A Roof Over Your Head

FDIC Money Smart for Young Adults
Objectives

• Identify initial and continuing costs of renting an apartment.
• List questions to ask when determining if you are ready to buy a home.
• List the costs associated with renting and owning.
• Describe the benefits and pitfalls of renting versus owning a home.
• Identify how you can guard against predatory lending practices.
A Roof Over Your Head

WOW! MY NEW JOB IS GOING TO BE GREAT!

HEY, NOW THAT I'M WORKING, I CAN MOVE OUT ON MY OWN!

IT WOULD BE FUN TO HAVE MY OWN APARTMENT!
Renting a Home

• Advantages:
  – No property maintenance
  – Rental contract 1 year or less
  – No homeowner associated costs

• Disadvantages:
  – You are not the owner
  – Your rent might increase
  – You might not be able to renew your contract
Owning a Home

• Advantages:
  – Building equity
  – Good investment
  – Tax-deductible mortgage interest

• Disadvantages:
  – Property maintenance and upkeep
  – Not as easy to move as renting
Renting Your Own Space

• Lease: a legal document that protects you and the landlord

• Includes:
  – Conditions
  – Payment and term (e.g., 1 year)
  – Fees
  – Each party’s responsibilities
Move In Costs

- A security deposit
- Payment of the first month’s rent
- Fees, including credit report fees or pet fees
- Costs of connecting utilities
Monthly Expenses

- Rent
- Fees (storage, pet fees, parking, etc.)
- Utilities
- Renters insurance, which is usually optional
Rent Increases

• Your landlord is not allowed to raise the rent during the term of your lease.

• Some communities have rent-control laws that govern rent increases.

• Look for a rental property that charges less than what your income allows.
Sharing Space: Roommates

- Saves money on the costs of renting
- Consider your roommate’s ability to pay his or her portion of the expenses and his or her history of paying bills on time
Activity 1: Can You Afford to Rent?

Complete Activity 1 in your Participant Guide

– Read the scenario
– Compare the rental costs with your estimated income, rental expenses, and living expenses
– Answer the questions
Buying a Home

• Mortgage: a loan provided by a financial institution to buy a house or condo

• Mortgage Costs:
  – Closing costs
  – Taxes and insurance
  – Interest
Down Payment

• An initial payment you make when buying a home to help lower your mortgage costs and monthly mortgage payments

• A percentage of the cost of the home
  – Typically between 3 and 20 percent of the purchase price
Am I Ready to Buy a Home?

- Review the “Am I Ready to Buy a Home” checklist
- Consider the Four Cs:
  - Capacity
  - Capital
  - Character
  - Collateral
Help for Purchasing

• Homebuyer assistance programs generally lower the costs of buying a home by providing:
  – Down payment assistance, or
  – Reduced interest rates

• Look for city and local government programs
  – Special programs provided for teachers and service personnel
Activity 2: Is Ramón Ready to Buy?

Complete Activity 2 in your Participant Guide

– Read the scenario
– Answer the questions
What Makes Up a Mortgage Payment?

• Principal
• Interest
• Taxes
• Insurance
• Private Mortgage Insurance (PMI)
Escrow

• Escrow account: a special bank account held by a financial institution for the purpose of paying taxes and insurance

• Lender deposits 1/12 of your estimated annual property tax bill and insurance premium into the account
Activity 3: Can Ramón Afford a Mortgage?

Complete Activity 3 in your Participant Guide

- Determine the maximum monthly mortgage payment recommended for Ramón
Mortgage Options

• Term of mortgage (e.g., 15 or 30 years)
• Fixed or variable interest rate
• Interest-only mortgages
  – Be careful because you generally are not paying down the principal
Fair Housing Act

• Law protects you from discrimination throughout the loan process
• Prohibits discrimination on the basis of race, color, religion, sex, national origin, family status, or handicap status in housing-related transactions.
Settlement

• When the borrower signs the documents and finalizes the sale of the house and any mortgage financing
• Review Closing Disclosure before settlement
Predatory Lending Practices

- Marketing tactics, collection practices, and loan terms that deceive and exploit borrowers
- Collection practices that frighten people
Predatory Mortgage Loan

• Abusive practices include:
  – Excessive fees
  – Abusive prepayment penalties
  – Loan flipping
  – Unnecessary products
  – Asset-based lending
  – Steering and targeting
Activity 4: Predatory Lending Practices

Complete Activity 4 in your Participant Guide

- Read each scenario
- Identify the predatory mortgage lending practices described
WOW! I DIDN'T REALIZE THAT HAVING MY OWN SPACE WAS GOING TO COST THAT MUCH!

...MAYBE I SHOULD WAIT AND SAVE MY MONEY FIRST...

...AND WHILE I'M SAVING, I CAN HELP MY PARENTS OUT AT HOME!
Module Summary

Congratulations! You learned about:

• The advantages and disadvantages of renting and buying a home
• The costs associated with renting or buying a home
• The questions to ask yourself when deciding if you are ready to have an apartment or home of your own
• Basic mortgage terms and options
• Predatory lending practices