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ABSTRACT

This curriculum guide provides the teacher with materials for a course on how to make housing decisions based on eight considerations: (1) the advantages of buying versus those of renting; (2) buying and the major expenses that it entails; (3) evaluating and choosing a house; (4) methods of financing; (5) the purpose of escrow; (6) property taxes; (7) types of property insurance; and (8) planning for resale by assessing such factors as appreciation and depreciation. The teacher's section includes the key ideas, course goals, suggested resources, and learning experiences for each topic. Vocabulary lists are also given with definitions in accordance with real estate law. The types of learning activities fall into three categories: classroom discussions, research projects, and guest speakers such as attorneys, bankers, builders, and realtors. The student materials consist of an information sheet on each topic. (ELG)

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MAKING HOUSING DECISIONS

CONTENTS

TEACHER MATERIALS

Should I Rent or Buy? T 1

Should I Buy? T 3

What Should I Know about Selecting Housing? T 5

How Can I Finance a House? T 7

What Are the Reasons for Escrow? T 9

Why Do I Need to Know about Property Taxes? T11

What Should I Know about Property Insurance? T13

How May I Maintain My Housing Dollar for Resale? T15

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MAKING HOUSING DECISIONS

Topic 1 *Should I Rent or Buy?*

key ideas

reasons for renting a house
considerations in selecting location
contracts between renter and owner or landlord

possible course goals

Students will

know the advantages and disadvantages of renting and buying
know how to locate available housing
know the responsibilities and obligations of landlord and tenant

suggested resources

Thal, Helen M., and Melinda Holcombe, *Your Family and Its Money*, Revised Edition (Boston: Houghton Mifflin Co., 1973)
Ch 8—"Meeting Family Needs for Shelter" (see pp 152-162)
Sherwood, Ruth F., *Homes: Today and Tomorrow* (Peoria, IL: Chas. A. Bennett Co. Inc., 1972)
Ch 8—"Selecting a Home" and Ch 16—"Should You Rent or Buy?"
Garrett, Pauline G., *Consumer Housing* (Peoria, IL: Chas. A. Bennett Co. Inc., 1972)
Ch 3—"To Rent or Buy" (see pp 31-40)
Idleman, Hillis K., *Housing, Furniture, and Appliances* (St. Louis: McGraw-Hill Inc., 1975)
Ch 2—"Selecting a Place to Live"
State Farm Fire and Casualty Company, "A Guide to Renting an Apartment"
(Order free copies from 112 East Washington Street, Bloomington, IL 61701)
Newspaper advertisements

suggested learning experiences

Read Topic 1 and review words to know.

Have students list the advantages and disadvantages of both renting and buying a house. Determine which items on the lists are primarily social or economic.

Divide students into "search groups," and have each group compare newspaper rental ads for listings from two different locations. Have them determine what type of information (e.g., cost, deposit requirements) is available from each advertisement. Then have class compile a list of information that is needed prior to renting housing.

Have students examine a lease and discuss the importance of complete and accurate understanding of the terms.

Invite both a tenant and a landlord to class to discuss, from their points of view, the benefits and problems of rental housing.

words to know

personal property
real property
tenant
gross monthly income
contract
security deposit
lease
eviction
eviction notice

-DEFINITIONS

TEACHER: All words to know are listed in the order of their appearance in the student topics and are defined in accordance with real estate law (see Oregon Revised Statute 696). These words often have broader interpretations in everyday usage.

personal property any property not "real" property (e.g., personal belongings, furniture, inventories)

real property land and all improvements thereon

tenant one who temporarily holds or occupies property owned by another

gross monthly income amount of monthly income *before* any deductions

contract a legally enforceable written or oral agreement to do or not to do certain things. All contracts pertaining to real property must be in writing (often called written agreements) except leases of less than one year

security deposit an amount paid over and above the first and last month's rent, it is usually returned to the tenant upon completion of the obligations, if so defined in the contract

lease a written contract which conveys the use of real estate for a period of time

eviction removing tenants from real property

eviction notice a written, legally enforceable document which *requires* persons to vacate property

