

*The typical Cape Cod home of Levittown, New York, ca. 1948.  
Image courtesy of the Levittown Public Library collection.*



**\$135,000 DEBT**  
**\$15,000 EQUITY**

Closing Day  
Equity buildup begins



**\$75,000 DEBT**  
**\$75,000 EQUITY\***

Year 22  
Home is *half* paid off



**\$150,000 EQUITY\***

Year 30  
Home is paid off

*\*Not including equity gained through price appreciation*

**FIGURE 1.1**

## AS YOUR HOME APPRECIATES, YOUR EQUITY GROWS

$$\text{Equity} = \text{Purchase Price} + \text{Appreciation} - \text{Remaining Debt}$$

**\$135,000 DEBT**



**\$15,000 EQUITY**

**CLOSING DAY**

Purchase price:	\$150,000
Appreciation:	+ \$0
Current home value:	\$150,000
Remaining debt:	- \$135,000
<b>Total Equity =</b>	<b>\$15,000</b>

**\$75,000 DEBT**



**\$280,000 EQUITY**

**YEAR 22**

Purchase price:	\$150,000
Appreciation:	+ \$205,000
Current home value:	\$355,000
Remaining debt:	- \$75,000
<b>Total Equity =</b>	<b>\$280,000</b>



**\$486,000 EQUITY**

**YEAR 30**

Purchase price:	\$150,000
Appreciation:	+ \$336,000
Current home value:	\$486,000
Remaining debt:	- \$0
<b>Total Equity =</b>	<b>\$486,000</b>

Simply put, equity is your home's value, minus the amount you still owe. Over time, your home's value can grow through appreciation. In the example above, you actually see how much it would grow with the historical appreciation of approximately 4 percent a year in the United States and Canada.

**FIGURE 1.2**

## **BE READY FOR CLOSING COSTS**

Lender's fees and other closing costs in the United States can add 3 to 5 percent to your home's purchase price.

### **LIKELY LENDER FEES**

1. Origination fee ("points")
2. Administration fee
3. Application fee
4. Broker or lender fee
5. Commitment fee
6. Document preparation
7. Underwriting fee

### **LIKELY THIRD-PARTY FEES**

1. Credit report
2. Home appraisal
3. Pest inspections
4. Recording fees
5. Settlement fees
6. Survey
7. Tax and insurance prepayment
8. Title search
9. Title insurance
10. Courier services

### **AND ALWAYS ASK**

"What other costs will I be responsible for to get our home closed?"

## INTEREST RATES IMPACT HOW MUCH HOUSE YOU CAN AFFORD

If you can afford a \$1,000 monthly mortgage payment (not including taxes and insurance), a low interest rate can allow you to afford a higher-priced home. Your rate will also determine how much interest you pay over the life of your loan.

LOAN AMOUNT	INTEREST RATE	MONTHLY P&I PAYMENT	TOTAL INTEREST PAID OVER 30 YEARS
\$136,000 	8%	\$998	\$223,251
\$150,000 	7%	\$998	\$209,263
\$166,000 	6%	\$995	\$192,291

For the last twenty years, the mortgage interest rate averaged approximately 7 percent in both the United States and Canada.

FIGURE 3.1

### ADJUSTABLE-RATE MORTGAGE (ARM)

Imagine you're considering a 5/1, thirty-year ARM with a one-year teaser rate and a lifetime payment cap of 11 percent. After the teaser, the rate begins at an attractive 5 percent. Even with a two-point adjustment cap, however, a sudden rise in the index rate could more than double your rate—and your payment—in less than a decade.

<b>RATE AND APPLICABLE YEARS</b>	<b>NO-CHANGE SCENARIO</b>	<b>WORST-CASE SCENARIO</b>	<b>WORST-CASE SCENARIO WITH TWO-POINT ADJUSTMENT CAP</b>
<b>Teaser Rate (Year 1)</b>	\$835 / month at 4%	\$835 / month at 4%	\$835 / month at 4%
<b>Initial Rate (Years 2-5)</b>	\$939 / month at 5%	\$939 / month at 5%	\$939 / month at 5%
<b>Adjustable Rate (Year 6)</b>	\$939 / month at 5%	\$1,667 / month at 11%	\$1,664 / month at 7%
<b>Adjustable Rate (Year 7)</b>	\$939 / month at 5%	\$1,667 / month at 11%	\$1,408 / month at 9%
<b>Adjustable Rate (Year 8)</b>	\$939 / month at 5%	\$1,667 / month at 11%	\$1,667 / month at 11%

