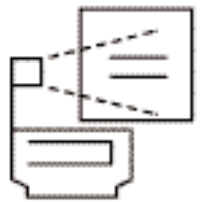


lesson five

buying a home



overheads



the home-buying process

phase 1: determine home ownership needs

- What type of housing should I (we) buy?
- How much can I (we) afford to spend?

phase 2: locate and evaluate a home

- Where do I (we) want to live?
- What aspects of the home need improvement?

phase 3: price the property

- What is an appropriate market price?
- How much negotiation movement exists?

phase 4: obtain financing

- How much down payment is available?
- What are current mortgage rates?
- Can I (we) qualify for a mortgage?
- What type of mortgage should be selected?

phase 5: close the purchase transaction

- What is the closing date?
- What funds and documents will be needed for the closing?
- Is everything understood before the final signing?

qualifying for a mortgage



- Determine an estimated value of the home you would like to purchase.
- Obtain funds for a down payment from savings or through gifts or loans from family members.
- Reduce other debts or improve your credit record, if necessary.
- Compare fees, services, and mortgage rates for different lenders.
- Prepare the mortgage application.

your mortgage acceptance will be based on your credit record.

The amount of the mortgage for which you qualify will be influenced by:

- Your income
- The amount available for a down payment
- Current mortgage rates



types of mortgages

open mortgages:

- Interest rate fluctuates with the market
- Flexible to pay without penalty at any time
- More popular when interest rates are falling
- Sometimes called a “variable rate” mortgage

closed mortgages

- A set term eg., 5 years, 10 years
- A fixed rate of interest
- Provides security
- Less flexibility for making payments

convertible mortgages

- Provides a low rate for a short period of time
- Must “lock in” before the time period expires

split-term mortgages

- Combines features of different mortgage types

types of mortgages (continued)



reverse mortgages

- Provides income to the homeowner
- A loan that is paid back with interest

refinancing

- Obtaining a new mortgage on your current home
- Usually a penalty for breaking the existing mortgage agreement



at the real estate transaction settlement, commonly referred to as the “closing,” the following costs are commonly incurred by a person buying a home:

- Title search fee (\$50-\$150)
- Title insurance (\$100-\$200)
- Lawyer’s fee (amount varies)
- Appraisal fee (\$100-\$300)
- Credit report (\$25-\$75)
- Home inspection (\$200-\$400)
- Reserves for home insurance and property taxes (amount varies)
- Interest paid in advance (if applicable)
- Land transfer tax (amount varies)
- CMHC Insurance (depends on the amount of the loan)
- Mortgage Registration Fee (\$50)
- GST on new home purchase (“new home” means you are the original owner of the home and you are entitled to a rebate of a portion of the GST)

selling your home



prepare your home for selling to increase appeal and market value

- Make necessary repairs
- Paint exterior and interior areas
- Update various features (such as new carpeting or plumbing fixtures)

determine the selling price, based on:

- An appraisal to estimate current market value
- The location, features, and age of the home
- Current mortgage rates and market demand in your area

decide if you will do a "sale by owner"

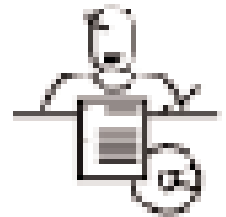
- Advertise your home in various media (newspapers, Internet, flyers)
- Be ready to meet and show your home to prospective buyers
- Make use of the services of a lawyer or title company for the legal aspects

consider using the services of a real estate agent

- Interview two or more agents to compare their service and experience
- Expect the agent to provide a marketing plan and to handle the financial and legal aspects of the sale
- Communicate with the agent on a regular basis regarding the selling price and prospective buyers
- Consider holding an open house for potential purchasers

lesson five

buying a home



student activities

name: _____

date: _____



should they rent or buy?



directions

For each of the following situations, circle **RENT**, **BUY**, or **DEPENDS** to indicate your opinion related to this person's housing decision. Also, give reasons for your response.

Answers may vary.

1. Jasmine, age 22, plans to work full time while completing her college degree in a nearby city.

RENT

BUY

DEPENDS

2. Harry, age 44, travels out of town frequently for his sales job. His company may transfer him to another sales territory within a year or two.

RENT

BUY

DEPENDS

3. Gino, age 32, recently completed his master's degree in business while working at the same company for the past six years. He has also been able to save nearly \$8,000 over this time period.

RENT

BUY

DEPENDS

4. Chelsea, age 19, has just taken her first job as a sales representative trainee for a computer software company.

RENT

BUY

DEPENDS

5. Karen and Vincent, ages 54 and 57, are planning to retire within the next few years.

RENT

BUY

DEPENDS

should they rent or buy? answer key



directions

For each of the following situations, circle **RENT**, **BUY**, or **DEPENDS** to indicate your opinion related to this person's housing decision. Also, give reasons for your response.