MAKING HOUSING DECISIONS

Topic II *Should I Buy?*

key ideas

major expenditure of income
considerations of budget and indebtedness
determination of loan eligibility

possible course goals

Students will

know the relationship between housing costs and family budget
know that the amount one can spend on housing depends on resources and indebtedness

suggested resources

Garrett, Pauline G., *Consumer Housing* (Peona, IL: Chas. A. Bennett Co. Inc., 1972)
Ch 4--"Financing Your Home and Home Improvements" (see pp 53-55)
Idleman, Hillis K., *Housing, Furniture, and Appliances* (St. Louis: McGraw-Hill Inc., 1975)
Ch.2--"Selecting a Place to Live" (see pp 18-19)
Loan application forms
Lending institutions
Real estate office

suggested learning experiences

Read Topic II and review words to know.

Invite a person from a local lending institution or real estate office to discuss

how application for loans are completed and processed;
what information potential buyers need to know;
how indebtedness affects loan application reviews.

Have students study three different family economic situations and determine what price home, if any, could be purchased.

Situation 1 Annual gross income of \$10,800 with college loan of \$1,400 and other indebtedness of \$170. The couple is currently living in an apartment with all appliances furnished, and has \$650 in savings.

Situation 2 Monthly gross income of \$1,350, with \$450 earned by the wife. They are currently in a rental house and are buying or own all furniture and appliances. The monthly indebtedness is \$96 and current savings is \$1,700.

Situation 3 Hourly wage is \$7.50 with two weeks annual paid vacation. During the past two years, the plant has been closed for three weeks each year with no pay to employees. Savings is \$2300 and \$1500 is available from an insurance loan. Currently the family puts \$150 monthly into savings and has no installment indebtedness.

Discuss what potential problems might affect the purchasing decisions in the three situations, what factors were not known about these families, and what might be done to increase each family's potential of buying a home.

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indebtedness owing something to someone

lending institution an institution, such as a bank or savings and loan association, that is in the business of lending money for real estate transactions

principal the amount of money borrowed, excluding interest, taxes, and insurance

interest the amount charged for money borrowed

property tax a charge local government imposes upon property to help pay for services

insurance premium amount paid for insurance coverage whereby one party guarantees another against a specific loss

note a written instrument which acknowledges a debt and a promise to pay

MAKING HOUSING DECISIONS

Topic III *What Should I Know about Selecting Housing?*

key ideas

types of areas
types of structures
construction features to investigate

words to know

real estate agency
zoning
heating efficiency

possible course goals

Students will

know factors involved in selecting housing
know types of housing available
know ways to evaluate a house before buying

suggested resources

- Sherwood, Ruth F., *Homes: Today and Tomorrow* (Peoria, IL: Chas. A. Bennett Co. Inc., 1972)
Ch 5—"The Structure of a House"; Ch 6—"Today's Housing"; Ch 7—"The Home and Its Site" and Ch 15—"The Costs of Buying and Owning a House" (see pp 399-405)
- Idleman, Hillis K., *Housing, Furniture, and Appliances* (St. Louis: McGraw-Hill Inc., 1975)
Ch 1—"Housing—Today and Tomorrow" (see pp 2-12) and Ch 2—"Selecting a Place to Live" (see pp 19-20)
- State Farm Fire and Casualty Company, "Finding the Right Home for You"
(Order free copies from 112 East Washington Street, Bloomington, IL 61707)
- Porter, Sylvia, *Sylvia Porter's Money Book* (New York: Doubleday and Co. Inc., 1976)—paperback
Ch 13—"A Roof Over Your Head" (see pp 553-564)
- Changing Times Education Service (send to 1729 H Street NW, Washington, DC 20006)
Housing Multimedia Kit (4 units) including Househunt, a simulation game

suggested learning experiences

Read and review words to know.

Discuss advantages and disadvantages of rural, urban and suburban living.

View pictures of older and new homes and determine the potential benefits and problems of each type. Find examples of new and older homes listed for sale in the newspaper. Keep this information to review differences in cost and methods of financing.

Review newspaper ads to find examples of homes of differing styles. Determine, if possible, the effect of style and location on the price.

Invite a local builder to class to discuss structural features of housing which buyers should know about. Find out what features most often sell a home and compare these to the list of structural features buyers should know about.

