

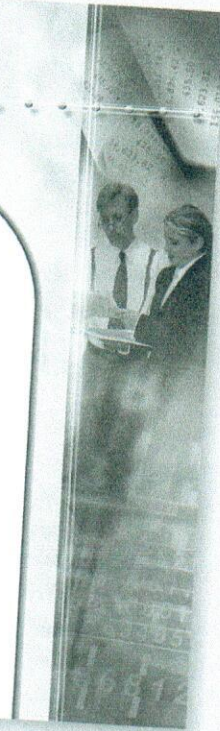
Living in the Real World

The Hunt to Find a Home

Analyze the Story The Sultans had a lot to consider before signing the dotted line and turning over a down payment. They had to consider a feasible monthly mortgage, the cost of utilities and other services, and taxes and insurance.

① **Drawing.** As a class come up with your own plan to purchase a home. Make a table or chart showing your monthly expenses and annual expenses (like taxes and insurance). Ask friends and family members what are typical costs involved based upon living in your area.

② **Examining.** Buying a home requires many trade-offs. For example, the house you might want to live in is close to work, but it's too expensive. Different life situations will require different housing choices. What might be a wise housing choice for a single parent—buying or renting?



After YOU READ

REVIEW OF KEY WORDS

mortgage loan (p. 344)
 interest (p. 346)
 closing costs (p. 349)
 principal (p. 351)
 real estate taxes (p. 355)
 assessed value (p. 355)

tax rate (p. 355)
 market value (p. 355)
 rate of assessment (p. 355)
 homeowners insurance (p. 357)
 loss-of-use coverage (p. 357)
 personal liability (p. 357)

medical coverage (p. 357)
 replacement value (p. 357)
 premium (p. 359)
 fire protection class (p. 359)
 utility costs (p. 361)

Match one of the key words above with a definition below.

- an amount paid for an insurance policy.
- a loan whereby the lender has the right to sell the property if payments are not made.
- fees paid at the time documents are signed transferring ownership of a home.
- public services such as water, phone, electricity, and garbage pickup.
- an amount owed upon which interest charged is calculated.
- fees collected on the ownership of property used to support the operation of government.
- the price at which a house can be bought or sold.
- pays for the expenses of living away from home while home repairs are being completed.
- the amount required to reconstruct your home if it is destroyed.
- a number that reflects the quality of fire protection in your area.

SECTION OBJECTIVE 10-1 AND EXAMPLES

Compute the mortgage loan amount.

Desiree Ramsey is considering the purchase of a new condominium for \$95,500. A 20 percent down payment is required. What is the amount of the mortgage loan needed to finance the purchase?

STEP 1: Find the down payment.
 $\$95,500 \times 20\% = \$19,100$

STEP 2: Find the mortgage loan amount.
 Selling Price - Down Payment
 $\$95,500 - \$19,100$
 $= \$76,400$ mortgage loan amount.

REVIEW EXERCISES

Complete the table below.

	Selling Price	Down Payment	Down Payment	Mortgage Loan Amount
11.	\$132,600	25.0%	a.	b.
12.	87,500	15.0%	a.	b.
13.	306,200	$17\frac{1}{2}\%$	a.	b.
14.	198,000	$\frac{1}{8}$	a.	b.

SECTION OBJECTIVE 10-2 AND EXAMPLES

Determine the monthly payment, total amount paid, and total interest charged.

Dee and Cissy White have applied for a \$125,500 mortgage loan at an annual interest rate of 6 percent. The loan is for a period of 25 years and will be paid in equal monthly payments that include interest. What is the total amount of interest charged?

