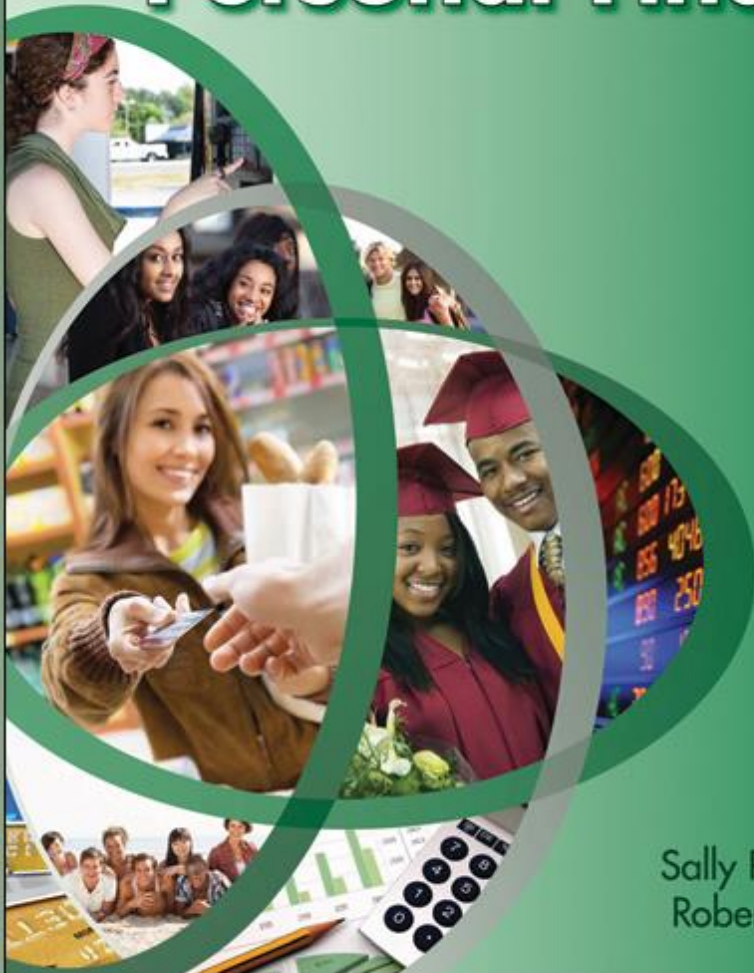


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Foundations of Personal Finance

Ninth Edition



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PowerPoint Presentations for

Foundations of Personal Finance

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Chapter 13

Home Ownership

Section 13.1

BUYING A HOME

Objectives

- Discuss important points to consider when buying a residence.
- Identify the steps in buying a home.

Terms

- real estate broker
- exclusive buyer agent
- purchase agreement
- earnest money
- contingency clause

Selecting a Home

- Custom-built homes are designed to meet the wishes of the homeowner
- Tract homes are neighborhoods of homes built from similar plans to keep costs down
- Modular and kit homes are partially built in factories, then moved in sections to the home site for completion

Selecting a Condominium, Landominium, Co-op, or Townhouse

- Are current residents satisfied with the management and building?
- Are major repairs anticipated and are funds available to cover the costs?
- What are the monthly maintenance fees and when/how it is increased?
- What control do occupants have over selling, remodeling, refinancing, renting, and pets?

Home Buying Process

- **Real estate broker** is licensed to arrange for the purchase and sale of real estate for a fee or commission
- **Exclusive buyer agent** works for the buyer, and not for the seller

Did You Know?

There is usually some negotiation between the seller and the buyer. Homebuyers usually do not pay the initial asking price.

