1 2 3 4 5 6 7 8 9 10 11 12

6

the BUYING issue

MONEY MATTERS

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Promote and provide education as the foundation of a productive society through scholarships and financial literacy programs.

Things that make you go hmmm….

RENTING
Renting can be better than buying

BUYING
Buying can be better than renting

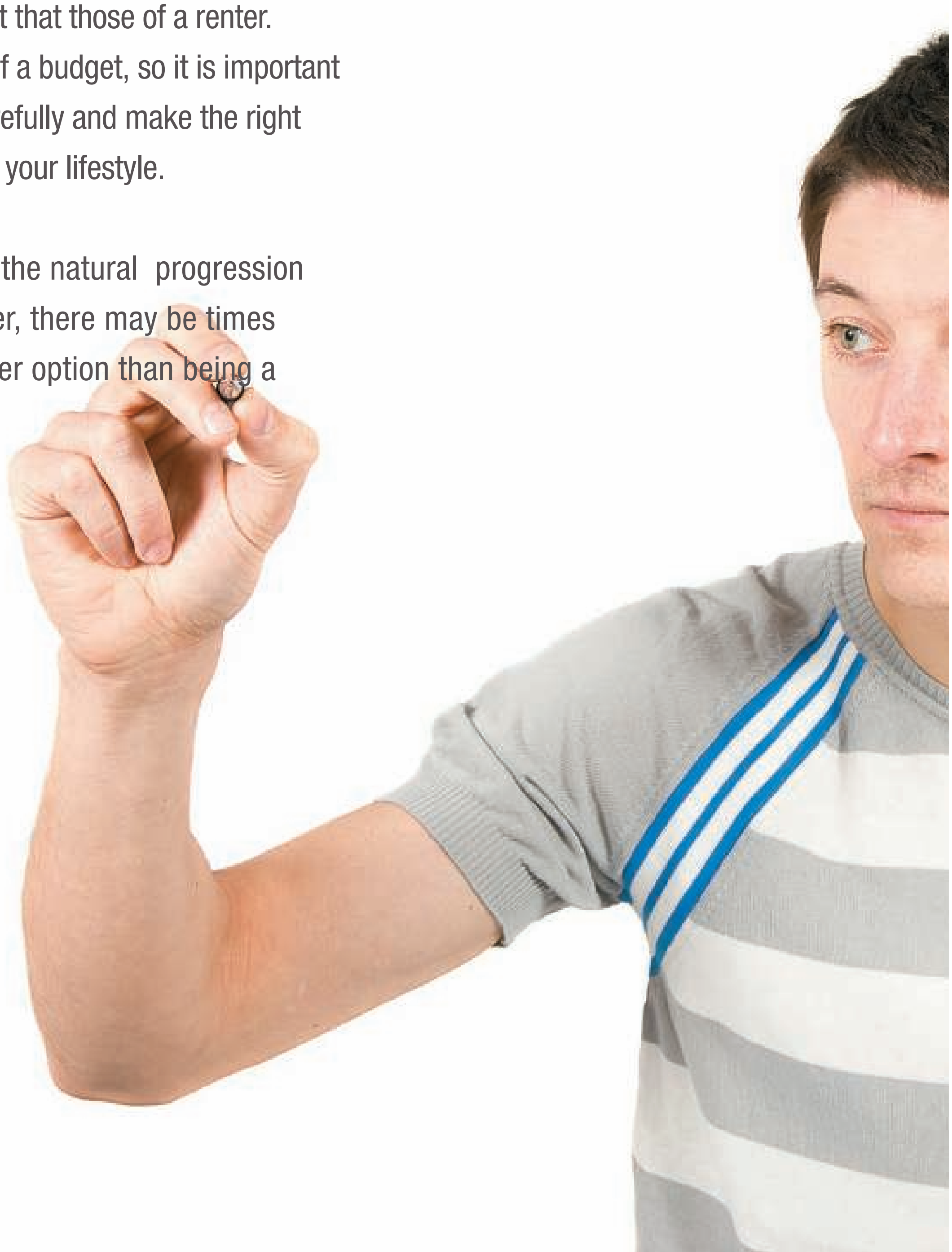
THE BUYING ISSUE

Table of Contents

INTRODUCTION

One difference between renting and buying is the destination of your payment; rent goes to a landlord, and house (mortgage) payments go to a bank or other mortgage lender. In addition, the responsibilities of a homeowner are vastly different that those of a renter. Housing is an expensive part of a budget, so it is important to weigh the money issues carefully and make the right decision to fit your budget and your lifestyle.

