

Chapter 7

Home Ownership vs Renting

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How much down payment do I need to buy a house?

About 20%



**What will be my monthly
payment on a \$80,000,
10%, 30 year loan?**

\$586.94



What will be my closing costs on this mortgage?

From \$2,000 to \$4,000



Are closing costs a part of the down payment?

No!



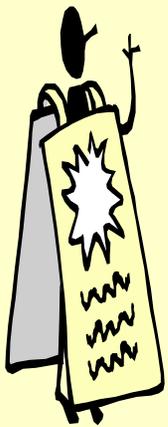
You will still
need about 20% for
a down payment

Examples of closing costs

- lawyer fees
- credit report
- appraisal
- house inspection
- title search
- title insurance
- survey of land
- flood certification
- broker's commission
- tax service fee
- termite inspection
- notary fee
- taxes
- points
- origination fee
- recording fee

What is mortgage insurance?

If your loan is greater than 80% of the value of the property you will have to pay mortgage insurance



Will I always have to pay mortgage insurance?

No!



When the loan reaches less than 80% of the home's value, you can cancel the mortgage insurance

Who is an appraiser?

A professional who is trained to determine the value of something



Do I need an appraiser?

A bank will only lend you money to cover a certain percent of what the house is worth on the market

What determines the value of a house?

Some factors are:

- location
- proximity to shopping, etc.
- size
- condition
- prices of other houses in area

Who is a home inspector?

A person who can
investigate the physical
condition of a house and
give recommendations

Do I need my house inspected?

The buyer of a house
will want to know if
the house is sound or
is in need of repairs

Why is a title search needed?

The seller of a house
must be the sole
owner and free and
clear of any liens

What is title insurance?

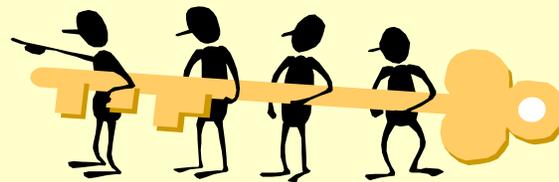
This will protect you from
any claims on the house
that did not surface during
a title search

Why is it important to have my land surveyed?

Before property can be sold the exact legal boundaries have to be determined

What are points?

Points are prepaid interest



Why should I pay points?

To buy yourself a
lower interest



When do I pay points?

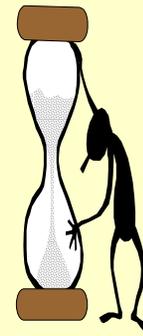
These points are paid at the time of closing of the loan

What is an origination fee?

An add on fee charged by the lending institution to cover the administrative costs of the loan

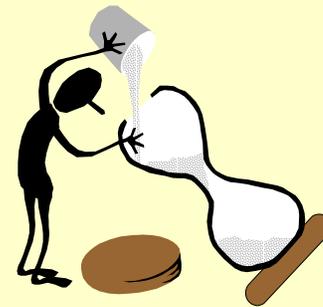
How much is an origination fee?

It is normally 1%
of the loan value



What is a seller's market?

A market whereby the
seller has the advantage
over the buyer



What can cause a seller's market?

This can happen if the seller has a desirable house without much competition

What is a buyer's market?

A market where the
buyer has the advantage
over the seller



What can cause a buyer's market?

This will happen there are a lot of other comparable houses for sale in the area



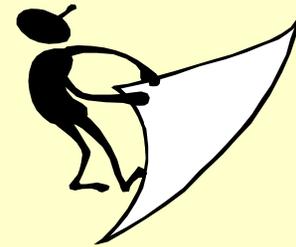
Will closing costs decline in a buyer's market?

Yes!



Both the seller and the bank will be willing to bargain in a buyer's market

What are advantages of buying a house?



- Any interest you pay is a tax deduction
- You always have the possibility of rental income
- There will be fewer restrictions on what you can and cannot do
- Equity is built up along with more long term security

What are the disadvantages of buying a house?



- The upfront costs are much more than if you were to rent
- You owe property taxes
- You are liable for all maintenance and repairs
- You have less mobility than if you were to rent

When is my house rental property?

If you rent your house for two years or more, the house is considered rental property



What's wrong with rental property?

The tax treatment on a private dwelling is much more favorable than on rental property

What is the disadvantage of rental property?

If you sell rental property you will have to pay a tax on any gain you made in the year you sell it

What is the advantage of a private dwelling?

When you sell a private dwelling, in most cases, there are no capital gains taxes

Are low monthly payments on a mortgage a good thing?

It is a good thing if you cannot afford a higher monthly payment



What is the disadvantage of a low monthly payment?

You will pay a lot more in interest for a longer time

What is the advantage of a 15 year loan?

You will pay a lower interest rate than with a longer term loan



What is the advantage of a fixed interest rate?

No matter what happens to interest rates, your interest rate will not change

What is the advantage of a variable interest rate?

The interest you pay will be lower than a fixed rate

What is the disadvantage of a variable interest rate?

The interest rate will increase if market rates increase



To what is a variable interest rate pegged?

- Five Year Treasury Security
- Prime Interest Rate
- London Inter-bank offering Rate (LIBOR)

Who should get a fixed rate?

The longer the loan, the
more advantageous a
fixed rate

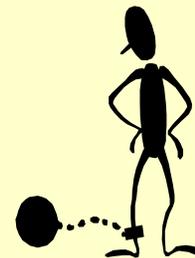
What is a cap?

With a variable interest rate loan, this is the highest interest rate you will ever pay



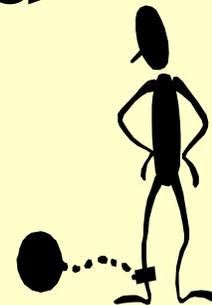
What is a balloon payment?

A bank can demand
full payment after a
set number of years



What is a teaser rate?

A low introductory interest rate that will increase after a set time period



What is a convertible ARM?

An adjustable rate that
can be converted
to a fixed rate loan



What is the disadvantage of an ARM?

The interest rate will be higher on a convertible loan than a non-adjustable loan

What is a graduated payment mortgage (GPM)?

A subsidized loan making possible lower payments in the early years



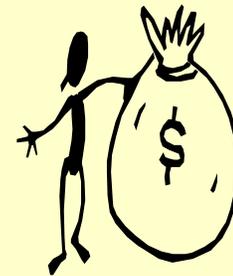
What is the disadvantage of a GPM?

Your indebtedness increases despite making monthly payments in the early years during the subsidy



What are government guaranteed loans?

Special low interest rate
loans reserved for
designated people



What are some examples of these special loans?

- Federal Housing Administration (FHA)
- Veterans Administration (VA)

What are points?

Points are prepaid interest on a mortgage loan



What is the advantage of paying points?

You are buying yourself a lower interest rate

When should I pay points?

The longer the term of
the loan, the more
advantageous a lower
interest rate

What things should I consider when shopping for a mortgage?

- % rate
- length
- payment
- fees
- points
- insurance
- penalties
- balloon payment
- index
- cap

What is a disclosure statement?

A document that makes a full disclosure of the condition of a house

What is a disclaimer?

Enables you to sell a house
as is without legal recourse



**Is a warranty good to have
when buying a new house?**

Warranties are limited
and difficult to enforce

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