



Obtaining Housing

A Place to Rent

- 1/3 of people in the United States
- Single people, young married couples, and older adults
- Mobile lifestyles



- Security Deposit

- A payment that ensures the owner against financial loss caused by the renter
- Usually one month's rent



Renting Advantages

- More freedom to move
- No worry about the value of the property going up or down
- No hidden costs
 - Example: Roof repair



Responsibilities

- Exam a rental unit before you move in
 - Rental inspection guides
 - Outline the basic features of apartments in a checklist form
 - Helps guide your evaluation of the unit and compare to other units
- Ask questions
 - How much is the rent?
 - When is it due?
 - What is the security deposit? Under what conditions will it be returned?
 - Does the lease allow rent increases?
 - What other expenses or fees are there?
 - Is loud noise prohibited at certain hours?

The Written Lease

- A legal document spelling out the conditions of the rental agreement
- Lists the rights and responsibilities of both the property owner (lessor or landlord), and the lessee (renter)
- Always read a lease carefully
- Clearly state the location of the dwelling
- Rental amount, when and where it should be paid
 - Also any penalties for late payment
- Security deposit
- Lease period
 - Dates of occupation

- Appliances, furnishings, services, and amenities should be included in the lease and what costs are included in the rent or in addition to the rent
- Who is responsible for paying utilities?
- Who is responsible for upkeep, maintenance, and repairs
 - An entry clause allowing the landlord to enter the apartment for specific reasons
- What legal actions are available to resolve disagreements?

- Conditions of use
 - Pets
 - Parking restrictions
 - Painting, decorating, etc.
 - Roommates
 - Additional costs
- Special clauses
 - A clause stating that the final inspection of the premises will be made in the renter's presence
- Signatures
 - Both the renter and landlord should sign the lease
- Any changes in the lease should be made before signing



Renter's Insurance

- Protects against loss of your personal property due to theft, fire, natural disasters, or other causes.
- Offers some liability protection
- Reasonably priced
- College students may be able to obtain a rider on their parents' home owner's policy

Assignment

- The Written Lease

A place to buy

- 2/3 of Americans
- Prefer to stay in one place for several years
- Provides a sense of freedom
- Make decisions about their housing and do not need to rely on someone else
- Home owners can gain from equity if they sell or refinance their houses
- Tax advantage

Disadvantages

- Buying a house is a complex, time-consuming, and costly process that brings many ongoing responsibilities
- Strain on finances
- Property taxes, home owner's insurance, utilities, and maintenance expenses
- Less mobility
- Maintenance and Repair Costs

People Involved in Home-Buying

- Appraiser
- Attorney
- Borrower
- Government Program Representatives
- Home buyer counselor
- Home Inspector
- Homeowner's Insurance Representative
- Lender
- Loan Servicer
- Mortgage Insurer
- Real Estate Professional
- Title Company Representative

Examine your Finances

- Your income, the size of your savings account, and your debts
- Estimate what you can afford
 - Multiply two-and-one-half times your annual gross income
 - Example: Gross income: \$50,000...should be able to afford a \$125,000 house
 - Does not take into account other debts



- Housing-to-income ratio
 - Monthly housing costs should total no more than 28% of your gross monthly income
 - House payment, property taxes, insurance, utilities, repairs, maintenance, HOA fees
 - Divide your total housing costs by your gross income...then multiply your decimal result by 100 to obtain the percentage



- Debt-to-income ratio
 - Total monthly debt to total monthly income
 - Monthly housing costs plus other long-term debt should total no more than 36% of your monthly gross income
 - Divide your total debt (debt + housing costs) by your gross income...then multiply the decimal result by 100 to obtain the percentage

- If you can meet these ratios, you will probably qualify for a loan
- Other factors
 - Credit history
 - Credit score



Practice

- Bob and Susie want to buy a house. They have an annual combined income of \$75,000 with gross-monthly pay of \$6,250. The potential house payment is \$825 monthly. The other monthly housing-related costs total \$700 – which covers property taxes, home owner's insurance, utilities, repairs, and maintenance. The couple owes \$600 monthly on long-term debts for two car loans and college education costs. Would this couple meet approval guidelines to obtain a loan for the house?
- Calculate the Housing-to-Income Ratio and the Debt-to-Income Ratio. Then give Bob and Susie the news.

The Home-buying Process

- Mortgage selection and preapproval
 - *Conventional Mortgage*
 - Two-party contract between a borrower and a lender
 - Long-term, fixed-rate loan
 - Typical lengths are 15, 20, and 30 years
 - Down payment may vary from 5 to 20%
 - May require Private Mortgage Insurance (PMI)
 - Insurance that protects the lender if the borrower fails to pay

- *Adjustable Rate Mortgage (ARM)*
 - Interest rate is adjusted up or down periodically according to a national interest rate index.
 - Monthly payments may increase or decrease
 - Some have rate caps
 - The interest rate will never exceed a certain rate regardless of the national interest rate index





- *FHA-Insured Mortgage*
 - Three-party contract that involves the borrower, a lender, and the Federal Housing Administration (FHA)
 - Anyone can apply
 - Home buyers with a smaller down payment can often obtain an FHA-insured loan

- *VA-Guaranteed Mortgage*
 - Three-party loan involving the borrower (who is a veteran of the U.S. Armed Forces), a lending firm, and the Veterans Administration (VA)
 - These mortgages generally cost less
 - Congress sets the eligibility requirements
 - The VA does not require a down payment, but the lender may



- To find out more visit the U.S. Department of Housing and Urban Development web site at – www.hud.gov
- House financing alternatives vary from state to state and lender to lender.
- Research all the options to find the method financing that is best for you.