Buying a home seems to be the natural progression from renting a home; however, there may be times when being a renter is a better option than being a homeowner.



TERMS TO LEARN

Amortization Period
Gradual elimination of a liability, such as a mortgage, in regular payments over a specified period of time. Such payments must be sufficient to cover principal and interest.

ARM Loan (Adjustable Rate Mortgage Loan)
A type of mortgage loan in which the interest rate is not fixed; it fluctuates during the life of the loan as interest rate conditions change.

Borrower
Individual who applies for and receives funds in the form of a loan and is obligated to repay the loan in full under the terms of the loan.

Budget
An itemized summary of estimate income (earnings) and expenditures (spending) for a given period of time. It also referred to as a spending plan.

Closing
The final signing of mortgage documents and the payment of any associated down payment, costs, and fees.

Conventional Loan
A conventional loan is any type of mortgage that is not secured by a government-sponsored entity such as the Federal Housing Administration or the Department of Veterans Affairs. This is a very common loan for homebuyers.

Debt-to-Income Ratio
Indicator of current financial picture, calculated by dividing monthly debt payments by monthly gross income.

Default
Failure to repay a loan according to the terms. Foreclosure will be a result of defaulting on a mortgage loan. It will vary from state to state as to how soon the foreclosure process will go forward.

Deferment
Postponement of loan repayment allowed under certain conditions.

Down Payment
A partial payment made at the time of purchase with the balance to be paid later.

Equity
The money value of a business or property in excess of claims or liens against it.

Escrow
A financial instrument held by a third party on behalf of two parties in a transaction. The funds are held by the escrow service until it receives the appropriate written or oral instructions or until obligations have been fulfilled. Securities, funds and other assets can be held in escrow.

Escrow Account
An account from which a mortgage company typically pays property taxes and homeowners' insurance on behalf of the home or property owner.

FHA Loan
A government mortgage that is insured by the Federal Housing Administration (FHA).

Fixed Rate Mortgage
Property loan which maintains the same interest rate over the entire term of the loan.

Foreclosure
The legal proceeding in which a bank or other secured creditor sells or repossess a parcel of real property (immovable property) due to the owner's failure to comply with a loan repayment (default).

Good Faith Estimate
The Good Faith Estimate is the written estimate of the settlement costs that the borrower will likely have to pay at closing.

HUD (U.S. Department of Housing and Urban Development)
Federal agency responsible for encouraging housing development. HUD oversees and supports housing counseling and renters' and buyers' legal rights, and interfaces with housing authorities.

Interest
A fee paid for the use of money, or paid into a bank account.

Interest-Only Loans
A mortgage in which the borrower pays only interest for a specified term. At the end of this term, typically five to ten years, the loan is converted to a fully amortizing loan in which both interest and principal are paid.

Lease
A contract granting use or occupation of property during a specified period in exchange for a specified payment.

Loan
Money borrowed that must be repaid; money lent with interest to be repaid according to specific terms.

Loan Fee
An expense of borrowing which is deducted proportionately from each loan disbursement. It is usually paid to the company funding the loan.

Loan Term
The period of time over which a loan is to be repaid. A home loan usually has a loan term of 10 to 30 years.

Mortgage
A mortgage is a method of using property (real or personal) as security for the payment of a debt. The term mortgage refers to the legal device used for this purpose, but it is also commonly used to refer to the debt secured by the mortgage, the mortgage loan.

Net

Remaining amount after all deductions have been made. For example, net income is the actual dollars received after taxes are removed from gross income.

Points

In real estate mortgages, the initial fee charged by the lender, with each point being equal to 1% of the amount of the loan. It can also refer to each percentage point difference between a mortgage's interest rate and the prime interest rate.

Principal

The amount owed on a loan at any given time. The principal balance may include interest that has accrued over the term of the loan.