Invite a building inspector to class to talk about the inspection process on new homes (e.g., codes, regulations, insulation, smoke alarms, etc.).

Have students develop a "model" checklist from sources available (see last two resources above). Use the checklist to rate the quality and type of a house in terms of a given family's needs.

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real estate agency an agency whose brokers and salespeople are licensed by the state to sell, buy, lease/option, appraise, and counsel on real estate or property for compensation

zoning an area authorities set off for specific uses, subject to certain restrictions or restraints in regulating and controlling the character and use of property

heating efficiency How well and economically a structure may be heated

MAKING HOUSING DECISIONS

Topic IV *How Can I Finance a House?*

key ideas

methods of financing
implications of various methods of financing

possible course goals

Students will

know what is involved in home ownership
know the financial responsibilities of a homeowner
know the different methods of financing housing

words to know

mortgage loans
land sales contracts
assumptions
trust deeds
purchase money mortgages
appraisal
title insurance
escrow
deed
foreclose (foreclosure)
deficiency judgment
title
real estate licensee

suggested resources

Sherwood, Ruth F., *Homes: Today and Tomorrow* (Peoria, IL: Chas. A. Bennett Co. Inc., 1972)
Ch 15—"The Cost of Buying and Owning a Home" (see pp 405-411)
Garrett, Pauline G., *Consumer Housing* (Peoria, IL: Chas. A. Bennett Co. Inc., 1972)
Ch 4—"Financing Your Home and Home Improvements" (see pp 51-53 and 55-67)
Idleman, Hillis K., *Housing, Furniture, and Appliances* (St. Louis: McGraw-Hill Inc., 1975) Ch 2—"Selecting a Place to Live" (see pp 28-31) and Ch 3—"Financing and Insuring a Home" (see pp 33-36)
Lending institutions
Real estate licensee

suggested learning experiences

Read and review words to know.

Investigate current interest rates available on first mortgage loans. Determine what factors influence the interest rate.

Invite a person from a local bank, savings and loan association or the Farm Home Administration (if applicable) to discuss the financial and legal aspects of buying a home.

Invite a local real estate licensee to discuss how the financial and legal aspects of buying a home are handled through a real estate office.

Invite a local attorney to discuss contracts and other legal documents used in property sales.

Obtain pamphlets or brochures from local lending institutions about methods of financing homes. Discuss the information found in the materials.

DEFINITIONS

TEACHER: All words to know are listed in the order of their appearance in the student topics and are defined in accordance with real estate law (see Oregon Revised Statute 696). These words often have broader interpretations in everyday usage:

mortgage loans where a buyer obtains money from a lending institution, for which real property is pledged to secure the debt of obligation

land sales contracts a contract which shows the terms and conditions of a sale, and is negotiated between buyer and seller. This type of sale is usually used when the title is not transferred until all or a certain part of the purchase price is paid

assumptions when a third party undertakes, or takes over, liability for payment of an existing note secured by a mortgage or a trust deed against the property

trust deeds a commonly used means of financing the purchase of houses and small acreages whereby the title to the property is held by a third party until the obligation is paid

purchase money mortgages a method of financing property whereby the seller finances the sales of his or her house and therefore receives both the principal and interest on the loan

appraisal the process through which conclusions of property value and property facts are obtained through an estimate and opinion of value

title insurance a policy protecting the insured against financial loss due to certain types of defects, in the title as stated in the policy

escrow a neutral third party who receives instruments, funds, and written instructions to carry out the specific directions of the buyer and seller for completion of the transaction. (Escrow closing represents conclusion of the transaction after proper recording of necessary documents.)

deed a document used to transfer title or ownership of real property

foreclose (foreclosure) the legal process of selling real property to repay debts against the property

deficiency judgment in terms of real estate law, a court judgment against the buyer for the difference between the indebtedness on a property and the price received at the foreclosure sale

title evidence of ownership of real property, shown by recording of the deed

real estate licensee either a broker or sales associate who is licensed by the state to sell property for compensation

MAKING HOUSING DECISIONS

Topic V *What Are the Reasons for Escrow?*

key ideas

purposes of escrow
responsibilities of escrow companies
information to be given to escrow

words to know

prorating
title search
liens

suggested resources

escrow company
real estate agency

suggested learning experiences

Read and review words to know.