Shopping for a Mortgage Lender

- Compare at least three different lenders
 - Mortgage options and interest rates
 - Commercial banks, credit unions, online lenders and mortgage companies
- Look for a lender that is financially stable with a strong reputation for providing quality customer service
- Compare the same information for each lender
 - The loan amount, the interest rate, length of the loan, and the type of loan

Questions to ask the lender...

- What is the down payment required for each loan? Will the lender require PMI if your down payment is less than the requirement?
- Is the interest rate fixed or adjustable? What is the APR?
- Do the loan costs involve points, or fees paid to the lender for the loan (usually one point equals one percent of the loan)?

Obtaining Preapproval

- Preapproval, means that the home buyer has gone through a preliminary approval process in which the lender verifies employment and checks tax records, bank references, and the borrower's credit history.
- The lender then gives the buyer a preapproval letter indicating commitment.
- Gives the buyer a definite amount to spend on housing.

Searching for a Home

- Real Estate Firms
 - In the business of selling land and buildings
 - Most are part of a larger network call the Multiple Listing Service (MLS)
 - Combined list of all area houses for sale by network real estate firms
 - Realtors can give you information about the community and neighborhood
 - Realtors charge a commission
 - Ranges from 5 to 10 percent of the selling price
 - Seller usually pays the real estate fee
 - Seller may increase the price of the house to cover this cost

Locating Homes for Sale

- Internet Shopping
 - [Realtor sites](#)
 - [Other](#)
 - Includes pictures, floor plans, property taxes, schools, virtual tours
 - Can help you narrow your search
- Newspapers
 - May find homes for sale by owner
- Word-of-mouth
 - May be before the house is on the market
- For Sale signs
 - Driving around in your preferred neighborhoods

Making an Offer

- Look at comparables
 - Houses that have sold in the same area for around the same amount
- Earnest money
 - A deposit, or sum of money you pay to show that you are serious about buying the house.
 - The money is held in trust until the closing of the deal
 - When the deal goes through the money goes toward the payment of the total price

Agreement of Sale

- Also known as :
 - Offer to purchase, contract of purchase, purchase agreement, or sales agreement
- Detailed description of the property and its legal location all specific terms and conditions of the real estate
- The total purchase price, the amount of the down payment, and the possession date
- States the seller must have clear title to the property in order to complete the sale.

- Terms and conditions of the sale
- When an agreement has been reached, both sign the agreement of sale making the document legal and binding
- Read all fine print before signing
- Now the buyer will move forward with securing financing and home owner's insurance and having a survey, appraisal, and title search.

Finalizing the Financing

- The lender now will provide the buyer with a lock-in on the interest rate
 - A written agreement guaranteeing the interest rate
- You will need to present the sales contract to the lender and complete an application and any other documentation the lender requires
- Lender will require
 - Tax documents for the previous two years with W-2s
 - Two or more paycheck stubs
 - Debt information
 - Several recent bank statements
 - Proof of other assets or income
 - The address and property description you want to buy
 - A copy of the signed agreement of sale

Homeowner's insurance

- Basic insurance provides property and personal liability coverage
- Look for exclusions
- Additional insurance may be available



Home Inspection



- An evaluation of construction and present condition of the house
- Inspection for termites or mold
- If any problems arise, the buyer can negotiate the terms and conditions of the sale with the seller or back out of the deal
- Buyer pays for the inspection
- Use a reputable inspector

Survey and Appraisal

- The result of the survey will be a map showing the property lines and indicating where the house, drive way, garage, and other features such as fences are located
- An appraisal is an expert estimate of the quality and value of the property given by a licensed appraiser
 - Tours the property and researches properties with comparable sales data
 - Sends report to the lender about the property value

Title Search

- Before purchasing a house, the buyer must be sure the seller is the legal owner
- A lawyer or title insurance company reviews an abstract of title
 - Which is a copy of all public records concerning the property
- True legal owner and any debts, or liens, which are held on the property
- Lenders require the buyer to purchase title insurance for protection against financial loss caused by errors in the abstract of title
- When the sale closes the title passes to the new owner

Closing

- Closing Costs
 - Payment of fees and charges for settling the legal and financial matters
 - Recording fees for the deed and mortgage
 - Attorney's fee or fee to a title company
 - Appraisal fee
 - Origination fee
 - Escrow fees
 - miscellaneous
- May cost thousands of dollars
- Seller will also have closing costs
- May be negotiated as part of the purchase agreement

