high, so he submitted a bid of $182,000. They eventually settled on a purchase price of $183,000.

When the buyer and seller agree on a price, they must sign a purchase agreement, or purchase contract, that states their intention to complete the sale. Most purchase contracts are conditional; that is, they take effect only if certain other events occur. For example, the contract may be valid only if the buyers can obtain financing, or only if they can sell their current home in a specified period of time.

At this point in the process, the buyer sometimes must pay the seller a portion of the purchase price, called earnest money. This money shows that the offer is serious. It is held in an escrow account until the sale is completed. An escrow account is an account where money is held in trust until it can be delivered to a designated party. The earnest money is applied toward the down payment.
STEP 4: Obtain Financing
What are the costs involved in purchasing property?

After you have decided to purchase a specific home and have agreed on a price, you will have to think about how you will pay for your purchase. First, you will have to come up with money for the down payment. Next, you will probably have to get a loan to help pay for the remainder of the purchase price. Finally, you will be responsible for fees and other expenses related to the settlement of the real estate transaction.

Determining Amount of Down Payment

As a general rule, the greater the portion of the total purchase price you can pay up front, the easier it will be to obtain a loan. Many lenders suggest that you put 20 percent or more of the purchase price as a down payment. For example, if the purchase price of the house is $100,000, you would need to make a down payment of $20,000. The most common sources of funds for down payments are personal savings accounts, sales of investments or other assets, or gifts or loans from relatives.

Private Mortgage Insurance

Lenders might accept lower down payments. However, if the down payment is less than 20 percent of the purchase price, some lenders will require you to obtain private mortgage insurance. Private mortgage insurance (PMI) is a special policy that protects the lender in case the buyer cannot make payments or cannot make them on time. Sometimes buyers will pay the cost of PMI up front, and sometimes they will agree to spread the cost over the life of the loan. When the borrower has paid between 20 to 25 percent of the purchase price, the insurance can be dropped.

Qualifying for a Mortgage

A mortgage is a long-term loan extended to someone who buys property. The buyer borrows money from a bank, credit union, savings and loan association, or mortgage company, which pays the full amount of the loan to the seller. In return, the buyer makes monthly payments to the lender. These monthly payments are usually made over a period of 15, 20, or 30 years. The home you buy serves as collateral, a type of guarantee that the loan will be repaid. If you fail to repay the mortgage or make regular payments, the lender can foreclose, or take possession of the property.

Financial Qualifications

To take out a mortgage, you need to meet certain criteria, just as you would to qualify for any other type of loan. Lenders look at your income, your debts, and your savings to decide whether you are a good risk. These figures are put into a formula to determine how much you can afford to pay.
Interest Rate Factors  The size of your mortgage will also depend on the current interest rate. The higher the rate, the more you will need to pay in interest each month. That means that less of your money will be available to pay off the purchase price. When interest rates rise, fewer people are able to afford the cost of an average-priced home. In contrast, low rates increase the size of the loan that you can receive.

For example, Bernadette qualifies for a monthly mortgage payment of $700. If interest rates are 7 percent, she will be able to take out a 30-year loan of $105,215. However, if interest rates increase to 12 percent, she will qualify for a 30-year loan of only $68,053. Both of these loans will carry the same monthly payment of $700. The differences can be quite surprising.

Paying Points

Different lenders may offer slightly different interest rates for mortgages. In addition, when you compare the cost of doing business with various lenders, you will have to consider other factors. If you want a lower interest rate, you may have to pay a higher down payment and points—extra charges that must be paid by the buyer to the lender in order to get a lower interest rate. Each point equals 1 percent of the loan amount. For example, suppose that a bank offers you a $100,000 mortgage with two points, or 2 percent. Since 2 percent of $100,000 is $2,000, you will have to pay an extra $2,000 when you get the loan to purchase your home.

\textbf{THE TEST} Applying for a loan requires paperwork that will be examined by the lender to determine your eligibility for the loan. \textit{Why is this process so important to the lender?}
Comparing Points  How does a high interest rate with no points compare to a low interest rate with points? A lower interest rate results in a lower monthly payment, but you pay more money up front.

