

REAL ESTATE and MORTGAGES

CH 12

What do other high school students know about real estate?

We asked high school students to describe their dream home, and tell how they plan to pay for it.

“My dream house has big windows, white siding, a wraparound porch, a white picket fence, and a view of the ocean. I’ll be paying for it in **cold hard cash.**”

Junior, Michigan

“My dream house would be out in an open field with blooming wild flowers. I plan to pay for it by getting a well-paying job as a vet tech.”

Sophomore, Mississippi

“My dream house is large with extravagant details such as a swimming pool and movie theater. I plan on paying for it by investing.”

Senior, Missouri

“It will have 12 bedrooms, 12 baths, a pool, and a balcony that overlooks water on the property. I’m planning to buy it by marrying a rich old man.”

Junior, Florida

“The way my life is going, it will be a double-side trailer and I’ll be flipping burgers to pay for it.”

Freshman, Wyoming

LEARNING OUTCOMES

Describe the steps to take to maximize the sale of a home.

Examine what to look for when purchasing a home.

Evaluate the various types of home mortgages.

Identify the pros and cons of renting versus owning.

Compare and contrast a 15-year mortgage to a 30-year mortgage.

KEY TERMS

ARM
Appraisal
Appreciation
Conventional Loan
Curb Appeal
Equity
Fixed Rate
MLS
Mortgage

BEFORE YOU BEGIN

What do you know about real estate and mortgages?

Before watching the lesson, read each statement below and mark whether you agree or disagree in the “before” column. Then, after watching the lesson, do it again using the “after” column to see if you changed your mind on any question.

Before			After	
Agree	Disagree		Agree	Disagree
<input type="checkbox"/>	<input type="checkbox"/>	1. Your rent or mortgage payment should never be more than 25% of your take-home pay.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	2. Always try to purchase a home in the top price range of the neighborhood to maximize appreciation.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	3. Since selling a home is much easier now with the Internet, it's a good idea to sell your own home and save money on the real estate agent's commission.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	4. ARM and balloon mortgages were made to help consumers combat high interest rates and transfer the risk to the lender.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	5. Buying a house is not only a good investment, but it is also a tax advantage. You are better off buying than throwing money away on rent.	<input type="checkbox"/>	<input type="checkbox"/>

What are your initial thoughts about real estate and mortgages?

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What do you want to learn about real estate and mortgages?

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Pay off your home early.

Selling a Home

When selling a home, you should think like a _____.

The home should be in “near perfect” condition.

The return on investment of fix-up dollars is _____.

END OF VIDEO PART 1

The most important aspect of preparation is attention to the _____ appeal.

When selling your home, make sure that it is listed on the _____.

When selling, statistical research has found that the best realtors are worth _____ than they cost.

The exposure through the _____ Listing Service (MLS) is worth it.

When selecting a realtor, do not rely on _____ or _____.

FEEDBACK

“Working and saving up for something makes me think twice before buying it.”

Sophomore, Florida

“The more you save, the more you will have for something you really want.”

Junior, Michigan

MONEY FACTS

There were **2.2 million** foreclosure filings in the U.S. during 2007.

bizjournals.com

More than **67%** of Americans are homeowners.

U.S. Census Bureau

Subprime mortgages are loans made to borrowers who are perceived to have **high credit risk**.

Federal Reserve

Adjustable Rate Mortgages (ARMs) account for nearly **one-third** of all mortgages.

realestatejournal.com

These are professionals. You should always _____ them.

Offering a home _____ will typically not make a sale. If the buyer asks for a warranty, then consider it with that offer.

Buying a Home

Home ownership is a great investment for three main reasons:

1. It's a _____ savings plan.
2. It's an _____ hedge.
3. It grows virtually _____ - _____.

You can have a gain of \$250,000 single or \$500,000 married and pay zero tax on the sale of your personal residence if you hold it at least two years.

Title insurance insures you against an _____ title, which is when your proper ownership is in question. It is a good buy.

Always get a land _____ if buying more than a standard subdivision lot.

END OF VIDEO PART 2

Realtors' access to the _____ system can make house hunting easier, but be careful. Many agents can only think like retailers, which is not what you want when buying.

“After college I want to buy land for a farm. What can I do now to be able to pay cash for this when it’s time?”

DAVE’S ANSWER: That’s an awesome goal! First and foremost you should stay out of debt. Debt is an acid that eats up your income, so stay away from student loan debt and all other kinds of debt. Being debt free greatly increases the amount of money you’ll have in your pockets. As you save that money, you’ll be able to use it toward your game plan.

Next, start looking in places you might want to buy land and find out how much it will cost. Then decide exactly when you want to buy the land. After this, you’ll be able to formulate a plan detailing exactly how much you’ll need to save during college and right after graduation. Breaking down large purchases like this into a step by step process makes it easier.



What to Buy

Buy in the _____ price range of the neighborhood.

Homes appreciate in good neighborhoods and are priced based on three things: _____, _____, and _____!

If possible, buy near _____ or with a _____.