STEP 1: Find the monthly payment. (Refer to Figure 10.1 on page 346.)

$$\frac{\text{Amount of Mortgage}}{\$1,000} \times \text{Monthly Payment for a \$1,000 Loan}$$

$$\frac{\$125,500}{\$1,000} \times \$6.44$$

= \$808.22 monthly payment

STEP 2: Find the amount paid.

$$\text{Monthly Payment} \times \text{Number of Payments}$$

$$\$808.22 \times (12 \text{ months} \times 25 \text{ years})$$

$$\$808.22 \times 300$$

= \$242,466 amount paid

STEP 3: Find the total interest charged.

$$\text{Amount Paid} - \text{Amount of Mortgage}$$

$$\$242,466 - \$125,000$$

= \$116,966 total interest charged

REVIEW EXERCISES

Complete the table below.

	Mortgage	Years	Rate	Monthly Payment	Total Amount Paid	Total Interest Charged
15.	\$ 75,500	25	5.5%	a.	b.	c.
16.	83,900	20	6.0%	a.	b.	c.
17.	123,900	25	6.5%	a.	b.	c.
18.	156,000	30	7.5%	a.	b.	c.

SECTION OBJECTIVE 10-3 AND EXAMPLES

Figure out the total closing costs.

Shannon and Glenn Shelton have been granted a \$150,000 loan. When they sign the papers to purchase their new home, they will have to pay the closing costs shown. What is the total of their closing costs? What is the actual amount financed with the mortgage?

Closing Costs

Appraisal fee	\$250
Credit report	75
Title search	275
Service fee	1.3% of mortgage
Legal fees	295

STEP 1: Find the closing costs. (Refer to the chart next to this problem.)

$$\$250 + \$75 + \$275 + (\$150,000 \times 1.3\%) + \$295 = \$2,845$$

STEP 2: Find the actual amount financed.

Amount of Mortgage	+	Closing Costs
\$150,000	+	\$2,845
= \$152,845 amount financed		

Closing Costs

Credit report	\$ 55
Loan origination	2% of mortgage
Abstract of title	155
Attorney fee	325
Documentation stamp	0.325% of mortgage
Processing fee	1.10% of mortgage

REVIEW EXERCISES

Use the list of closing costs for Problems 19–22.

- | | |
|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| 19. Sung and Mu Lee.
Mortgage loan of \$245,600.
What are the total closing costs? | 21. Josh and Judy Jones.
Mortgage loan of \$128,300.
What are the total closing costs? |
| 20. Greg and Kaye Meiers.
Mortgage loan of \$97,500.
What are the total closing costs? | 22. Rochelle St. James.
Mortgage loan of \$88,000.
What are the total closing costs? |

SECTION OBJECTIVE 10-4 AND EXAMPLES

Compute the allocation of monthly payment toward principal, interest, and the new principal.

Rowena Tinley obtained a 30-year \$90,000.00 mortgage from State Bank. The interest rate is 7.5 percent. Her monthly payment is \$629.10. For the first payment, what is the interest? What is the payment to principal? What is the new principal?

STEP 1: Find the interest. $\text{Principal} \times \text{Rate} \times \text{Time}$
 $\$90,000.00 \times 7.5\% \times \frac{1}{12} = \562.50 interest

STEP 2: Find the payment to principal. $\text{Monthly Payment} - \text{Interest}$
 $\$629.10 - \$562.50 = \$66.60 \text{ payment to principal}$

STEP 3: Find the new principal. $\text{Previous Balance} - \text{Payment to Principal}$
 $\$90,000.00 - \$66.60 = \$89,933.40 \text{ new principal}$

REVIEW EXERCISES

Complete the table below.

	Mortgage Amount	Interest Rate	First Monthly Payment	Amount for Interest	Amount for Principal	New Principal
23.	\$ 60,000	7.0%	\$ 399.00	a.	b.	c.

SECTION OBJECTIVE 10-5 AND EXAMPLES

Calculate the assessed value and real estate taxes.

The Orange County tax assessor stated that the market value of the Marvin Hotel is \$950,000. The rate of assessment in Orange County is 55 percent of market value. The tax rate is 34.50 mills. What is the real estate tax on the Marvin Hotel?