Sub-Prime Lending

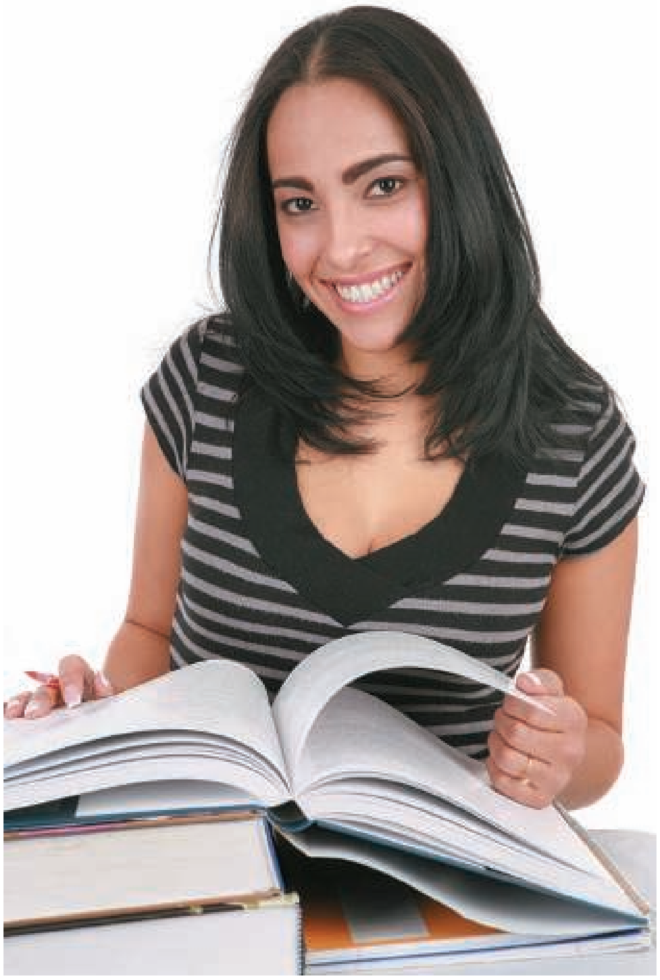
Mortgage lending to buyers who have credit challenges or inadequate funds for a down payment. These loans usually are available at a higher interest rate because the lender is taking a greater risk.

VA Loan

A mortgage loan program established by the United States Department of Veterans Affairs to help military veterans and their families obtain home financing. VA loans offers up to 100% financing on the value of a home.

Variable interest

Rate of interest on a loan that is tied to a stated index and changes as the index changes.



WEIGHING THE OPTIONS

RENTING

ADVANTAGES

Fixed costs
All a renter has to do is pay rent (to include deposits) and move in. Repairs, maintenance, yard work, taxes, and on accasion, certain utilites are usually the responsibility of the landlord rather than the renter.

Renter builds a credit rating
By paying rent and utility bills on time, a renter builds a positive credit history.

Ability to relocate
If a renter chooses to move, there are few strings attached, the remainder of the lease may be negotiated with the landlord. There is no burden of finding a buyer. If your career and or life choices cause you to move frequently, renting may be a better choise.

DISADVANTAGES

No equity
A renter will never establish or benefit from any gained equity or ownership position.

No tax advantages
A renter cannot claim tax deductions for rental payment.

Limitations
Renters are limited in terms of making improvements or changes to the property.

BUYING

ADVANTAGES

Investment (building equity)
After 10 years of paying rent, a renter has little to show for it. After 10 years of mortgage payments, a homeowner has invested in property with strong potential for the home's value to increase and for increased equity in the home.

Tax advantages
Certain items, such as interest on mortgage payments, can be deducted from a homeowners' taxable income.

Flexibility
A home owner can make design and structural inprovements, subject to local building and housing codes.

Secuity
It is possible to make your home more secure than an apartment by incorporating proper landscaping and a monitored security system.

Greater Social Reference Points
Living in a neighborhood often builds greater interest in social responsibilities such as voting, participating in neighborhood watch events, and having others nearby with similar interests who may help to keep a watchful eye on your property.

DISADVANTAGES

Changing Costs
As taxes and utility costs rise, so does a homeowner's monthly responsibility.

Equity/investment subject to fluctuation based on market conditions
Sometimes neighborhoods decrease in popularity and value can decline.

All maintenace, repairs, upgrades, taxes, and insurance are the homeowner's responsibility
Certain items, such as interest on mortgage payments, can be deducted from a homeowner's taxable income.

Dificulty Relocating
If a homeowner needs to relocate on short notice, moving may be delayed until a buyer is found for the home.