List the responsibilities of an escrow company and discuss the advantages and disadvantages of closing through escrow to buyer and seller.

Invite a person from an escrow company to discuss the reasons for escrow closing, the process, and the responsibilities of both buyer and seller.

Discuss differences in how some items might be handled by escrow—e.g., utility costs, sharing of fees, etc.

Discuss what benefits the title search might have for the buyer and the seller.

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prorating, allocating between buyer and seller their proportionate shares of an obligation paid or due (taxes, insurance, etc.)

title search a licensed title insurance company searches public records as to ownership

liens a claim, usually against real property, for the satisfaction of a debt

MAKING HOUSING DECISIONS

Topic VI *Why Do I Need to Know about Property Taxes?*

key ideas

services property taxes provide
methods of determining taxes
effects of late or nonpayment of taxes

words to know

true cash value
tax levy

possible course goals

Students will

know the variety of services provided by property taxes
know the liability a homeowner has for taxes

suggested resources

Sherwood, Ruth F., *Homes: Today and Tomorrow* (Peoria, IL: Chas. A. Bennett Co. Inc., 1972)

Ch 15—"Costs of Buying and Owning a Home" (see p 412)

Oregon Department of Revenue, "The Tax Jungle Book" (1976—Teacher's kit and student copies of pamphlet available free from Publications, State Office Building, Salem, OR 97310).

Assessor's office

Oregon State University Extension Service, Extension Circular 907 (August 1976), Corvallis, OR 97331
"How Your Property Tax Bill is Computed"

suggested learning experiences

Read and review words to know.

List types of services which might be covered by property taxes; then review a copy of a local property tax statement. Compute what share of taxes goes for schools, fire and police protection, city, and county government, and other types of services.

Discuss the effect of property taxes on both home owners and renters. Determine the benefits and any type of tax relief available.

Have students point out the benefits and drawbacks in paying property taxes directly in lieu of including them in monthly mortgage payments.

Using the current tax rate in the local area, compute the tax bill for homes with the following assessed values:

\$20,000

\$30,000

\$35,000

\$40,000

\$50,000

Using the \$40,000 valuation figure, compute the monthly cost for principal, interest, taxes and insurance on the home. Use 1% of the valuation for computing principal and interest for one month, $\frac{1}{2}\%$ of the valuation for the annual insurance cost, and the local tax rate for the taxes. Discuss whether this is a realistic monthly cost and what factors might change this cost.

DEFINITIONS

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true cash value* term used by tax assessor to indicate the appraised value for tax assessment purposes

tax levy the amount of money for services imposed as tax on real property within a local taxing district

*True Cash Value (TCV) is interchangeable with market value for tax purposes. Market value is more often used to mean the highest price a buyer, willing but not compelled to buy, would pay and the lowest price a seller, willing but not compelled to sell, would accept.

MAKING HOUSING DECISIONS

Topic VII *What Should I Know about Property Insurance?*

key ideas

insurance requirements and choices
type of coverage, options and effect of cost

possible course goals

Students will

know the importance of insurance for homes
know the types of insurance coverage available

words to know

personal liability insurance
inflation
deductible

suggested resources

Sherwood, Ruth F., *Homes: Today and Tomorrow* (Peoria, IL: Chas. A. Bennett Co. Inc., 1972)

Ch 15—"The Cost of Buying and Owning a Home" (see pp 412-415)

Idehman, Hillis K., *Housing, Furniture, and Appliances* (St. Louis: McGraw-Hill Inc., 1975)

Ch 3—"Financing and Insuring a Home" (see pp 36-39)

Educational Relations Division, Insurance Information Institute, "Educator's Guide to Teaching Auto and Home Insurance," "Insurance for the Home," "Deductibles Save You Money on Insurance for Your Home," "Is Your Home Insured to Today's Values?" (order from 110 William Street, New York, NY 10038)

Changing Times Education Service, "Insurance" Multimedia Kit (4 units), includes Unit 4, "Property and Liability Insurance," 1729 H Street NW, Washington, DC 20006

Insurance agents
Fire department

suggested learning resources

Read and review words to know.