To understand the Financial Impact of an ARM on Monthly Payments: At 4 percent, a \$175,000 mortgage = \$835/month  
But at 11 percent, a \$175,000 mortgage = \$1,667/month

**FIGURE 3.2**

## DO THE MATH: FIND THE RIGHT MORTGAGE TERM

	15-YEAR	30-YEAR WITH ADDITIONAL \$200 MONTHLY PRINCIPAL PREPAYMENT	30-YEAR	40-YEAR
<b>Amount Borrowed</b>	\$175,000	\$175,000	\$175,000	\$175,000
<b>Interest Rate</b>	7.5%	7.5%	7.5%	7.5%
<b>Monthly Payment</b>	\$1,622	\$1,424	\$1,224	\$1,151
<b>Interest Paid Over Life of Loan</b>	\$117,009	\$159,111	\$265,505	\$377,779
<b>How It Stacks Up</b>	A 15-year mortgage requires a higher monthly payment but dramatically reduces the amount you pay over the life of the loan. Plus, these mortgages usually come with a lower interest rate.	Voluntary prepayment on a 30-year mortgage essentially converts it to a 20-year while allowing you the flexibility to drop to the lower payment level if necessary.	The 30-year term is the most common in the industry. It offers reasonable monthly payments and a reasonable payoff time.	The 40-year mortgage allows you to stretch into a bigger house. Over time, however, the extra interest really adds up.

**FIGURE 3.3**

## **Understanding Amortization**

<b>Principal loan amount:</b>	<b>\$175,000</b>
<b>Interest rate:</b>	<b>6.5%</b>
<b>Interest accrued over 30 years:</b>	<b>\$223,202</b>
<b>Total principal plus total interest:</b>	<b>\$398,202</b>
<b>Divided by 360 monthly payments:</b>	<b>\$1,106</b>



## BASIC CREATIVE FINANCING FOR PROPERTY ACQUISITIONS

<p><b>{1}</b> <b>CONVENTIONAL FINANCE</b> Owner Owes \$0 to \$100,000+</p> <ul style="list-style-type: none"> <li>• \$80,000 Conventional Loan</li> <li>• \$20,000 Down Payment</li> <li>• One Monthly Payment</li> </ul> <p style="text-align: center;"><b>or</b></p> <ul style="list-style-type: none"> <li>• \$80,000 Conventional Loan</li> <li>• \$10,000 Conventional Second</li> <li>• \$10,000 Down Payment</li> <li>• Two Monthly Payments</li> </ul> <p style="text-align: center;"><b>or</b></p> <ul style="list-style-type: none"> <li>• \$80,000 Conventional Loan</li> <li>• \$15,000 Private Second</li> <li>• \$5,000 Down Payment</li> <li>• Two Monthly Payments</li> </ul>	<p><b>{2}</b> <b>OWNER FINANCE</b> Owner Balance \$0 to \$20,000</p> <ul style="list-style-type: none"> <li>• \$80,000 Loan from Owner</li> <li>• \$20,000 Down Payment</li> <li>• One Monthly Payment</li> </ul> <p style="text-align: center;"><b>or</b></p> <ul style="list-style-type: none"> <li>• \$80,000 Loan from Owner</li> <li>• \$10,000 Private Second</li> <li>• \$10,000 Down Payment</li> <li>• Two Monthly Payments</li> </ul> <p style="text-align: center;"><b>or</b></p> <ul style="list-style-type: none"> <li>• \$95,000 Loan from Owner</li> <li>• \$5,000 Down Payment</li> <li>• One Monthly Payment</li> </ul>	<p><b>{3}</b> <b>ASSUMABLE FINANCE</b> Owner Balance \$80,000</p> <ul style="list-style-type: none"> <li>• \$80,000 Assumed from Owner</li> <li>• \$20,000 Down Payment</li> <li>• One Monthly Payment</li> </ul> <p style="text-align: center;"><b>or</b></p> <ul style="list-style-type: none"> <li>• \$80,000 Assumed from Owner</li> <li>• \$10,000 Private Second</li> <li>• \$10,000 Down Payment</li> <li>• Two Monthly Payments</li> </ul> <p style="text-align: center;"><b>or</b></p> <ul style="list-style-type: none"> <li>• \$90,000 Assumed from Owner</li> <li>• \$15,000 Private Second</li> <li>• \$5,000 Down Payment</li> <li>• Two Monthly Payments</li> </ul>	<p><b>{4}</b> <b>WRAP FINANCE</b> Owner Balance \$80,000</p> <ul style="list-style-type: none"> <li>• \$90,000 New Loan from Owner</li> <li>• Owner Continues to Pay Original Loan</li> <li>• \$10,000 Down</li> <li>• One Monthly Payment</li> </ul> <p style="text-align: center;"><b>or</b></p> <ul style="list-style-type: none"> <li>• \$95,000 New Loan from Owner</li> <li>• Owner Continues to Pay Original Loan</li> <li>• \$5,000 Down Payment</li> <li>• One Monthly Payment</li> </ul>
<p><b>OR</b> If you can't utilize one of these Creative Financing opportunities for Ownership of the property, you may be able to Lease Option the property until you're able to take ownership.</p>		<p style="text-align: center;"><b>{5}</b> <b>LEASE OPTION</b></p> <ul style="list-style-type: none"> <li>• Lease the property while you accumulate enough savings to buy it from the owner.</li> <li>• Option to buy at end of the contract.</li> </ul>	

