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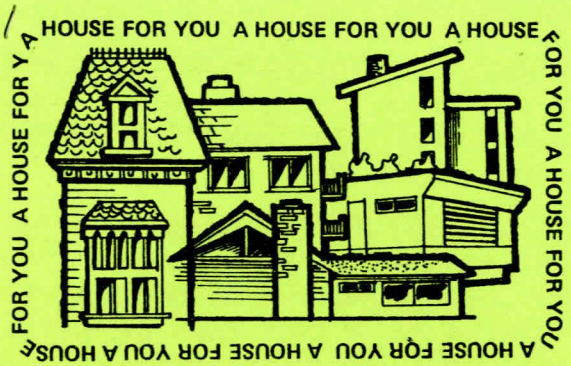

Financial and Legal Aspects of Home Ownership

You may have the picture of your dream home complete, but when it comes down to home financing, it's time to put the daydreaming aside. It's time to be realistic about the costs of putting a roof over your head. Knowing key facts about buying and financing a home can prevent a strain on you—and a drain on your pocketbook.

HOW MUCH CAN YOU SPEND?

Now is the time to count dollars and not dreams. One rule of thumb is that a family should spend no more than two to two and one-half times its total annual income for a home. Thus, a family with an income of $7,500 could spend $7,500 x 2½ or $18,750 for their house.

Another rule is to limit housing expenses to one week's pay from each month's salary. By this rule, a family with a monthly income of $800 could afford to pay approximately $200 for housing. This amount should include all aspects of housing: mortgage payments, insurance, taxes, home furnishings and utilities.

These are general guidelines and should be heeded with considerable caution. They do not take into account specific facts about a particular family. For example, the size of the family, ages of children, heavy debts, support of parents, etc.

In order to really know what you can spend on housing, you must carefully evaluate your financial situation, and then compare it with the initial cost of housing and its running expenses. The attached worksheet will help you estimate this.

Whatever figure you finally select for your maximum housing budget, try to retain some margin for savings. Don't let your home destroy your other plans. It shouldn't interfere with building a college fund or investing for retirement.

SHOPPING FOR A MORTGAGE

Nine out of ten of us must finance the purchase of a house. We require a mortgage loan. A lender lays out the cash to buy the house. You sign a legal document binding yourself to pay him back regularly over a period of years. In reality, the mortgage loan represents one of the most favorable consumer loans of any kind, with the lowest overall interest rates of virtually all consumer loans.

An important key to remember is: don't bite off more mortgage than you can chew. It's tempting to choose a short-term mortgage with large monthly payments in order to pay off the mortgage as quickly as possible. It's often much better for your peace of mind to choose a loan with smaller payments and a longer repayment period. In this way you don't dig too deeply into your reserves. Every family needs a rainy day fund—and because roofs leak and other catastrophes befall them—homeowners need one most of all.

LEGAL LINGO

Every business has its own "lingo." The housing business is no exception. Before shopping for your home, become familiar with the terms of the trade. In this way, you'll be able to discuss and understand more completely the arrangements you make. Here are some terms you'll hear used often:

ABSTRACT (or search) OF TITLE—This is a method of checking the safety of the title to a piece of property. It consists of a brief history of the ownership of the property prepared by a lawyer or other trained person. The abstract lists all former transactions affecting ownership, such as liens or claims, deeds, mortgages, sales and any

other matter that bears on the title to the property. An abstract makes the buyer reasonably sure that the title is free from defect.

CERTIFICATE OF TITLE—A declaration in writing that signifies ownership.

CLOSING COSTS—Expenses paid at the time the mortgage and note are signed. These costs are in addition to the price of the property.

DEED—This is a legal paper transferring the title of property from seller to buyer.

EARNEST—A partial payment of the selling price for the purpose of binding the contract.

EQUITY—The part of the house and property you have paid for. This includes the down payment, monthly principal payments you have paid and any permanent improvements on the property.

ESCROW AGREEMENT—This provides that insurance and real estate taxes be paid by the lender. The monthly mortgage payment is increased by the necessary amounts to pay these costs. If the amount of taxes and insurance changes, an adjustment is made.

LEASE—The contract between owners and renters of properties stipulating rents to be paid, condition of the property and other responsibilities of each party.

AMORTIZED MORTGAGE—Payments divided into fixed monthly payments including interest which reduces the principal of the mortgage. The early monthly payments include mostly interest and only small amounts of principal repayment. As the principal decreases, a larger percentage of the monthly payment is applied to repayment of the principal until the load is repaid.

CONVENTIONAL MORTGAGE—A contract for agreement between you and the lending institution to borrow money for a house purchase. It is subject to conditions established by the lending institution and state statutes.

FHA MORTGAGE—A mortgage loan secured from a lending institution and insured by the Federal Housing Administration against loss to the lender. A lower down payment is required than for a conventional mortgage.

OPEN END MORTGAGE—This type permits the borrower to borrow additional money under the original mortgage up to the original amount without securing a new mortgage; rates of interest may vary from the original mortgage.

PACKAGE MORTGAGE—This type permits the borrower to include the cost of equipment such as refrigerator, range, washer, dryer, etc., in the original mortgage.

M.G.I.C. MORTGAGE—A mortgage loan secured from a lending institution and insured by the Mortgage Guarantee Insurance Corporation against loss to the lender. A lower down payment is required than for a conventional mortgage.

VA MORTGAGE—A mortgage loan available only to qualified veterans and secured through a lending institution with low down payment, low interest rates and a long repayment period.

PREPAYMENT—This permits you to pay off the mortgage before maturity without penalty (a waiting period may be specified). You may find you want to re-finance at lower rates or to pay off the mortgage in full before it is due.