Buy bargains by _____ bad landscaping, outdated carpet, ugly wallpaper and the ELVIS print in the master bedroom.

END OF VIDEO PART 3

However...

Always buy a home that is (or can be) attractive from the _____ and has a good basic _____.

REAL LIFE

Buying Your First Home

The ONLY time you should buy a home is when you are out of debt and have a full emergency fund (3-6 months of expenses) saved up. You should also have a 20% down payment saved so you won't have to pay private mortgage insurance. Now, you may be saying "If I wait until I'm out of debt, I'll be throwing a lot of money away on rent." When you think that, remember this: if you have debt, no savings and move into a house, Murphy will move in your spare bedroom. If you move into a home and something breaks, you won't have the money to fix it. So you'll borrow the money to fix it and take on more debt. If you get gazelle-intense about getting out of debt, make a budget and maybe work an extra job, it won't be long before you're debt-free and have money in the bank. Then you are ready to start house shopping.

Have the home inspected mechanically and structurally by a certified _____.

Appraisals are an "_____ of value," but it's a better opinion than the current homeowner has. Always order one if in doubt.

What Not to Buy

1. _____ or _____
2. _____

Mortgages

First, remember to _____ debt.

The best mortgage is the _____ down plan.

But if you must get a mortgage...

Do not buy until you are ready. That means you are out of debt with a fully-funded emergency fund.

There is nothing wrong with _____ for a little while. This demonstrates _____ and wisdom.

Get a payment of no more than _____ of your take home pay on a _____ fixed-rate loan, with at least _____ down.

Have a fully-funded emergency fund left over after closing.

END OF VIDEO PART 4

MORE INFO

Private Mortgage Insurance (PMI) is extra insurance that lenders require from most home buyers who do not have a 20 % down payment when they buy a home and take out a mortgage.

How Much Will You Save?

30 Year vs. 15 Year Mortgage at 6%

		PAYMENT	TOTAL	PAY BACK
Home Purchased	\$250,000	30 years	\$1,349	\$485,636
Down Payment	<u>\$ 25,000</u>	15 years	<u>\$1,899</u>	<u>\$341,762</u>
Mortgage Amount	\$225,000	Difference	\$ 550	\$143,874

You save more than \$143,000!

Horrible Mortgage Options

1. Adjustable Rate Mortgages (ARM) were brought on with the advent of _____ interest rates in the early 1980's.

- ▶ The concept of the ARM is to _____ the risk of higher interest rates to the _____ and, in return, the lender gives a lower rate up front.
- ▶ Of course, _____ loans are a bad idea because you are only paying the interest.
- ▶ You can qualify for more home with ARMs, but the risk of financial stress later is not worth it.

WISE GUYS

“A man builds a fine house; and now he has a master, and a task for life; he is to furnish, watch, show it, and keep it in repair the rest of his days.”

Ralph Waldo Emerson

2. _____ Mortgages

- ▶ Bad idea because you are putting a paid-for home at risk and the fees are horrible.

3. _____, or Bi-Weekly Payoff

- ▶ Allows you to make a half-payment every two weeks, which equals 13 payments a year. The reason it pays off early is because you make one extra payment a year.
- ▶ Do not pay a fee for this option. You can easily do this on your own.

Where's the Tax Advantage?

Mortgage Amount	Interest Rate	Annual Interest Paid
\$200,000	5%	\$10,000

Mortgage interest is tax-deductible, so you would not have to pay taxes on this \$10,000. That is why many people tell you to keep the mortgage. But what does this really save you?

Taxable Amount	Tax Bracket	Annual Taxes Paid
\$10,000	25%	\$2,500

So, if you keep your mortgage just for the “tax advantages,” all you are really doing is sending \$10,000 to the bank instead of sending \$2,500 to the IRS. Where's the “*advantage*” in that?

“I am 23 years old and just got married this year. My wife and I owe \$15,000 on our cars and we are renting a small apartment. We are wondering if we should buy a house, with small payments of course, as a good investment?”

DAVE'S ANSWER: You have to get your cars totally paid off, as well as any other debt you have, and have a 3-6 month emergency fund set up. I'm a fan of real estate, but I think most couples make impulsive decisions in their first year of marriage about owning versus renting. They listen to young—and not so bright—people they know that are going out and buying houses and furniture on credit. This is a dumb idea.

I would rent for your first few years, get out of debt, get an emergency fund, and make a huge down payment. A house can turn into a curse if you can't afford the upkeep and all the stuff that goes along with owning a house. Emergency funds are Murphy repellent, and you are going to want some of that when you buy a house.



4. _____ Advantages of a Mortgage

- ▶ Do not fall for the myth that you should keep your mortgage for the tax advantages. The math doesn't work.

Basic Ways to Finance A Home

1. _____, usually through the Federal National Mortgage Association (FNMA) and privately insured against default.

- ▶ Down payments range from 5% to 20% or more.

! STUPID TAX

“I buy all the \$1 deals that I can find and never use them.”

Junior, Oklahoma

“I paid \$100 for a pair of designer jeans at the mall when I could have gotten a couple pairs of cheaper jeans and had more clothes to wear.”

