Chapter 32: Understanding Homeownership

Practice calculating costs and evaluating readiness for home buying

Part 1: Calculating Home Purchase Costs

Scenario 1: Upfront Costs

You're considering purchasing a home for $280,000. Calculate the upfront costs:

Home Price:	$280,000
Down Payment (10%):	$______
Closing Costs (3%):	$______
Moving Expenses (estimate):	$3,000
Total Upfront Costs:	**$______**

a) If you can save $800 per month, how many months would it take to save for these upfront costs?

Show your calculation...

Scenario 2: Monthly Payment Breakdown

Using the same $280,000 home with 10% down, your mortgage would be $252,000 at 6.5% interest for 30 years. Your monthly principal and interest payment would be approximately $1,593.

a) Calculate the estimated total monthly payment (PITI):

Principal & Interest:	$1,593
Property Taxes ($3,500/year ÷ 12):	$______
Homeowner's Insurance ($1,200/year ÷ 12):	$______
PMI (0.5% of loan ÷ 12):	$______
Total Monthly PITI:	**$______**

b) What gross annual income would you need if housing should be no more than 28% of gross income?

Show your calculation...

Hint: Monthly payment ÷ 0.28 = Required monthly gross income

Part 2: Comparing Mortgage Options

Scenario 3: Fixed vs. ARM

Compare these mortgage options for a $200,000 loan:

Feature	30-Year Fixed	5/1 ARM
Initial Interest Rate	6.5%	5.5%
Initial Monthly P&I	$1,264	$1,136
Rate After 5 Years	6.5% (unchanged)	Could be 7.5% or higher

a) How much would you save per month in the first 5 years with the ARM?

Show your calculation...

b) What are the risks of choosing the ARM?

List the potential risks...

c) In what situations might the ARM be a good choice?

Your answer...

Scenario 4: Loan Type Selection

Match each buyer with the most appropriate loan type:

Buyer Profile	Best Loan Type	Why?
Army veteran buying first home, limited savings		

First-time buyer, 590 credit score, 5% saved		
High earner buying $800,000 home, 720 credit		
Buyer in rural area, moderate income		

Part 3: Rent vs. Buy Analysis

Scenario 5: Cost Comparison

Compare renting vs. buying in this scenario:

Option A: Rent

- Monthly rent: $1,500
- