

Welcome to
The American Dream
The Keys to Homeownership



Honors
 Personal
 Finance

Benefits of Homeownership?

Buying a home is one of the most important decisions a family can make. It has serious financial & emotional implications and is a major part of the American dream.

Benefits of Homeownership?

Can you name some of the benefits of homeownership?



Benefits of Homeownership?

- ✓ Build wealth
- ✓ Tax savings
- ✓ Pride of ownership
- ✓ Security
- ✓ Build good credit



Responsibilities of Homeownership

Can you name some of the responsibilities of homeownership?



Responsibilities of Homeownership

- ✓ On-time mortgage payments
- ✓ Property taxes
- ✓ Insurance
- ✓ Repairs & maintenance
- ✓ Purchase own appliances & equipment

Home Purchase Costs

What are some of the costs of buying a home?



Home Purchase Costs

- ✓ Loan fees
- ✓ Credit report fee
- ✓ Appraisal fee
- ✓ Earnest money deposit
- ✓ Downpayment
- ✓ Closing costs



Down-payment

Most conventional mortgages--20% of the purchase price is required. However, there are ways to reduce down-payments to the 0 to 5% range:

- ① government-insured mortgages.
- ② local housing agencies & lenders may have programs for first-time home buyers.

Downpayment Sources

- ✓ Savings
- ✓ Private gifts and loans
- ✓ Retirement account loan
- ✓ Second (piggyback) loan
- ✓ VA loan
- ✓ Private and government
- ✓ downpayment assistance

Tax Benefits of Homeownership

- ✓ Eva buys a home with a **\$225,000** mortgage
- ✓ Interest and taxes total **\$17,050** per year
- ✓ Eva is in the **28%** tax bracket
- ✓ Tax savings as a homeowner: **\$4,774** per year.

Tax Benefits of Homeownership

Instead of waiting for a **\$4,774** tax refund, Eva changes her W-4 form at work to have fewer taxes taken out of her paycheck. Eva's increase in net pay is approximately **\$398** per month!

Getting a Loan

- ✓ Are you financially prepared for homeownership? **IF YES.**

Determine next steps to reach your goal!



Where to Get a Loan

- ✓ Mortgage company
- ✓ Commercial bank
- ✓ Credit union
- ✓ Mortgage broker
- ✓ Other financial institution
- ✓ Federal government loan programs
- ✓ Housing finance agency

Types of Loans

Fixed-rate mortgage **Adjustable-rate mortgage (ARM)**

Interest rate stays the same for the life of the loan

Interest rate adjusts periodically, so monthly payment is subject to change; typically offers a low starting rate for a specific period

15 Year Fixed vs. 30 Year Fixed

With mortgage rates hovering around 4.35% for a 30yr fixed, and 3.75% for a 15yr fixed, the rate does vary. However, there are vast differences in monthly costs, and overall costs when comparing the two.

For example:

15 Year Fixed vs. 30 Year Fixed

\$300,000 mortgage, not including property taxes and mortgage insurance would cost the following:
30 yr mortgage at 4.35% would be \$1493.44 and cost a total of \$537,636 over 30 years.
15 yr mortgage at 3.75% would be \$2181.67 and cost a total of \$392,700 over 15 years.

15 Year Fixed vs. 30 Year Fixed

A 15 year mortgage would cost 50% more in this example monthly. Here is a financial trick:

30yr Mortgage:

If you make 1/2 of your mortgage payment every 2 weeks, you will end up making an extra monthly payment every year, which goes to principle.

15 Year Fixed vs. 30 Year Fixed

12 Months x 2 Payments = 24
52 Weeks / 2 Payments = 26

This will reduce your 30yr mortgage to a 25 year mortgage, saving you 5 years of mortgage payments, and give you \$65,000 in savings, without doing much extra. This will allow you to have a lower monthly payment, while still paying off the mortgage early.

Reducing Your Interest Rate

Paying Points - called discount points by mortgage brokers and lenders, this tactic is like an upfront payment for a lower interest rate, and one point is 1% of the loan amount. So if you had a \$100,000 mortgage, one point would cost \$1,000 while two points would cost \$2,000.

Reducing Your Interest Rate

Paying for points lowers your interest rate because the lender receives the income in a lump sum at closing rather than collecting the interest as you make payments on your loan. A lower interest rate will of course result in lower monthly payments and savings in accrued interest over the life of the loan.

Mortgages

How much of a mortgage can you qualify for?

Depends on:

- ✓ Down payment amount
- ✓ Loan-to-value ratio
- ✓ Debt-to-income ratio
- ✓ Housing cost-to-income ratio

Mortgages - Loan-to-Value Ratio

Example:

Lender is willing to lend up to 90% of the property value.

The property appraises for \$200,000.

You receive approval for a loan of \$180,000 ($\$200,000 \times 0.90 = \$180,000$)

Mortgages - Debt-to-Income Ratio

- ❑ Total monthly debt payments compared to gross monthly income.
- ❑ Total debt (mortgage, credit cards, car loans, etc.) to equal no more than 36% of gross income.

Mortgages - Debt-to-Income Ratio

- ❑ Lee & Shawna earn \$60,000 per year, or \$5,000 per month.
- ❑ They can carry a maximum debt load of \$1,800 ($\$5,000 \times .36 = \$1,800$).
- ❑ Ex: \$450 car payment: ($\$1,800 - \$450 = \$1,350$ left for mortgage payment).

Prequalification vs. Pre-approval

✓ **As Pre-qualification:**

- An estimate of how much of a loan you might qualify for. It is not a firm commitment.

✓ **Pre-approval:**

- A firm commitment from a lender for a specific loan amount. The approval can be valid for as little as 30 days and as much as 120 days or more.

Shopping for a Home

- ✓ How will you find your home?
 - Shop Online listing sites
 - "For Sale" signs
 - "Open house" events
 - Word-of-mouth
 - Real estate agent

Shopping for a Home

House Hunting Checklist

- ✓ Is the neighborhood safe?
- ✓ Are the homes in the neighborhood maintained?
- ✓ Does the house have enough bedrooms & bathrooms?
- ✓ Is there adequate storage space?
- ✓ Are there high quality schools in the area?

Using a Real Estate Agent

- ✓ Access to the MLS (multiple listings service)
- ✓ Market knowledge
- ✓ Guidance through buying process
- ✓ Handles paperwork
- ✓ Incentive to succeed (only earns commission when you buy)

Making an Offer

- ① Most initial offers are for less than the asking price.
- ② Once a price is agreed on, an Earnest money (good faith) deposit is made.
- ③ Downpayment is then made to the bank.
- ④ Closing costs finalize the purchase.

Making an Offer

Typical Closing Costs:

- Attorney Fees
- Title Service Cost
- Recording Cost
- Document or Transaction Stamps or Taxes
- Brokerage Commission
- Mortgage Application Fees
- Appraisal Fee
- Inspection Fee

**THE
END**