POINTS—Discounts, 1 point being 1 per cent, making the loan yield more to the lender to compensate for low interest rates. They are usually reserved for low down payment loans and are charged at the time the loan is made.

TITLE INSURANCE—Insurance to protect ownership of the property.

THE COST OF CLOSING THE DEAL

You've found the home that satisfies your dreams, and your budget. But buying a house and getting a loan to finance it involves the completion of a number of transactions before the property officially becomes yours. The charges for these transactions are called *closing costs.* These are in addition to your down payment and in most cases must be paid in cash at the closing day. They customarily add up to several hundred dollars and may run more than $1,000.

These costs are generally broken down as follows:

Buyer's Expenses	Seller's Expenses
Documentary stamps on Notes	Cost of Abstract
Recording Deed and Mortgage	Documentary stamps on Deed
Escrow Fees	Real Estate Commission
Attorney's Fee	Recording Mortgage
Title Insurance	Survey Charge
Appraisal & Inspection	Escrow Fees
Survey Charge	Attorney's Fee

Some charges that likely to show up in closing costs are:

. Credit report—This check, usually through the local credit bureau, determines your financial and credit status in the community.

. Survey—To make certain the property you buy matches that described in the deed. Boundary lines and the dimensions and locations of buildings are checked and described.

. Title (Search and Examination)—Public records are searched to make sure that title to the property is undisputed and that the seller has the legal right to transfer title.

. Title Insurance—For a one-time premium, this insurance protects the lender against financial loss from any title defects not revealed in the title search. It covers loss because of any valid claim and for the cost of legal defense against title attack. For an additional premium, similar protection can be given to the buyer.

. Attorney Fees—These are the charges—unless reported elsewhere—for any or all services by lawyers.

. Origination Fee—This sum, normally limited by FHA and VA to 1 per cent of the face amount of the mortgage, is the lender's charge for arranging the loan.

. Preparation of Documents—Lumped together here are the miscellaneous fees charged for drawing up the mortgage, deed or note.

. Closing Fee—This is the amount paid to an attorney, title company or other party for handling the settlement transaction.

. Recording Fees—When documents formalizing the transaction are entered upon the county's registry books, there will be a number of small fees and taxes to pay. Usually the notary fee is included here, although it may also appear under "preparation of documents."

. Transfer Taxes—These are taxes levied when property changes ownership or when a real estate loan is made.

. Escrow Fees—Included here are any amounts paid to a third party who may act as the custodian of money and documents to be held until transactions are completed.

At closing time, you may also be asked to make payments in advance for such items as property insurance and taxes.

Be prepared for these costs. Get a breakdown of the estimated costs as soon as possible before settlement. Closing costs are not a small item!!

COST OF LIVING IN YOUR HOME

There is one last consideration to make in discussing the financial aspects of housing. Many families do all the right things in shopping for a home except to check on how much it will cost to keep the home running. The real estate agent may have only sketchy facts to go on. The owner himself may be unable to provide hard figures. If you have trouble pinning down actual expense figures, here's a guide.

Take the cost of the house, subtract 5 per cent from it, and then take 1 per cent of the remainder. The result is the approximate amount you should expect to spend each month on the mortgage payment, insurance, taxes, maintenance, repairs and utilities.

For example, if the house costs $20,000 and is on a 30-year loan, a 5 per cent down payment would be $1,000 - leaving a mortgage of $19,000. One per cent of this would be $190, the monthly estimate of all housing expense items. If you pay more than 5 per cent down, which you probably will do, or have a shorter term mortgage, you can adjust the total monthly housing expense by subtracting or adding the amount by which the monthly mortgage payment would be changed.

Remember this formula produces only a rough estimate of expenses. If actual figures are available, use them.

CONCLUSION

Take time to complete the Housing Budget Worksheet. This procedure has been designed to help you establish a conservative, safe estimate of the amount you can spend for housing.

In consideration of what you can afford in the line of housing, remember, it's hard to put a value on the peace of mind that comes from living in a home that you can prove you can afford—with real figures.

ESTIMATING YOUR HOUSING ALLOWANCE

Incomes and Expenses

	Amount
Income:	
Wages, salary .....$	_____
Net profit from business, farm, profession	_____
Interest, dividends	_____
Other income	_____
Total .....$	_____
Deductions withheld for:	
Income taxes .....$	_____
Social security, retirement	_____
Insurance (life, health, etc.)	_____
Other	_____
Total .....$	_____
Total take-home pay ....$	_____
Housing expenses:	
Rent, mortgage payments .....$	_____
Utilities, fuel	_____
House furnishings	_____
Other	_____
Total .....$	_____
Non-housing expenses:	
Food, beverages .....$	_____
Clothing, personal care	_____
Medical care	_____
Recreation, education.....	_____
Car expense, transportation	_____
Gifts, contributions	_____
Installment payments	_____
Income taxes, insurance*	_____
Savings	_____
Other	_____
Total .....$	_____
TOTAL EXPENSES .....$	_____

* **Include additional payments.**

THINGS TO DO TO MAKE DECISIONS EASIER

1. Check with *all* loan agencies in your area. What does each offer? You may be surprised at the differences.
2. Find out if you qualify for a VA loan. What does this offer in terms of $ for you?
3. Find out what a FHA (Federal Housing Administration) loan offers for your situation.
4. Call the regional Farmers Home Administration office. See what they might be able to offer you.
5. Make charts of all of the different types of loans available to you to determine which would be the best.
6. Before talking to loan offices, have lists of questions to ask! Check off the list as you get each answer.
7. Do not sign anything without reading **AND** understanding it.

Adapted by Betsy Gabb, Housing Specialist, from material prepared by Kay McKenzie, former Sarpy County Extension Agent, Georgia Skinker, former Home Management Specialist, and Mary Dale Christensen, former Housing Specialist.

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