List types of home insurance available and determine which are optional and which are required by lending agencies.

Invite an insurance agent to discuss the types of coverage and factors affecting cost.

Discuss the types of property insurance which might be needed by renters.

Discuss the advantages and disadvantages of obtaining insurance beyond that required.

Invite a person from a local fire department to discuss causes of home fires, ways to protect a home against loss, and factors affecting cost of insurance.

Have students make a list of personal property and "estimate" the replacement cost. Determine if any items, such as musical instruments, cameras, etc., are insured for fire loss or theft.

Review a home fire insurance policy and make a list of situations where coverage is exempt. Discuss reasons for these exclusions.

DEFINITIONS

TEACHER: All words to know are listed in the order of their appearance in the student topics and are defined in accordance with real estate law (see Oregon Revised Statute 695). These words often have broader interpretations in everyday usage.

personal liability insurance protection against injuries to other persons or property

inflation substantial and continuing rise in general price level while actual dollar value declines

deductible the specified sum the insured must pay for each claim

MAKING HOUSING DECISIONS

Topic VIII *How May I Maintain My Housing Dollar for Resale?*

key ideas

effect of maintenance on appreciation and resale
maintaining housing records
planning for resale

words to know

depreciate
appreciate
asking price
selling price

possible course goals

Students will

know the importance of and need to plan for home maintenance
identify some costs involved in home maintenance
know appreciation and depreciation in terms of housing
know factors involved in selling a house

suggested resources

Garrett, Pauline G., *Consumer Housing* (Peoria, IL: Chas. A. Bennett Co. Inc., 1972)
Ch 9—"Maintenance—A Continuous Project" (see pp 169-176)
Real estate licensee
Homeowner

suggested learning experiences

Read and review words to know.

Make a list of items which make a home appear more appealing. Include both exterior and interior items. Discuss which items are usually a matter of general upkeep and which require seasonal or regular maintenance.

Divide students into research groups, with each group selecting one item, such as roofs, to research. Develop a plan for maintenance, repair and replacement, and figure the cost in money and time.

Invite a homeowner to discuss how he or she plans for home maintenance and repair.

Discuss items deductible from the capital gains on the sale of a home for income tax reporting. Determine ways these records could be kept.

Discuss advantages and disadvantages in selling a home by the owner or through a real estate agent.

Invite a real estate licensee to discuss the process of selling a home. Review an earnest money receipt and sales contract. Discuss the process involved in a counteroffer.

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depreciate to decrease in value or worth

appreciate to increase in value or worth

asking price the amount of money an owner asks for his/her property; it may or may not be based on the market value

selling price the amount of money the property is sold for

MAKING HOUSING DECISIONS

CONTENTS

STUDENT MATERIALS

Should I Rent or Buy?	S 1
Should I Buy?	S 3
What Should I Know about Selecting Housing?	S 5
How Can I Finance a House?	S 7
What Are the Reasons for Escrow?	S 9
Why Do I Need to Know about Property Taxes?	S11
What Should I Know about Property Insurance?	S13
How May I Maintain My Housing Dollar For Resale?	S15

REPRODUCE FREELY ANY OF THESE MATERIALS
FOR CLASSROOM USE

MAKING HOUSING DECISIONS

Topic 1 *Should I Rent or Buy?*

Most people own or rent **personal property** (e.g., furniture, appliances, etc.) before they need to make a decision on obtaining **real property**. An early decision in obtaining real property or housing is whether to rent or to buy. Reasons for choosing to rent a house include

- insecurity of job
- possibility of job transfer
- lack of personal property to furnish or care for a house
- insufficient money for down payment
- insufficient income
- demands of home purchasing

If the decision is to rent, you, as the **tenant**, should be aware of several factors. One-fifth of the **gross monthly income** could support the rent payment. You should have a written **contract** between yourself and the owner or manager of the property. This contract helps eliminate problems or misunderstandings between the tenant and the landlord. The contract should show the use and returnability of the **security deposit**. It should be signed by both parties and clearly state the benefits, expenses and liabilities of the house or apartment to be rented. The security deposit is an amount paid in addition to the first and last month's rent. It is a deposit which is usually returned to the tenant upon completion of the obligations defined in the contract.

