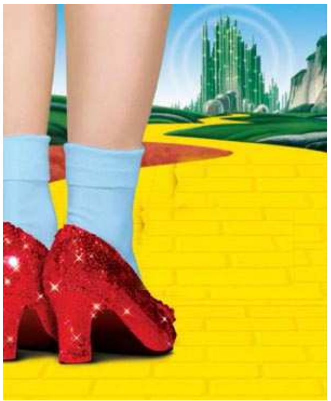


UNIT: Independent Living

"There's no place like home."
-Judy Garland, *The Wizard of Oz*

Introduction

- Housing is the largest personal expenditure
- About 30% of a person's gross income; your rent/mortgage payment should not be more than 40% of your monthly budget
- Choosing where to live is based upon a person's goals, values, needs, and wants
- Places to live include: ______________________________

Factors Influencing Housing Choices

- Personal and financial goals
- Personal values, needs, and wants
- Amount of money available for housing costs
- Financial resources and readiness
- Credit history
- Real estate prices
- Location preference
- Expected length of stay in particular place

Renting

Key Players

Lease —

Landlord —

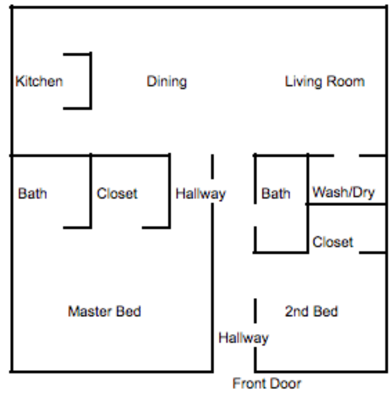
Rent —

Tenant—

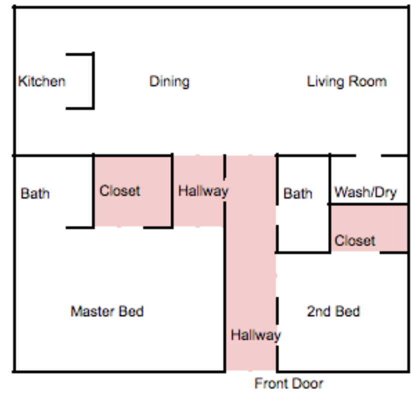
Security Deposit —

Advantages and Disadvantages of Renting

Advantages	Disadvantages



Apartment A
Total Space: 824 sq ft
All space included in the calculation



Apartment B
Livable Space: 690 sq ft
Areas in Red aren't counted in the square footage

Costs of Renting

- Monthly Rent—____
- Security Deposit—____
- Utilities (electricity, water, garbage, etc.)—____
- Renter's Insurance—____

Key Terms

Tenant	Property Manager	Evict
Landlord	Lease	Security Deposit

Home Ownership—"The American Dream"

- Owning a home is an investment on which the owner can build *equity*
- About 2/3 of Americans own a home
- Financial planning (i.e. maintaining good credit, limiting "bad" debt, etc.) and savings can assist a person in planning for the benefits of home ownership later in life
- A recommended purchase price amount an individual should pay for a home is

  ________________ times their annual household income

$$\text{Front-end ratio} = \frac{\text{Monthly housing expenses}}{\text{Monthly gross income}}$$ = <28% to receive a loan

$$\text{Back-end ratio} = \frac{\text{Total monthly expenses}}{\text{Monthly gross income}}$$ = <36% to receive a loan

Advantages and Disadvantages to Owning a Home

Advantages	Disadvantages

Costs of Owning a House

- Down Payment (one-time expense)
    - ____
    - 20+% of the purchase price of the home recommended
- Closing Costs (one-time expense)—the expenses, over and above the purchase price, that buyers and sellers normally incur to complete a real estate transaction.
    - Totally about 2-7% of purchase price of the home
    - May include loan origination fees, discount points, appraisal fees, title searches, title insurance, surveys, taxes, deed-recording fees and credit report charges
    - Costs may be paid by either the seller or the buyer
    - The lender is required by law to state these costs in a "good faith estimate" within three days of a home loan application
- Monthly Mortgage Payments (recurring)
- Home Owners' Association Dues (recurring)
- Utilities (i.e. electricity, water, garbage, etc.; recurring)
- Prepaid Costs (recurring)
    - Homeowner's Insurance
    - Property Taxes
- Maintenance (recurring)

Mortgages

- 90% of buyers take out a mortgage (a loan in which the real estate is the *collateral*)
- Critical for buyers to understand a great deal of money is spent on interest in addition to the price of the home (principal), so a home that is bought for $350,000 could end up costing the buyer $650,000+ by the end of their mortgage
- If a buyer can afford to make additional payments toward their mortgage, the benefits can be *significant* (mortgagecalculator.org):

	Standard	Additional Payment
Monthly Payment :	$1,878.88	$1,978.88
Total Monthly Payments :	$676,387.45	$635,547.45
Interest Savings :		$40,840.00
Length :	30 Yrs 0 Mts	26 Yrs 9 Mts
Time Saved :		3 Yrs 1 Mts

- There are generally two types of mortgages:
    - Fixed-rate Mortgages—____
      ____
    - Adjustable-rate Mortgages (ARMs)—____
      ____
      ____
- Mortgages are typically paid over a 15-year or 30-year schedule

Formulas

Monthly Payment Formula—Version A	
$$M = \frac{p\left(\frac{r}{12}\right)\left(1+\frac{r}{12}\right)^{12t}}{\left(1+\frac{r}{12}\right)^{12t}-1}$$	M = monthly payment p = principal ***r* = interest rate (expressed as a *decimal*)** t = number of years

Monthly Payment Formula—Version B	
$$M = \frac{p\left(\frac{r}{1{,}200}\right)\left(1+\frac{r}{1{,}200}\right)^{12t}}{\left(1+\frac{r}{1{,}200}\right)^{12t}-1}$$	M = monthly payment p = principal ***r* = interest rate (expressed as a *percent*)** t = number of years

Monthly Interest Formula	
$$I = p \times \frac{r}{1{,}200}$$	I = interest p =principal r = interest rate (expressed as a *percent*)

Key Terms

- Single-Family Home
- Front-End Ratio
- Back-End Ratio
- Debt-to-Income Ratio
- Market Value
- Assessed Value
- Housing Costs
- Appraisal Fee
- Inspection Costs
- Down Payment
- Mortgage
- Collateral
- Fixed-rate Mortgage
- Adjustable-rate Mortgage (ARMs):
  - Initial Rate
  - Adjustment Period
  - Hybrid ARMs
- Foreclosure
- Closing
- Closing Costs
- Earnest Money Deposit
- Origination Fee
- Title
- Transfer Tax
- Escrow
- Prepaid Interest
- Arrears
- Points:
  - Origination Points
  - Discount Points
- Equity
- Home Owners Association