If you keep your home for only a short time, you may lose money with the lower rate because the monthly savings will not add up to what you had to pay in points. If you keep the home for several years, however, your monthly savings will eventually make up for what you paid in points. As a rule, the longer you keep the home, the better off you are when paying the points in exchange for a lower interest rate.
The Loan Application Process

Most lenders charge home buyers a fee of between $100 and $300 to apply for a mortgage, which is added into the loan amount. To apply, the buyer must fill out forms, giving details of his or her income, employment, debts, and other information. The lender will verify this information by obtaining a buyer’s credit report.

After a careful examination of the buyer’s financial history and the size, location, and condition of the property, the lender decides to approve or deny the application. If it is approved, the purchase contract between seller and buyer becomes legally binding.

Types of Mortgages

How do the various types of mortgages differ?

For most people, a mortgage is the greatest financial obligation of their lives. There are several types of mortgages. Depending on the terms of the loan, a homeowner will have to make monthly payments for many years.

The monthly payments on a mortgage are set at a level that allows amortization of the loan. Amortization is the reduction of a loan balance through payments made over a period of time. So the balance is reduced every time you make a payment. The amount of your payment is applied first to the interest owed and then to the principal, which is the original amount you borrowed. In the first years of the loan, only a small part of each monthly payment goes to reduce the principal. Most goes toward paying off the interest. Near the end of the loan period, almost all of each payment goes toward reducing the principal. By the end of the loan period, both the interest and the principal will be completely paid off.

It is possible to pay off a mortgage early. Paying a little extra each month and applying that amount to the principal will save interest charges over the long run. For example, paying $25 extra a month on a 30-year, 10 percent mortgage of $75,000 will save more than $34,000 in interest charges—and will repay the loan in about 25 years. Some lenders charge an extra fee for prepaying.

Fixed-Rate Mortgages

A fixed-rate mortgage, or conventional mortgage, is a mortgage with a fixed interest rate and a fixed schedule of payments. A fixed rate is an interest rate that does not change. For example, if the interest rate is 8.75 percent when the loan is granted, the homeowner will continue to pay 8.75 percent throughout the life of the loan, even if interest rates for new loans rise. Conventional mortgages typically run for a period of 15, 20, or 30 years. They offer peace of mind because monthly payments always remain the same.
Adjustable-Rate Mortgages

Fixed-rate loans guarantee a particular interest rate for the life of the loan. An **adjustable-rate mortgage (ARM)**, also known as a variable-payment mortgage, is a mortgage with an interest rate that increases or decreases during the life of the loan. The rate changes according to economic indicators, such as rates on U.S. Treasury securities, the Federal Home Loan Bank Board’s mortgage rate index, or the lender’s own cost-of-funds index. As a result, your loan payments may go up or down.

Your rates will change according to the terms of your agreement with the lender. Generally, if interest rates decline and stay low, an ARM will save you substantial amounts of money. However, if rates increase and stay high, an ARM may cost you a lot of money because your monthly payment will go up.

**Evaluating Adjustable-Rate Mortgages** Consider several factors when you evaluate adjustable-rate mortgages:

1. Determine the frequency of and restrictions on allowed changes in interest rates.
2. Consider the frequency of and restrictions on changes in the monthly payment.
3. Find out what index the lender will use to set the mortgage interest rate over the term of the loan.

**Rate Caps** Most adjustable-rate mortgages have a rate cap, which limits the amount the interest rate can rise or fall. Rate caps generally limit increases (or decreases) of the interest rate to one or two percentage points in a year—or no more than five points over the life of the loan.

Some ARMs also carry payment caps, which limit the size of monthly payments. That may seem like good protection for the buyer, but it has drawbacks. When interest rates rise while monthly payments remain the same, the payments will not cover the interest. As a result, the loan balance increases, and payments may have to be extended over a longer time.