Searching for your house or apartment can be easier if you know how to proceed. One of the most important considerations is the location. Considerations in selecting the location include

- neighbors
- privacy
- traffic
- transportation
- schools
- zoning
- protection services

Housing information can be located from newspaper ads, rental management companies or individual owner signs. In most communities there is a shortage of rentals. The decision should be made as quickly as possible, but not in such a hurry as to neglect consideration of all important factors.

Once you have made your decision, you may then become involved with the owner or landlord and may sign a contract. It may be a month to month contract allowing you to live in the property on a 30-day basis, or it may be a **lease**. A lease allows you possession of the property for a specific period of time at a fixed rental fee, which must be paid when due, during the time of the lease. At the time you sign the lease or contract, you may be required to pay the first month's rent and, in some cases, the last month's rent as well.

A lease or contract may be ended by expiration, by mutual consent or by **eviction**. An **eviction notice** gives you "X" amount of days to leave the premises. Eviction is usually due to nonpayment of rent or misuse or abuse of the apartment or house. An eviction notice must always be in writing in order to be legally enforceable.

MAKING HOUSING DECISIONS

Topic II *Should I Buy?*

If you have decided to buy a home, you will need to make a careful review of your income and indebtedness. A large part of your income as an adult will be spent on housing, whether you rent or buy. Estimates are

about one-fourth of gross monthly income if purchasing a home
about one-fifth of gross monthly income if renting

It is, therefore, important that you make the right decision when purchasing a home. Of primary consideration is your income. Presuming you don't pay cash, a lending institution will review your application for a loan. Major points which affect their approval include:

- monthly gross income
- employment record
- past credit references
- current installment indebtedness

The lending institution can then tell you whether you qualify to purchase a home. Individuals may also loan money for real estate transactions.

For most people, the payment should not exceed one-fourth of their gross monthly income. This one-fourth will include principal payment, interest payment, property tax and insurance premium. The expression for this is PITI, which simply means your payment includes principal, interest, taxes and insurance.

In addition to the one-fourth allowed for the house payment, one-third of your total gross monthly income can be used on other payments, such as notes, car, furniture and appliances. If these payments exceed one-third, there may be a question as to whether a loan can be approved.

The remainder of your income will be needed to cover other expenses. If you have a budget, you will know monthly costs for food, transportation and other expenditures. Remember that you will need expense money for improvements, utilities, etc. for your new home.

Each applicant for a home loan is approved on an individual basis. Before purchasing a home, you may need to make a careful review of your income and indebtedness. A lending institution or real estate office can assist you in determining whether you can qualify for a homeowner's loan. If you have records and a budget, you will be better prepared to give information and make decisions on buying a home.

MAKING HOUSING DECISIONS

Topic III *What Should I Know about Selecting Housing?*

It is important to know what your preferences for housing type and location are before you make a selection. A variety of housing choices exist in the state of Oregon: city areas, farming areas, rural subdivisions, older homes and newer homes. In making a housing decision, ask yourself these questions:

- Where do I wish to live?
- Are we a rural type family?
- Are we strictly city dwellers?

After you have located the property which seems closest to your expectations and within your price range, you should also consider:

- size of home
- condition
- price

Studying the condition of the property you are considering to purchase is important. If you do not have knowledge about construction, it may be worthwhile to hire a consultant or work with a real estate agency. It is important to check

- foundation
- roof
- wiring
- plumbing
- condition of structure
- water supply
- sewer system
- zoning
- heating efficiency, including insulation

An important item to check on before deciding on a particular house is the cost of heating that house. You may be able to obtain costs of heating from the owner. In addition you may want to have further information on the insulation and heating system.

As you check the structure of a house, you should also notice the decorating. Decorating, in itself, should not be a major influence on whether you buy the house. If floors and counter tops are acceptable, other decorating changes can be made with a small amount of labor and expense.