Senior, Alabama

- ▶ These loans are available in all forms and formats.
- ▶ PMI is _____ mortgage insurance.

2. _____, which is insured by the U.S. Department of Housing and Urban Development (HUD)—the federal government.

- ▶ Down payments are as low as _____ and are used on lower-priced homes.
- ▶ These loans are currently _____ expensive than conventional financing and should be avoided.

3. _____, which is insured by the Veterans Administration (VA).

- ▶ Designed to benefit the veteran; the seller pays everything allowing for a true zero-down purchase.
- ▶ With a good down payment, the conventional loan is a _____ deal.

4. _____ financing is when you pay the owner over time, making him/her the mortgage holder.

- ▶ This is a _____ way to finance because you can be creative in the structure of the loan.

Example: No payments for a year, interest rates that graduate, or discount for early payoff.

END OF VIDEO PART 5

Recap and Review

Your rent or house payment should never be more than 25% of your take-home pay.

Always work through a good realtor and make sure to have the home inspected.

Stay away from adjustable rate mortgages and interest only loans.

If you must take out a mortgage, do not do so until you have a fully-funded emergency fund, you are debt free, and you have at least a 10% down payment. (20% to avoid paying PMI.)

CHAPTER 12: MONEY IN REVIEW

Vocabulary

Accelerated Payment
Appraisal
Appreciation
ARM
Conventional Loan
Curb Appeal
Equity
FHA Loan
Fixed Rate
Home Inspector
Home Warranty
Inflation Hedge
Interest Only Loan
Land Survey
MLS
Mortgage
Owner Financing
PMI
Principal
Realtor
Reverse Mortgage
Timeshare
Title Insurance
VA Loan

Matching

- a. mortgage
 - b. equity
 - c. principal
 - d. MLS
 - e. title insurance
 - f. home warranty
 - g. land survey
 - h. appreciation
- ___ 1. The value of your house over and above the mortgage
- ___ 2. Listing service realtors use
- ___ 3. Protects you against an ownership claim
- ___ 4. Loan secured by collateral of a specific real estate property
- ___ 5. Shows where property lines are
- ___ 6. The face value of your mortgage, not including interest
- ___ 7. An increase in value
- ___ 8. An agreement that ensures the structural soundness of a home

True or False

Determine whether these statements are true or false. Change the false statements to read true.

- _____ 9. Baby Step 7 is to pay off your house.
- _____
- _____
- _____
- _____ 10. The best mortgage is an adjustable rate mortgage.
- _____
- _____
- _____
- _____ 11. A real estate agent is usually well worth the commission.
- _____
- _____
- _____
- _____ 12. Friends or relatives make the best real estate agents.
- _____
- _____
- _____
- _____ 13. Your rent or mortgage payment should be at least 25% or more of your take-home pay.
- _____
- _____
- _____

Multiple Choice

14. What type of mortgage is an ARM?
- advanced rate mortgage
 - adjustable rate mortgage
 - American Realtor Mortgage
 - none of the above
15. Which is not a type of mortgage?
- reverse
 - Veterans Administration
 - lease to own
 - conventional
16. Which is not an investment benefit to home ownership?
- lower tax bracket
 - grows virtually tax free
 - inflation hedge
 - forced savings plan
17. How much do you need for a down payment in order to avoid paying PMI?
- 0%
 - 10%
 - 20%
 - 50%
18. Which is true about owner financing?
- the buyer makes payments to the owner
 - you can be creative in structuring the terms of the loan
 - you can include a discount for early payoff
 - all of the above

Short Answer

19. Describe two things you can do to get a home ready to sell.
20. Why is a good realtor worth the money you pay in commission?
21. What are three reasons why home ownership is a great investment?

22. What conditions need to be in place before you buy a house?
23. Explain why people take out ARM or balloon mortgages.
24. What are the benefits to having at least a 20% down payment?
25. Outline the differences between a conventional, VA and FHA loan.
28. Laura and George are both 23 and ready to buy their first home. Combined, their take home pay is about \$4,000 a month and they have no debt. What is the maximum amount they should have for a house payment even though they would qualify for a much larger loan amount?

Case Studies

26. Jocelyn and Derrick are engaged to be married in three months and have found their dream home. They have the option of getting a conventional loan or a VA loan. If they take the conventional loan, they need a 5% down payment. If they take the VA loan, they can move in with nothing down. Jocelyn and Derrick have the money for the down payment on the conventional loan, but they wish to buy some furniture and other items they need. Derrick, being a veteran, thinks he should take advantage of the VA loan. What is Dave's advice to them?
27. Blake and Sarah are looking into an adjustable rate mortgage as a financing option. They have found a house they like, but will barely be able to make the payments on a fixed interest rate. With the ARM, they are sure they can make the payments. By the time the rate increases, Blake and Sarah believe they will have both received raises at work. Then, they will change over to a fixed rate on a 30-year mortgage. Whenever they get a bonus, they will apply it to the loan. Blake and Sarah are tired of renting and are anxious to buy this house. What is Dave's advice?