**FIGURE 3.4**

**Olivia has \$15,000 in student loans, just bought a new car, and has several credit cards with balances.**

Car payment	\$350
Student loans	\$150
Credit card minimum	+ \$150
Monthly nonhousing debt	<u>\$650</u>
Maximum total debt payment (36 percent of \$4,000)	\$1,440
	- \$650
Safe housing payment	<u>\$790</u>

**Alex's student loans are paid off, he has little credit card debt, and his car is an economy model.**

Car payment	\$200
Credit card minimum	+ \$50
Monthly nonhousing debt	<u>\$250</u>
Maximum total debt payment (36 percent of \$4,000)	\$1,440
	- \$250
Safe housing payment	<u>\$1,190</u>

**FIGURE 3.5**

## DETERMINING YOUR NEEDS: FINDING A WIN-WIN SOLUTION

### QUESTION: DO I NEED A FENCE?

Darren wants a home with a fence. Anna, his colleague, also wants a home with a fence. But they have different reasons.

### CONSULTATION

Darren has two big dogs he wants to keep outside. Anna wants privacy.

### WIN-WIN SOLUTION

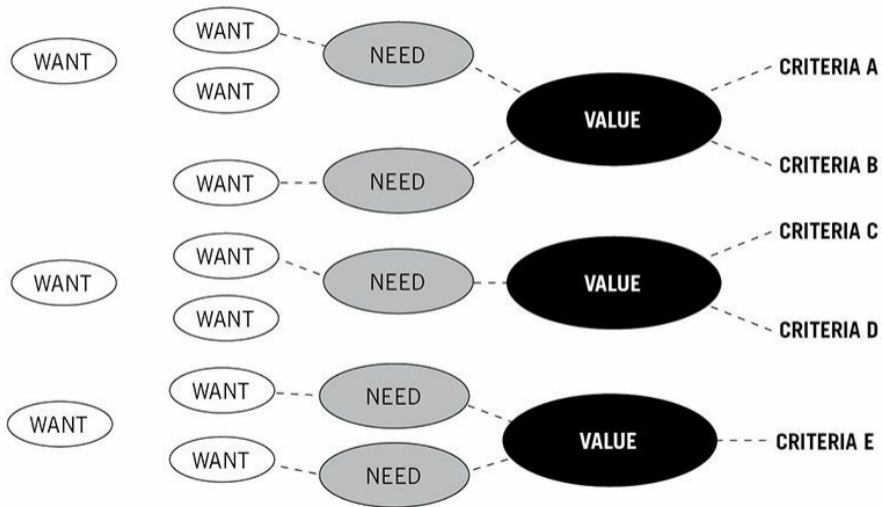
Darren's home will fulfill this need if it has:

- a fence, OR
- a seller willing to pay for a fence, OR
- a final sales price that leaves money to pay for a fence on his own.