Before Making an Offer

- Before making your offer, a real estate broker can research the prices paid for comparable homes in the area during the past three to six months
- There are many reasons to offer less than the asking price:
 - Repairs are needed
 - House has been on the market a long time
 - Comparable houses sold for less
 - Buyer is flexible about move-in date

Home Buying Process

- A **purchase agreement** is a contract between seller and buyer that includes real estate description, location, purchase price, possession date, and any other conditions
- **Earnest money** is a deposit a buyer makes when signing the purchase agreement
- **Contingency clause** calls for certain requirements to be met before the contract is binding (such as home inspection, financing, or appraisal conditions)

Home Inspection

- The buyer may hire a home inspector to examine the home for problems such as:
 - Foundation cracks
 - Leaky roof
 - Plumbing and electrical problems
 - Appliance condition
 - Termites
 - Mold
 - Lead or asbestos exposure

Review 13.1

- Why might a potential buyer pay for a home inspection?
 - To make sure the home does not have problems that could negatively affect the value or require costly repairs
- What is the name for the contract between the seller and buyer that includes real estate description, location, purchase price, possession date, and any other conditions?
 - Purchase agreement



Section 13.2

FINANCING A HOME

Objectives

- Explain how a mortgage amount is calculated.
- Describe different types of home mortgages.
- Identify various government sponsored financing programs.
- Describe how to shop for a mortgage.
- Explain the closing process.
- Identify ways to save money on a mortgage.

Terms

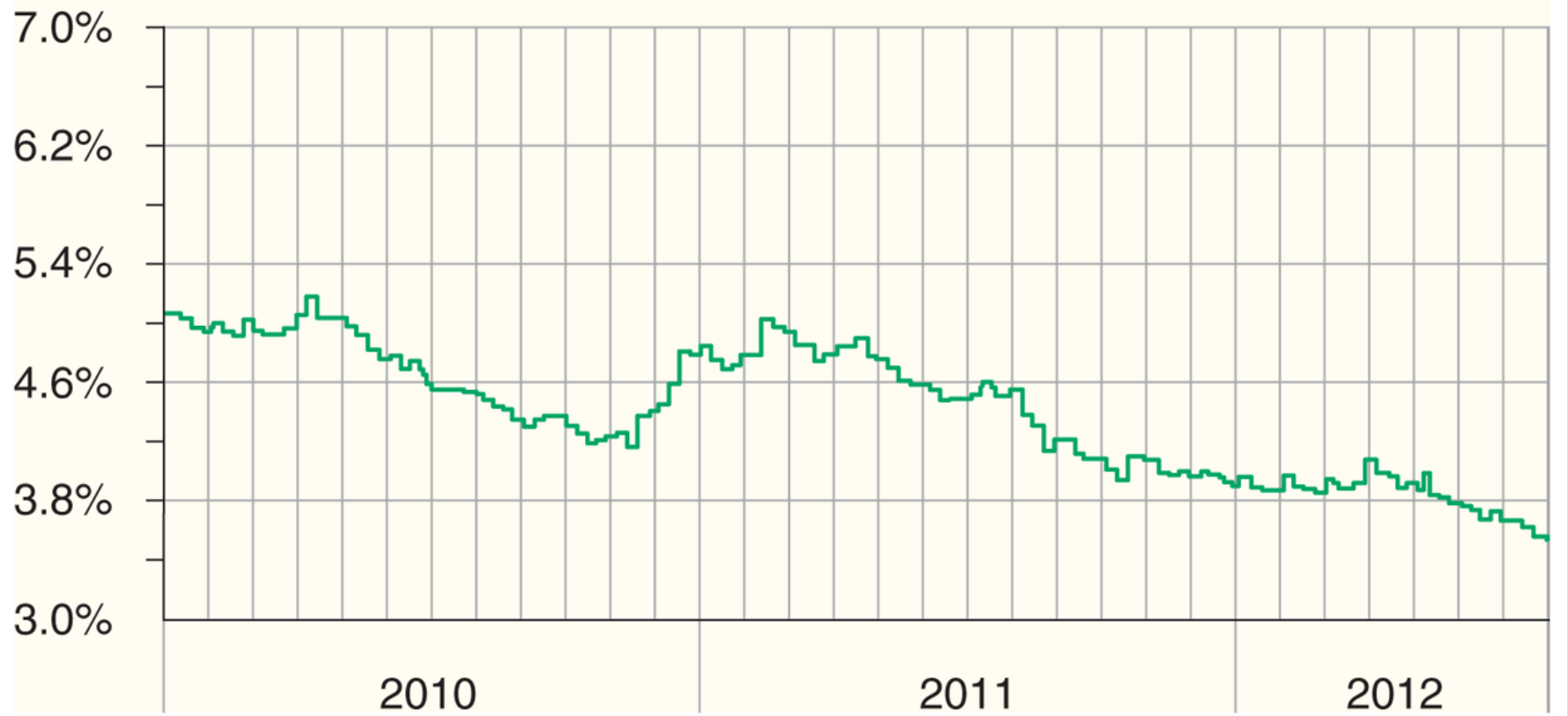
- mortgage
- amortization
- private mortgage insurance (PMI)
- escrow account
- fixed rate mortgage
- adjustable rate mortgage (ARM)
- graduated payment mortgage
- subprime mortgage
- home equity loan
- closing cost
- point
- property survey
- appraisal
- title
- title insurance