**Convertible ARMs** Some lenders also offer convertible ARMs. Convertible ARMs permit a borrower to convert, or change, an adjustable-rate mortgage to a fixed-rate mortgage during a certain period of time. If you decide to make the change, your interest rate will be 0.25 to 0.50 percent higher than current rates for conventional 30-year mortgages. You will also have to pay a conversion fee, which is usually $500 or less.

**Government Financing Programs** The Federal Housing Administration (FHA) and the Veterans Administration (VA) help home buyers obtain low-interest, low-down-payment loans. VA loans are available to eligible veterans of the armed services. These government agencies do not actually lend the money. Instead, they help qualified buyers arrange for loans from regular lenders.
Typically, an agency guarantees repayment to the lender if the borrower defaults, or is unable to make payments. As a result, many government-guaranteed loans have lower interest rates. Although extra insurance fees may be added on to these loans, government-backed mortgages are a good deal for those who qualify for them.

**Home Equity Loans**

A second mortgage is also called a **home equity loan**, which is a loan based on the difference between the current market value of a home and the amount the borrower owes on the mortgage. To determine the amount of this type of loan, the financial institution will find out the current market value of a home and how much equity is in the property. Such loans can provide money for education, home improvements, or other purposes. However, some states limit the ways in which the money may be used.

Second mortgages are one source of extra cash for homeowners. However, taking out additional loans can keep a homeowner continually in debt. Also, if the borrower cannot make the payments on a second mortgage, the lender can take the home. For more information on home equity loans, see Chapter 19.

**Refinancing**

Many homeowners need extra money or want to reduce their monthly payments. These options are possible when they **refinance**, which is obtaining a new mortgage to replace an existing one. For example, Esther Aquino originally took out a fixed-rate mortgage at 11 percent interest, and then watched interest rates fall to 6 percent. Fortunately, she was able to refinance her home, and take out a new mortgage at the lower 6 percent interest rate. In Esther’s case, her monthly payment decreased considerably.

Refinancing is not always a good choice. To refinance, a homeowner usually pays extra fees, which may reduce any savings from a small drop in interest rates. Moreover, refinancing may extend the life of a loan. In general, refinancing is an advantage when the interest rate drops two or more points below the current rate and when the owner plans to stay in his or her present home for at least two or more years.

**STEP 5: Close the Transaction**

**What are closing costs?**

The final step in the home-buying process is the **closing**, a meeting of the seller, the buyer, and the lender of funds, or representatives of each party, to complete the transaction. At the closing, documents are signed, last-minute details are settled, and money is paid. The seller and buyer must also pay a number of fees and charges, which are **closing costs**.
Closing Costs

Most closing costs involve the legal details related to purchasing a home. For example, a title company researches the property to make sure that no disputes exist over its ownership or that there are no unpaid real estate taxes for the property. The title company also offers title insurance, a type of insurance that protects the buyer if problems with the title are found later.

Another typical closing cost is a fee for recording the deed, which is the official document transferring ownership from seller to buyer. Buyers also pay for private mortgage insurance, which protects the lender from any loss resulting from default on the loan. See Figure 7.7 for a list of other common closing costs.

Escrow Account

After the closing, your lender might require that you deposit money into an escrow account. The money, usually held by the lender, is set aside to pay for taxes and insurance. The lender does not have to worry whether the borrower is paying these obligations because the money is available. See Figure 7.8 for a list of home-buying issues.

Taxes and Insurance

Homeowners must pay property taxes and homeowners insurance in addition to their mortgage payments. In most states, property taxes generally cover the cost of public services, such as police and fire protection, schools, and street repair. Homeowners insurance protects the lender’s investment in case of damage to the home from fire or other hazards.
Selling a Home

What can an owner do to his or her home to get the best selling price?

As your needs change, you may decide to sell your home. You will have to get it ready for the market, set a price, and decide whether to sell it on your own or get professional help from a real estate agent.