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DEPENDS

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RENT

BUY

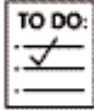
DEPENDS

name: _____

date: _____



conducting a home inspection



Based on personal observations of homes, interviews with homeowners and real estate agents, and using the Internet, list several items to consider when doing an inspection before deciding to buy a home.

exterior facilities:

- 1.
- 2.
- 3.

exterior construction:

- 1.
- 2.
- 3.

interior construction:

- 1.
- 2.
- 3.

interior design:

- 1.
- 2.
- 3.

name: _____

date: _____



shopping for a mortgage

Use the following form to compare two or more sources of home mortgages:

List the source #1 _____ #2 _____

| List the source | #1 _____ | #2 _____ |
|--|----------|----------|
| Type of mortgage: (closed, open. etc.) | | |
| Length: (# years) | | |
| Mortgage amount: | | |
| Financial Institution: (address, phone) | | |
| Contact person: | | |
| Web site: | | |
| Credit report: | | |
| Appraisal fee: | | |
| Interest rate: | | |
| Monthly payment: | | |
| Other fees, charges (prepaid interest): | | |
| Other information: | | |

name: _____

date: _____



computing mortgage payments

Using the following mortgage payment factors, calculate the monthly mortgage payment for the following situations.

mortgage payment factors

(principal and interest factors per \$1,000 of loan amount)

| Term Rate | Amortization Period | | | |
|-----------|---------------------|----------|----------|----------|
| | 25 Years | 20 Years | 15 Years | 10 Years |
| 6.0% | 6.398 | 7.122 | 8.399 | 11.065 |
| 6.5 | 6.698 | 7.405 | 8.664 | 11.311 |
| 7.0 | 7.004 | 7.693 | 8.932 | 11.559 |
| 7.5 | 7.316 | 7.986 | 9.205 | 11.810 |
| 8.0 | 7.632 | 8.284 | 9.482 | 12.064 |
| 8.5 | 7.954 | 8.586 | 9.762 | 12.320 |
| 9.0 | 8.280 | 8.892 | 10.045 | 12.579 |
| 9.5 | 8.610 | 9.202 | 10.332 | 12.840 |
| 10.0 | 8.945 | 9.517 | 10.623 | 13.103 |
| 10.5 | 9.283 | 9.835 | 10.916 | 13.369 |
| 11.0 | 9.625 | 10.156 | 11.213 | 13.637 |

Example: A 25-year mortgage at 6.5 percent for \$100,000.

Calculations: $(\$100,000 \div 1,000) \times 6.698 = \669.80

1. A 15-year mortgage at 8.5 percent for \$75,000. _____
2. A 20-year mortgage at 8 percent for \$95,000. _____
3. A 15-year mortgage at 7 percent for \$155,000. _____
4. A 10-year mortgage at 7.5 percent for \$60,000. _____

computing mortgage payments answer key



Using the following mortgage payment factors, calculate the monthly mortgage payment for the following situations.

mortgage payment factors

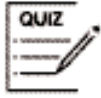
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Calculations: $(\$100,000 \div 1,000) \times 6.698 = \669.80

1. A 15-year mortgage at 8.5 percent for \$75,000 $(\$75,000 \div 1,000) \times 9.762 = \732.15
2. A 20-year mortgage at 8 percent for \$95,000 $(\$95,000 \div 1,000) \times 8.284 = \786.98
3. A 15-year mortgage at 7 percent for \$155,000 $(\$155,000 \div 1,000) \times 8.932 = \$1,384.46$
4. A 10-year mortgage at 7.5 percent for \$60,000 $(\$60,000 \div 1,000) \times 11.559 = \693.54



lesson five quiz: buying a home

true-false

1. _____ A main advantage of renting is pride of ownership.
2. _____ Buying a home will usually have fewer costs than renting.
3. _____ The home buying process ends with closing the purchase transaction.
4. _____ A larger down payment will reduce the amount of the mortgage needed.
5. _____ Conventional or “closed” mortgages usually have a rate that changes as market interest rates change.

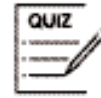
multiple choice

6. _____ A common disadvantage of buying a home is:
 - A. few financial benefits.
 - B. limited mobility.
 - C. restrictions on decorating and having pets.
 - D. conditions in the lease.
7. _____ The home buying process starts with:
 - A. locating and evaluating a home.
 - B. pricing the property.
 - C. determining homeownership needs.
 - D. obtaining an appraisal of the property.
8. _____ The amount of a mortgage a person can afford is affected by:
 - A. the location of the house.
 - B. her or his income.
 - C. the cost of insurance.
 - D. his or her age.
9. _____ A _____ mortgage has a very large final payment.
 - A. conventional
 - B. graduated-payment
 - C. shared-appreciation
 - D. balloon
10. _____ The charges for settling a real estate transaction are also called _____ costs.
 - A. mortgage
 - B. closing
 - C. possession
 - D. selling

case application

Roberto and Shelly have been able to save \$7,000 for a down payment on a house. Roberto would like to buy a large home that is a long drive from their jobs. Shelly would like a small townhouse near their work. What factors should they consider when buying a home?

lesson five quiz: buying a home answer key



true-false

1. t A main advantage of renting is pride of ownership.
2. f Buying a home will usually have fewer costs than renting.
3. t The home buying process ends with closing the purchase transaction.
4. t A larger down payment will reduce the amount of the mortgage needed.
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Roberto and Shelly have been able to save \$7,000 for a down payment on a house. Roberto would like to buy a large home that is a long drive from their jobs. Shelly would like a small townhouse near their work. What factors should they consider when buying a home?

They should start with how much they are able to afford. Next, they should consider the location where they would like to live. In addition, they should investigate various sources and types of mortgages.