MAKING HOUSING DECISIONS

Topic IV *How Can I Finance a House?*

Once you have made a decision to buy a particular house, you will need to select a method of financing. Five methods of financing real estate are:

- mortgage loans
- land sales contracts
- assumptions
- trust deeds
- purchase money mortgages

Mortgage loans are primarily made by banks, savings and loan associations, the Farm Home Administration (FmHA), and the State Veterans' Administration. These institutions require inspection, appraisal, title insurance, and closing by escrow.

In a mortgage loan, the seller transfers the deed of the property to the buyer. If the buyer fails to meet payments, the lending institution may foreclose on the loan. In Oregon, the buyer has one year after foreclosure to repay the lender and keep the property. If foreclosure is made, the lending institution may sell the property and have a deficiency judgment against the buyer for any balance owed on the loan.

A land sales contract is an agreement between the buyer and seller. This type of financing does not require title insurance, inspection, appraisal, or escrow closing unless requested by either party. A contract is usually drawn up by legal counsel. The seller usually does not transfer the title to the buyer until all or part of the obligation has been met. If the buyer fails to pay, as agreed, the seller may take the property back, and the buyer may lose all payments into the contract.

If a buyer chooses to finance property by taking over the seller's payments, he or she assumes the seller's contract for the balance owed. This is called an assumption. The buyer pays the seller the difference between the sale price and the balance owed on the property. The deed is transferred to the buyer.

When property is bought by means of a trust deed, the title to the property is held by a third party until the obligation is paid. If the buyer fails to make payments as agreed, the third party may foreclose for the benefit of the seller. Foreclosure time for trust deeds is about 120 days and does not allow the buyer to repay the indebtedness and keep the property. In addition, there is no provision for deficiency judgment against the buyer.

With a purchase money mortgage, the down payment and terms of the note are agreed upon between the buyer and seller. The seller transfers the deed to the buyer and receives all payments for principal and interest on the loan. This type of financing is similar to a first mortgage loan, except in the event of a foreclosure, there is no provision for a deficiency judgment.

In order to make a wise choice based on current financial conditions, lending trends, and your rights and responsibilities as a buyer or seller, you will need to have factual information. Your local lending institution or real estate licensee should have access to current and accurate data for your particular needs and requirements.

MAKING HOUSING DECISIONS

Topic V *What Are the Reasons for Escrow?*

An escrow company acts as a referee or third party by handling the documents and closing details of the sale. This relieves both the buyer and seller and real estate licensee of the responsibility of preparing and recording documents, figuring expenses and prorating taxes and insurance. In most cases, the cost of the escrow service is shared equally by buyer and seller.

The escrow company sets up a record for each individual transaction and calls for a title search on the property. A title search declares any liens or other indebtedness against the property. The preliminary title policy is shown to the purchaser, seller and lender. The title policy will indicate liabilities, if any, on the property. These might include

- mortgages
- liens from unpaid debts
- liens from road improvements, sewer charges, other improvements

After completing the title search, the escrow agent determines the amount of money the buyer pays the seller.

Some information which buyer and seller will need to provide the escrow company include

- who pays appraisal fee, if any
- the date of possession
- the new lending institution, if any
- complete names of buyers and sellers
- marital status of buyers and sellers
- accurate legal description of property
- information on fire insurance
- information on existing mortgage, if any
- special instructions, such as disbursement of funds, payment of utilities, etc.

The escrow company assumes the responsibilities and concerns in handling and disbursing funds. They also order the title policy, usually paid by the seller. The title insurance protects the buyer. It shows any and all debts against the property to insure a free and clear title for the new owner. All lending institutions require a title insurance policy. This enables them to "close the transaction," which simply means that all debts have been paid and proper documents, such as deed, mortgage, etc., recorded.

MAKING HOUSING DECISIONS

Topic VI *Why Do I Need to Know About Property Taxes?*

When you own real property, you will pay taxes on both the land and the improvements (buildings, trees, etc.). This tax is based on the property's value. The reason for the tax is to pay for the services in the area in which you live, including

- fire
- police
- road
- school
- water

Your property is usually assessed by true cash value. Factors which affect the value include

- area
- size
- age
- condition
- quality
- any other factor that makes a property more or less desirable.