Preparing a Home for Selling

The nicer your home looks, the faster it will sell at the price you want. Real estate salespeople recommend that homeowners make needed repairs and paint worn exterior and interior areas when preparing a home for selling. For example, Dora and Dennis Muldoon repainted several rooms, replaced some light fixtures, and changed the living room carpet before they put their house on the market. They kept the house as clean, neat, bright, and airy as possible while prospective buyers were visiting. They also made sure that the lawn was cut regularly and that their children did not leave toys in the yard. Their work paid off: They sold their home within a few months of listing their home.
Determining the Selling Price

Setting a price on a home can be difficult. A price that is too high may scare off potential buyers. Setting the price too low will result in lost profit. Some sellers will pay for an appraisal—an estimate of the current value of the property—and use that as a basis for a listing price. If you ever sell a home, find out whether the current market and demand for housing favors buyers or sellers. Then decide how quickly you need to sell your home and evaluate any improvements you have made to the property. Adding certain features—such as a deck or an extra bathroom—can increase a home’s value.

Choosing a Real Estate Agent

Many sellers put the sale of their home into the hands of a licensed real estate agent who is affiliated with an agency. There is a wide choice of firms, from small local real estate agencies to nationally known companies. When choosing an agent, pick someone who knows your neighborhood and is eager to sell your home.

Real Estate Agent Services Real estate agents provide various services. They can help determine a selling price, attract buyers, show your home, and handle the financial aspects of the sale.
They are paid a commission, or fee, upon the sale of a home—usually 5 to 7 percent of the purchase price.

**Sale by Owner**

Each year about 10 percent of home sales are made directly by homeowners without the help of real estate agents. Selling your home yourself can save you thousands of dollars, but it will cost you time and energy. Advertising the home will be up to you. Showing the home to prospective buyers will also be your responsibility. Be sure to use the services of a lawyer or a title company to help you with the contract, closing, and other legal matters.

**Making Choices**

Your housing decisions will be affected by many factors, including your lifestyle and financial situation. By carefully reviewing your options, making educated decisions, and following the appropriate processes, you will make the best housing choice to suit your needs.

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### Section 7.3 Assessment

**QUICK CHECK**

1. What are five steps that make up the process of buying a home?
2. What costs are associated with buying a home?
3. What activities are associated with selling a home?

**THINK CRITICALLY**

4. State three reasons you should carefully inspect the property you plan to purchase.

**USE COMMUNICATION SKILLS**

5. **Owner Obligations** Imagine that you are a condominium owner attending a meeting of the condominium association. What should the association do about a homeowner who leaves garbage in the hallway? Should the association limit the use of the pool and tennis courts to owners?

**SOLVE MONEY PROBLEMS**

6. **Making an Offer** After several weeks of searching for a new home, Renée has found a house that seems to be in good shape and is located in a nice neighborhood. The listing price is $125,000, which is about $15,000 more than she wants to pay. She would like to make a lower bid, but the housing market is tight, and she worries that someone else may buy the house at the listing price. Renée wonders what she should do.

**Write About It** Write a paragraph answering one of the questions.
• Renting tends to be less expensive than buying and offers more flexibility. Home ownership offers stability, financial benefits, and increased value over time.
• Renting a residence has the advantages of mobility, few maintenance responsibilities, and relatively low initial costs. Disadvantages include rent increases, few tax benefits, and restricted activities.
• The cost of renting is affected by the neighborhood, space, monthly rent, security deposit, and renters insurance.
• Advantages of owning a residence include stability, individual expression, tax benefits, and increased value.

Disadvantages include financial risk, the possibility of value not increasing, limited mobility, and high expenses.
• When evaluating property, walk through the neighborhood, check the home exterior and interior, and get a home inspection.
• A down payment is needed to purchase a home. Then a buyer must get a long-term loan, or mortgage, to pay for the remaining purchase price. Closing costs must also be paid.
• To sell a home, decide whether to use a real estate agent, prepare the home, set a fair price, and keep the home neat and clean.

Communicating Key Terms
With a partner, role-play a real estate agent and a client discussing preparations for closing on a house. Write a script of the conversation you would have, using most of the terms below.