FUTURE FACTORS

Even though you might currently only be interested in entering college and/or renting an apartment, there are things you can do now to prepare for buying a home in the future.

Credit is one of the biggest factors in the plan to buy a home. With a good credit profile, a potential home buyer may find it fairly easy to obtain a loan may receive favorable interest rates that help make home buying affordable. Without a good credit profile, a potential home buyer may find it harder to obtain a loan and interest charged may be higher, making monthly payments unaffordable. It is crucial to pay bills on time and manage credit wisely if a person hopes to be able to make the investment in homeownership someday.

In addition, when a family or individual is ready to buy, it would be wise to consider attending homeownership training course and using a reputable buyer's real estate agent. It may also be a good idea to find a reputable home inspection company before jumping into a purchase. Either group training or individual homeownership counseling will usually provide resources for these needs.

Counseling can also assist a family or individual in developing a spending plan based on the demands of homeownership. Don't forget to include additional costs such as homeowner association (HOA) dues and flood insurance.

IDENTIFYING NEEDS

Once the decision to purchase a home is made, you should calculate the cost of home ownership and the impact it makes on your budget.

Your first step is to determine your needs. Many homebuyers misinterpret a want as a need, which may result in rejecting a home that is otherwise well suited.

Usually, the budget is the critical determining factor in buying a home. Make a list of your criteria, outlining wants and needs.

The goal is to find a house that meets all of your needs and many of your wants, while remaining within your budget.

- What are your housing requirements? (location, size)
- How much do you <u>want</u> to spend?
- How much are you <u>able</u> to spend?
- How much of a down payment are you willing and able to make?
- Do you qualify for a homeownership assistance program?
- What are the approximate taxes and utility costs where you want to buy?
- How much is homeowners' insurance?
- How much will you have to spend for maintenance, repairs, redecorating, home improvements, etc.?
- Can you put your desire to remodel and buy new furniture aside until you know you can afford the mortgage, maintenance, and other demands of homeownership?

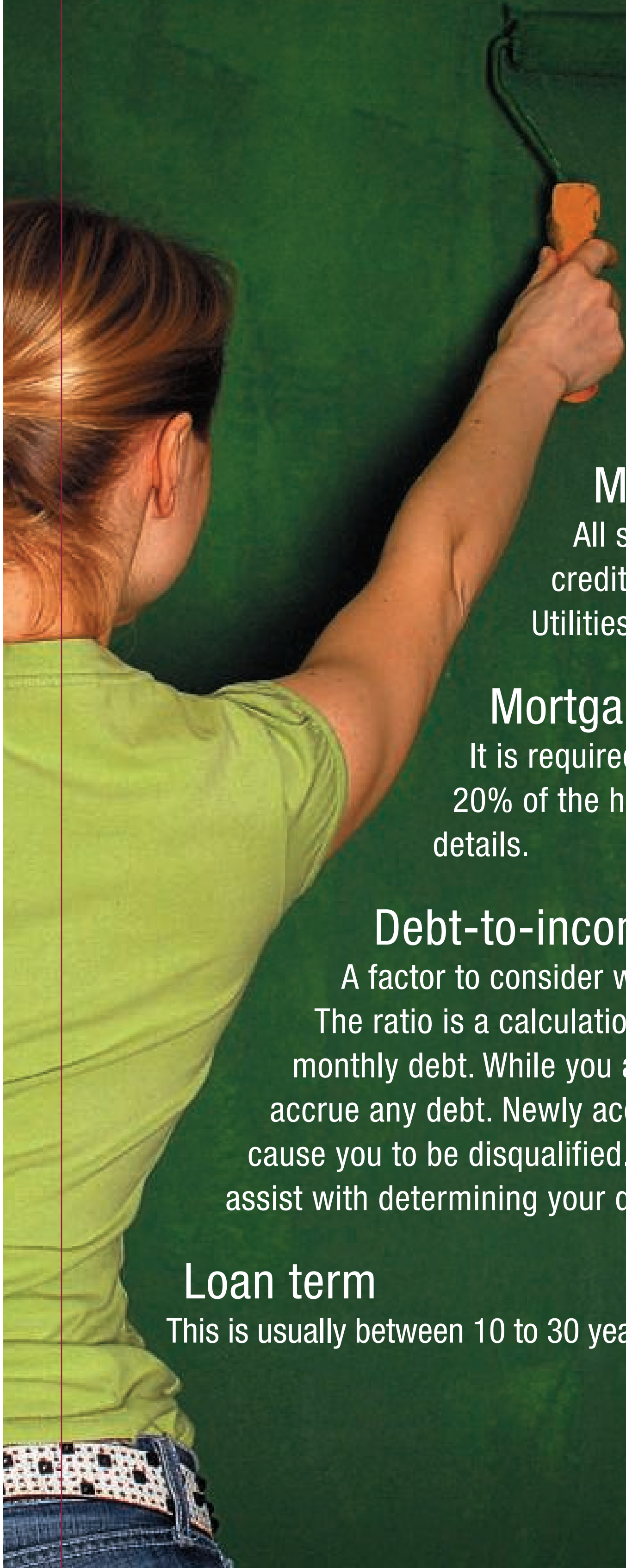
- 3,000 square feet with two living areas
- Pool and hot tub
- Space-age kitchen with all the bells and whistles
- Three-car garage and finished attic
- One-acre lot
- Vaulted ceilings and crown molding