Anna's home will fulfill this need if it has:

- a fence, OR
- a fence allowance, OR
- many trees, OR
- a location on a hill or on a very large lot.

**THE RIGHT HOUSE WILL MEET ALL OF YOUR NEEDS, AND AS MANY OF YOUR WANTS AS POSSIBLE**



**FIGURE 4.1**

## **ANALYZE WHAT YOU WANT AND WHAT YOU NEED IN A HOME'S FEATURES AND AMENITIES**

### **Features**

- Age: Do you prefer historic properties, or newer ones?
- Style: Do you have a special preference for ranches, bungalows, or another style of construction?
- Bedrooms: How many?
- Bathrooms: How many? Are they updated?
- Living and Dining Areas: A traditional, formal layout, or a more open, contemporary plan?
- Stories: How many?
- Square feet: How much space?
- Ceilings: How high?
- Kitchen: How big? Recently updated?  
Open to the other living areas?
- Storage: Big closets, a shed, an extra-large garage?
- Parking: A garage or carport? Room for how many cars?
- Extras: Attic or basement?

### **Amenities**

- Office
- Play/exercise room
- Security system
- Sprinkler
- Workshop/studio
- In-law suite
- Fireplace
- Pool
- Hot tub
- Sidewalk
- Wooded lot
- Patio, deck, or porch
- Laundry room

## WHAT YOU SEE . . . AND WHAT YOUR AGENT KNOWS

***YOUR JOB*** is to see how the home stacks up to your wants and needs.

Questions YOU answer:

1. Does it have the right space and layout for my lifestyle?
2. Does it offer value to me?
3. Is the location convenient to my job and my kids' schools?
4. Does it have features and amenities I like?

***YOUR AGENT'S JOB*** is to know how the home stacks up to its competition.

Questions YOUR AGENT answers:

1. Does its size and layout compare well to others around it?
2. Does it offer value in relation to other homes around it?
3. Will the location hold its value?
4. Does it show signs of major maintenance or structural concerns?

## WHAT'S A FAIR PRICE FOR 345 CARDINAL LANE?

Welcome to The Grasslands, a quiet neighborhood built in the 1960s. Most home here have three bedrooms, range from about 1,500 to 1,750 square feet, and have been selling between \$140,000 and \$180,000. You want to make an offer on 345 Cardinal Lane, listed at \$165,000. What price will you offer?



123 Eagle Pass

- Three bedrooms
- 1.5 baths
- 1,550 square feet
- No recent updates
- On busy street
- Average-sized yard
- Listed as “handyman’s special”

Sold last week for  
\$90/square foot,  
or \$139,500



345 Cardinal Lane

- Three bedrooms
- Two baths
- 1,650 square feet
- Roof and kitchen both updated in the past five years
- Large yard
- On quiet street

*You decide to offer  
\$95/square foot,  
or \$157,000*



223 Robin Lane

- Three bedrooms
- 2.5 baths
- 1,725 square feet
- Kitchen renovated last year
- Brand-new deck
- Huge backyard with landscaping
- On cul-de-sac
- Finished basement

Sold two weeks ago for  
\$102/square foot,  
or \$175,950

FIGURE 5.1

## GOOD HOME HABITS

### Keeping It Clean

Perform routine maintenance on your home's systems, depending on their age and style.

*In general, your list should include the following:*

1. Clean your gutters once a year.
2. Change your air filters every two to three months or when they appear dirty.
3. Have your heating and air conditioning professionally serviced once a year.
4. Change the batteries in your smoke detector once a year.
5. Read your appliance manuals for recommended upkeep, such as changing your refrigerator's water filter.

### Keeping An Eye On It

Watch for signs of leaks, damage, and wear. Fixing small problems early can save you big money later.

*Items to be aware of include:*

1. Cracks in the ceiling or walls could indicate foundation problems.
2. Water stains indicate leaks, which need to be fixed as soon as possible.
3. Eroding caulk around doors and windows can let in moisture that causes dangerous mold growth inside your walls.
4. Buckling or faded shingles indicate your roof is nearing the end of its life.
5. Tree branches scraping your roof can damage shingles and allow pests access to your home.
6. Signs of pests common to your area.