- mobility
- tenant
- landlord
- lease
- security deposit
- renters insurance
- equity
- escrow account
- private mortgage insurance (PMI)
- mortgage
- points
- amortization
- fixed-rate mortgage
- adjustable-rate mortgage (ARM)
- home equity loan
- refinance
- closing
- title insurance
- deed
- appraisal

Reviewing Key Concepts
1. Evaluate the various housing alternatives that are available.
2. List the advantages and disadvantages of renting.
3. Identify the costs of renting.
4. List the advantages and disadvantages of owning a residence.
5. Explain how to evaluate a property.
6. Discuss the financing involved in purchasing a home.
7. Describe a plan for selling a home.
Choosing Prices  Imagine that you want to purchase a home and you have narrowed your choice down to three different houses. The prices for the houses are: House #1—$165,000; House #2—$151,000; House #3—$172,000.

1. Calculate the monthly mortgage payment for each home, assuming that there will be a 10 percent down payment and a 30-year mortgage with a simple interest rate of 5.2 percent.

2. Compute by going to the Web site of a real estate company or bank to find current interest rates and monthly payments.

Connect with Math  Today it is possible to buy a home without making a down payment. This is called a 100 percent mortgage. It is available to people with good credit scores and usually requires private mortgage insurance and slightly higher interest on the overall loan.

1. Research Use an Internet search engine to find a financial institution that offers 100 percent mortgages.

2. Think Critically For whom would a 100 percent mortgage be a good deal?

Selling a Home  Your neighbors are thinking of selling their two-bedroom home in the suburbs and moving to a two-bedroom condominium. Help them make this decision.

Log On Use an Internet search engine to find local real estate Web sites. Answer these questions:

1. What is the average asking price of a two-bedroom home in your neighborhood or nearby?

2. Based on the prices you find, would you advise a neighbor to sell this type of home? Why or why not?

Newsclip: Low Interest Rates  Home prices have been on the rise since 2000, driven by low interest rates that make mortgages affordable.

Log On Go to finance07.glencoe.com and open Chapter 7. Learn more about the different types of mortgages available. How is buying a home different today? Write a list of answers.
WHERE WOULD YOU LIKE TO LIVE?

There are many factors that will help you decide where to live. These factors may change over the next few years. As you look into your housing options, you will need to consider your lifestyle, family situation, finances, and future plans. Here is a quick quiz to test your preferences. Write your answers on a separate sheet of paper.

1. I do not care about having a yard.
   - True
   - False

2. My income varies right now.
   - True
   - False

3. I never want to own a house or a condominium.
   - True
   - False

4. I need to be able to move at any time.
   - True
   - False

5. I want to keep my expenses as low as possible.
   - True
   - False

6. I do not want to be responsible for repairs and upkeep.
   - True
   - False

7. I do not plan to have a family for a while.
   - True
   - False

**Scoring:** The more “true” answers you have, the better it is for you to rent an apartment and postpone house hunting until you are ready.
Renting or Buying Your Home

Atul and Elena have saved enough money to buy a townhouse and have found one they like, but they need to consider how much it will actually cost to live there. The rent on their apartment is $700 a month ($8,400 a year), and the townhouse costs $85,000. They will need to consider any additional costs.

Atul and Elena’s Dilemma

<table>
<thead>
<tr>
<th>Rental Costs</th>
<th></th>
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<tbody>
<tr>
<td>Annual rent payments</td>
<td>$8,400</td>
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<tr>
<td>Renters insurance</td>
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<tr>
<td><strong>Total annual cost of renting</strong></td>
<td><strong>$8,570</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Buying Costs</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Down payment (at 10%)</td>
<td>8,500</td>
</tr>
<tr>
<td>Annual mortgage payments</td>
<td>8,060</td>
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<tr>
<td>Property taxes (annual costs)</td>
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<td>Mortgage insurance (annual premium)</td>
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<tr>
<td>Homeowners insurance (annual premium)</td>
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<td>Estimated maintenance costs</td>
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<td><strong>Financial Benefits of Home Ownership</strong></td>
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<tr>
<td>Less: Tax savings for mortgage interest</td>
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<tr>
<td>Less: Tax savings for property taxes</td>
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<tr>
<td><strong>Total cost of buying first year</strong></td>
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<tr>
<td>Less: one-time down payment</td>
<td>–8,500</td>
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<tr>
<td>Estimated annual appreciation (4%)*</td>
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</tr>
<tr>
<td><strong>Total long-term annual cost of buying</strong></td>
<td><strong>$5,544</strong></td>
</tr>
</tbody>
</table>

*Nationwide average; actual appreciation varies by geographic area and economic conditions.