STEP 1: Find the assessed value. $\text{Market Value} \times \text{Rate of Assessment}$
 $\$950,000 \times 55\% = \$522,500$ assessed value

STEP 2: Express the tax rate as a decimal. $34.50 \text{ mills} \div 1,000 = 0.0345$ tax rate

STEP 3: Find the real estate tax. $\text{Tax Rate} \times \text{Assessed Value}$
 $0.0345 \times \$522,500.00 = \$18,026.25$ real estate tax

REVIEW EXERCISES

27. The tax rate is 54.5 mills, the market value is \$95,000, and the rate of assessment is 45 percent. Find the assessed value, the tax rate as a decimal, and the real estate tax.
28. Sun Ri Pak's home is located in a town where the rate of assessment is 30 percent of market value. The tax rate is \$43.46 per \$1,000 of assessed value. His home has a market value of \$229,500. What is the assessed value? What is the property tax?
29. Harvey and Marie Levan own a home with a market value of \$542,000. The rate of assessment is 60 percent and the tax rate is 24.31 mills. What is the annual real estate tax?
30. Steve and Shelia Hitt own a home in a retirement community. The home has a market value of \$87,400. The rate of assessment is 50 percent and the tax rate is \$30.45 per \$1,000 of assessed value. What is their yearly real estate tax?

SECTION OBJECTIVE 10-6 AND EXAMPLES

Work out the amount of coverage.

Use Figure 10.4 on page 357 to answer the problems in this section. The replacement value of Todd and Melissa Dewey's home is \$86,500. They have insured their home for 80 percent of the replacement value. According to the guidelines found in Figure 10.4, what is the amount of coverage on the Deweys' personal property?

STEP 1: Find the amount of coverage on the home. $\text{Replacement Value} \times \text{Percent}$
 $\$86,500 \times 80\% = \$69,200$

STEP 2: Find the amount of coverage on personal property.
 $\text{Amount of Coverage on Home} \times \text{Percent}$
 $\$69,200 \times 50\% = \$34,600$ coverage on personal property

REVIEW EXERCISES

Find the amount of coverage and the amount of insurance.

	Replacement Value	Percent Covered	Amount of Coverage	Amount of Insurance for Garage
31.	\$124,500	90%	a.	—
32.	65,000	75%	a.	—
33.	250,000	85%	a.	b.
34.	87,000	80%	a.	—

SECTION OBJECTIVE 10-7 AND EXAMPLES

Calculate the annual homeowners insurance premium.

The Cunninghams' wood-frame house. Replacement value of \$150,000. Fire protection class 10. What is the annual premium? (Use Figure 10.5 on page 359 to answer the problem.)

Answer: \$692

REVIEW EXERCISES

Complete the table below. (Use Figure 10.5 on page 359 to answer the problems.)

	Type of Construction	Replacement Value	Percent Covered	Fire Protection Class	Annual Premium
35.	Brick	\$100,000	80%	5	
36.	Brick	100,000	90%	11	
37.	Wood frame	120,000	100%	8	
38.	Wood frame	200,000	75%	10	

SECTION OBJECTIVE 10-8 AND EXAMPLES

Compute the total housing cost and compare it with suggested guidelines.

Peter and Lucy Cole have a combined monthly take-home pay of \$2,550. They keep a record of their monthly housing expenses. The list of expenses for April is shown. Were their housing costs for April within FHA guidelines?

Housing Expenses for April

Rent payment	\$886.50
Renters insurance	36.00
Gas—heat	54.00
Electricity	108.20
Telephone service	35.50

STEP 1: Find the monthly cost.

$$\$886.50 + \$36.00 + \$54.00 + \$108.20 + \$35.50 = \$1,120.20$$

STEP 2: Find the recommended maximum.

$$\$2,550.00 \times 35\% = \$892.50$$

STEP 3: Compare. Is the total monthly cost less than the recommended maximum? Is \$1,120.20 less than \$892.50? **No, the Coles are not within the guidelines.**

REVIEW EXERCISES

Find the recommended FHA maximum. (Round to nearest \$1.)

	Monthly Net Pay	Recommended FHA Maximum
39.	\$2,540	
40.	3,298	
41.	1,298	