NEED

- Square footage adequate for household size
- Necessary bedrooms and bathrooms to accommodate household needs
- Adequate kitchen
- Adequate storage
- Adequate lot size
- Proximity to work or school

HOW MUCH HOUSE CAN I AFFORD?

How much you can afford depends on many factors. The amount of mortgage you can afford depends on your income, down payment, current lending mortgage rates, and the amortization period you choose. To make this decision, you need to create a spending plan or examine your existing spending plan.



Some of the factors that will be taken into consideration by the lending institution are:

Gross monthly income

All monthly income amounts (employment, alimony, child support, etc.) before taxes are taken out.

Monthly debt payments

All scheduled minimum monthly debt payments including credit cards, autos, student loans, and other loan payments. Utilities are not included in this amount.

Mortgage insurance

It is required if the homebuyer makes a down payment of less than 20% of the home purchase price. The lender can provide more details.

Debt-to-income ratio

A factor to consider when determining how much home you can afford. The ratio is a calculation of your currently monthly income to your currently monthly debt. While you are searching for a home to purchase, you should not accrue any debt. Newly acquired debt could be enough to throw off the ratio and cause you to be disqualified. There are many mortgage calculators available to assist with determining your debt-to-income ratio.

Loan term

This is usually between 10 to 30 years.

Interest Rate Percentage

Check with your local bank or lender to identify the current interest rate.

Down Payments

Unless you qualify for a VA loan, a down payment is usually required. Lenders like to have a 5% - 20% down payment; however, some loan programs allow as little as 2% - 3% down. For example, if you buy a $100,000 home, a lender may ask you to make a down payment of 10,000 (10%).

Typical down payments for various loans are:

Conventional

20% of loan amount with a minimum requirement of
5% - 10%

FHA

• 3% - 5% of the loan amount

VA

• No down payment required

For low-income buyers, down payment assistance may be available. Contact your City Housing Department, your nearest HUD office or NeighborWorks America, for more information.

Taxes, Utility Costs, and Insurance

The most accurate tax information will come from the existing owner, if applicable. Ask the current owner for information regarding the last year’s tax liability to get an idea of what to expect. Ask to see copies of recent utility bills, preferably one from a summer month and one winter month.

A quick phone call to your insurance company should give you an estimate on the cost of homeowners’ insurance versus renters’ insurance. Once you have all the facts and numbers you can compare the cost of renting to the cost of buying.

Other Costs to Consider

If you are moving from an apartment to a home, there are several additional costs the may arise. If you have never had a yard before, you will need to purchase a lawn mower and other appropriate garden tools or add the cost of lawn maintenance into your budget.

In addition, if you move into a residence with two or more bathrooms, you may have to purchase additional towels, shower curtains, bath mats, etc. Some homes may not come with appliances such as washer and dryer or refrigerator. Additional rooms may require additional furniture. All of these factors should be considered when determining the house you can afford.