Atul and Elena compared the annual costs of renting ($8,570) and buying ($5,544) and decided that it would be a good investment to buy the townhouse.

Compare

On a separate sheet of paper, compare renting versus buying your place of residence. Check a newspaper for a rental price for a two-bedroom apartment and a selling price for a two-bedroom house. Use those figures to complete your comparison.
Home Ownership

Overview

Carrie Houston finished her associate in arts science degree at the local community college and is now working as a fashion designer for Outside Box Designs. Last year she married David Lanier, a high school computer science teacher and basketball coach. Carrie and David have many decisions to make as a married couple. One of their goals is to purchase a home within the next two years. Recently, Carrie and David met with a real estate agent and a banker. The real estate agent helped them think about the features and location they want for their future residence. The banker discussed mortgages and budgeting with the young couple. Both Carrie and David realize that they have a lot of research and planning ahead of them.

Procedures

The Process

Carrie and David’s combined income is $85,000 a year. Their banker told them that the most they should spend for a home is 2.5 times their annual income.

1. Determine the maximum amount that Carrie and David should spend on their future home.

2. Write a list of the features in the home. Then write a two-paragraph description of their future home and draw a picture of it.

3. Using the newspaper, real estate magazines, or the Internet, find an ad or listing for a home in their price range. You might look in different regions of the country to find different price ranges. Clip or print the ad or listing.

4. Request an amortization table from a local bank, or find one on the Internet. Determine Carrie and David’s monthly mortgage payment based on current interest rates.

5. Contact a homeowners insurance company and find out the cost of insuring the home.

6. Contact companies that provide electricity, gas, water, cable television, telephone, and trash pickup. Determine the installation fees, deposits, and monthly cost of each service for the home.

7. Using newspapers, catalogs, garage sale ads, the Internet, or other sources, furnish their home for $15,000. Provide a picture or a drawing of the items bought.

8. Prepare a budget for Carrie and David for their first year as homeowners. If possible, use a spreadsheet program.

Resources & Tools

- Crayons, markers, colored pencils
- Internet (optional)
- Newspapers and real estate magazines
- Portfolio (ring binder or file folder)
- Public or school library
- Spreadsheet software (optional)
- Word processor
**STEP B  Create Your Portfolio**

As you work through the process, save the results so that you can refer, review, and refine. Use a ring binder or a file folder to create a portfolio of your work.

1. The title of the binder or folder should be “Home Ownership.” Decorate the front of the binder or folder—and be creative.
2. Organize the results of Step A (2–8) in your binder or folder. If possible, use a word processor to ensure that your work is neat and easy to read.
3. Read a magazine article on one of the following topics: (1) buying your first home, (2) making home repairs, (3) decorating a home, or (4) landscaping a home. Present a summary of the article to the class.

**STEP C  Technical Writing and Reading**

Many workplaces need employees who are skilled in technical writing and reading. Technical writing is the process of communicating technical information in writing, clearly and accurately. To practice technical writing, complete activity 1 or activity 2 (below). Activity 3 will allow you to practice technical reading.

1. When Carrie and David are ready to purchase their home, they will have to decide which lender to use to obtain a mortgage. Write a technical paper (one or two pages) outlining the steps Carrie and David must take to choose a mortgage.
2. Carrie and David have decided to acquire a credit card. Write a technical paper (one or two pages) outlining the steps Carrie and David must take to choose a credit card.
3. Exchange technical writing papers with another student. Read your classmate’s paper and critique it for accuracy, completeness, punctuation, and grammar. Return each other’s papers.