Home Mortgage

- A loan to purchase real estate is called a **mortgage**
- Mortgage calculators can help determine how much loan you can afford based on interest rates and the length of the mortgage

Home Mortgage (Continued)

Interest Rate Fluctuations



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Home Mortgage (Continued)

- **Amortization** is the process of paying the loan in equal monthly installments
- The amount of your monthly payment will depend on:
 - Size of mortgage
 - Down payment
 - Interest rate
 - Term of loan

Did You Know?

In the early part of your mortgage, your payments are applied largely to interest. In the later years of your mortgage, you will be paying an increasing amount of principal.

Home Mortgage (Continued)

- **Private mortgage insurance (PMI)** is required by lenders if your down payment is less than 20 percent of the purchase price
- An **escrow account** may be required by your lender to pay real estate taxes and property insurance premiums

Types of Mortgages

- A **fixed rate mortgage** carries an interest rate that does not change over the life of the loan
- An **adjustable rate mortgage (ARM)** carries interest rates that may increase or decrease periodically over the life of the loan
- A **graduated payment mortgage** allows the buyer to pay low monthly payments in early years of mortgage and higher payments in the future

Types of Mortgages (Continued)

Mortgage Rates

Term of Loan	Amount of Loan	Rate	Monthly Payment	Total Payments	Total Interest
30-Year	\$150,000	4.00%	\$716	\$257,805	\$107,805
15-Year	\$150,000	3.25%	\$1,054	\$189,721	\$39,721

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Types of Mortgages (Continued)

- **Subprime mortgages** charge higher than prime rates to borrowers with poor credit ratings who often do not qualify for mortgages from other lenders
- A **home equity loan**, also called a *second mortgage*, is a loan in which the buyer uses the equity in the home as collateral for the loan

Discussion

If you take out a home equity loan to purchase a new car, what is the collateral for the loan?

Closing

- The *closing date* is the deadline to finalize the sale of the home
- **Closing costs** are fees for services that must be paid before the sale is final

Closing Costs

- A **point** is the amount charged by lenders at closing and one point equals one percent of the mortgage
 - Most lenders charge one to four points
 - Lenders may charge points to negotiate interest rates
- **Property survey** is a map of the property to show size, boundaries, and property characteristics
- **Appraisal** is an appraiser's written estimate of the value of the real estate, required by lenders

Closing Costs (Continued)

- Title search
 - A **title** is a legal document that proves ownership of property
 - An *abstract of title* is a summary of the public records regarding the ownership of a property
 - The buyer should have an attorney or title insurance company review the abstract of title to be sure the seller is the legal owner and that the property is free of debts or title problems

Closing Costs (Continued)

- **Title insurance** is insurance that protects the buyer if problems arise with the title after purchase
- Recording the deed
- Credit report
- Loan application
- Real estate commission
- Attorney fees

Saving Money on Your Mortgage

- Avoid private mortgage insurance (PMI) by paying a 20 percent down payment
- Make an additional mortgage payment each year
- Pay additional amounts against the principal
- Refinance your mortgage if interest rates drop enough to save after considering the costs

Review 13.2

- Will the interest rate be lower on a 15-year mortgage, or on a 30-year mortgage?
 - 15-year mortgage
- What percent of monthly gross income do most lenders allow for mortgage, property tax, and home insurance payments?
 - Most allow 28 percent of gross monthly income