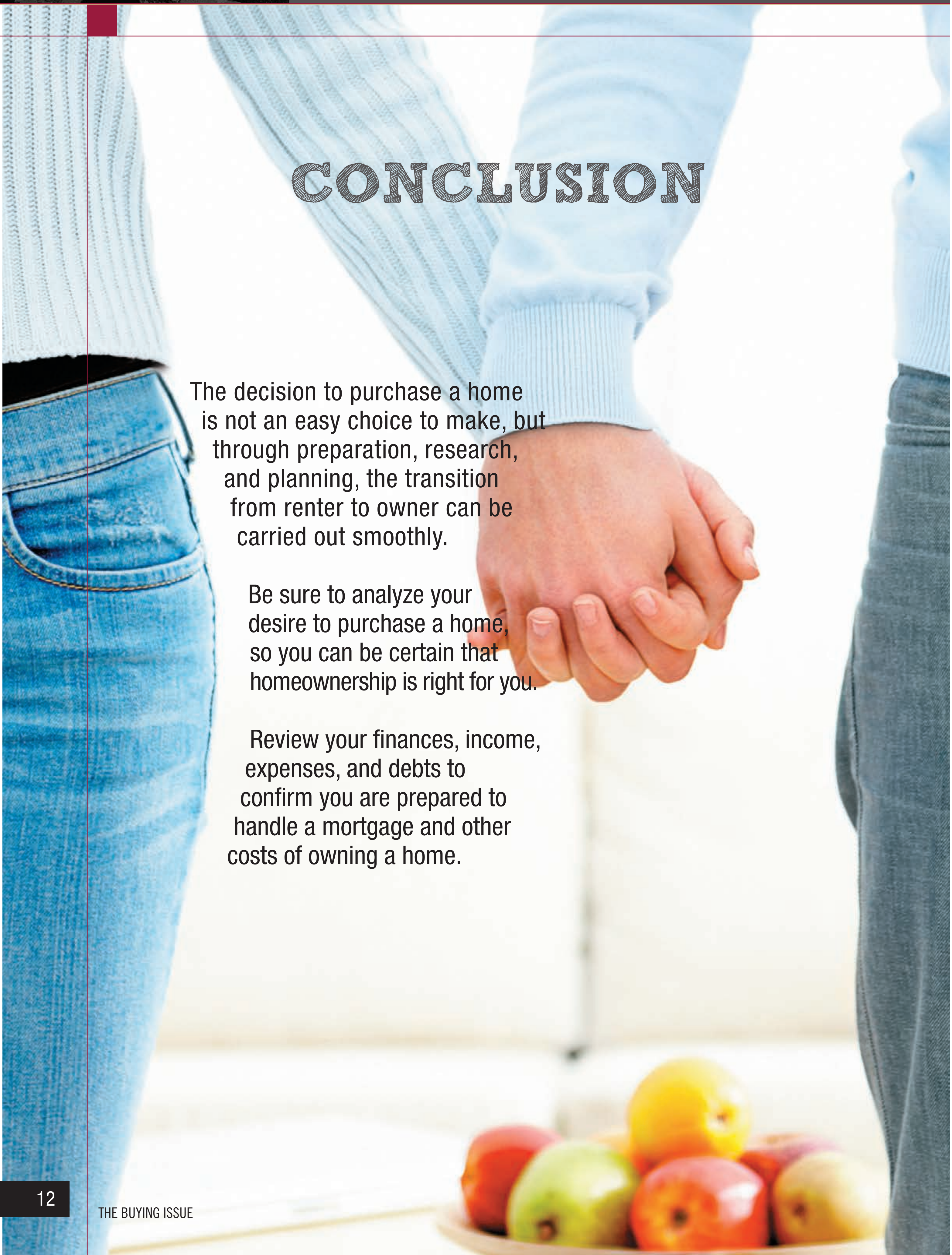
Budget Analysis

Discretionary expenses are items that are not crucial to survival and are therefore the most flexible, such as eating out, going to the movies, etc. The more of these expenses you eliminate, the easier it will be to purchase a home that meets your needs.

The goal to purchase a home may be the catalyst that prompts you to save in all areas of your life and track expenses through a budget plan.

By continuing to keep your expenditures in check, you have better chance of staying out of debt without sacrificing your monthly savings.

Review your finances, income, expenses, and debts to confirm you are prepared to handle a mortgage and the other costs of owning a home.



CONCLUSION

The decision to purchase a home is not an easy choice to make, but through preparation, research, and planning, the transition from renter to owner can be carried out smoothly.

Be sure to analyze your desire to purchase a home, so you can be certain that homeownership is right for you.

Review your finances, income, expenses, and debts to confirm you are prepared to handle a mortgage and other costs of owning a home.