Your property's assessed valuation is used to compute your proportionate share of the local tax levy for your district. Each year you would receive a tax statement which is based on the value of the property. The bill would represent taxes levied for the current year, July 1 through June 30. The assessor does not raise or determine taxes but only distributes the burden of taxes in proportion to the values of properties owned by the many taxpayers.

The dollar amount of taxes you owe is expressed in terms of dollars per one thousand dollars of true cash value. For example, if you were taxed at the rate of \$25 per \$1,000 on a home assessed at \$40,000 the annual property tax would be \$1,000.

If paying one-half or more by November 15, a discount is allowed. If taxes are paid in quarterly payments they must be paid by due dates of November 15, February 15, May 15 and August 15, or interest is charged on any quarterly payments made after its due date. Taxes become delinquent if not paid by August 16 following the tax year. This date is important because three years after taxes become delinquent, the property is subject to foreclosure.

Some lenders may require your taxes to be included with the monthly mortgage payments. For example, monthly mortgage loan payments are \$200 (including principal, interest and insurance, PII). Taxes on the real property are \$600 for the year, or \$50 per month. If this amount is to be included in your monthly payment then your payments to the lender would be \$250 (principal, interest, taxes and insurance, PITI).

If financing for the purchase of a house does not require taxes to be included in monthly payments it is very important that the property owner set aside enough money to pay the taxes separately when due.

MAKING HOUSING DECISIONS

Topic VII- *What Should I Know About Property Insurance?*

Fire insurance on property is required by lending agencies. The new owner must see that the insurance policy is in the hands of the lending agency prior to the transaction being closed. The protection of personal property is optional and solely the decision of the owner.

An insurance package, designated as a homeowner's policy can be purchased. This policy protects the structures, furnishings and personal properties of the owner as well as personal liability. Personal liability insurance is an important purchase and should be studied carefully before decisions are made as to what kind, how much, etc.

Inflation has increased property values and insurance costs rapidly in the past several years. The costs of insurance have increased for several reasons, including

- increased cost of replacing buildings
- increased crime and burglary rates
- increased cost of repairing buildings

All of these increase the cost of your insurance, so it is important that you purchase wisely. Suggestions for best use of your insurance dollars include

- having your policy reviewed periodically to see that your buildings, equipment and personal property are insured at the current replacement cost
- reviewing the deductible on your policy
- determining what might reduce the amount of premium, such as installation of fire protection systems
- examining your policy for burglary, mischief and vandalism coverage

When buying insurance, it is important to

- understand your policy—have your insurance agent carefully explain the coverage and the requirements
- keep coverage current with value

MAKING HOUSING DECISIONS

Topic VIII *How May I Maintain My Housing Dollar for Resale?*

Homeowners should be aware of the importance of maintaining their property. To keep property in good repair, it is necessary to "keep up" both the interior and the exterior. A neglected property will depreciate rapidly. By contrast, maintained or improved property will generally appreciate in value. The cost of maintaining the home will be less if done periodically and as need arises.

It is important to maintain property in order to prevent loss in value. If you are unable to take care of the maintenance yourself, hire someone to do this for you. Expenses which are considered improvements can be deducted from your income taxes when the home is sold. Keep all your receipts for the improvements.

Improve where you can, but definitely keep up on the maintenance of the

- yard
- exterior of the house
- roof
- rain gutters
- interior walls
- flooring
- counter tops
- appliances

General good maintenance protects the value of a property. Identical properties built at the same time, side by side, will differ greatly in value if one is cared for and the other neglected.

Many factors will influence your decision to sell a house, including the change in housing needs and the cost involved in selling and obtaining other housing. If you decide to sell, a first question will be the asking price of the home. You may check on the selling price of comparable homes or ask your real estate agent to help you establish a market value. This value will probably be considerably higher if the home has been properly maintained.

You may sell your property yourself or through a real estate agency. If you sell it yourself, you will need to

- study the financing
- know about escrow
- know how to advertise
- show your home to prospective buyers
- interview possible purchasers
- be prepared to complete necessary documents

You may choose to employ the professional services of your local real estate agent to handle all problems concerning the sale of your home. A fee is charged for selling your home through a real estate agency. Both ways should be considered, as selling your home is also an important housing decision.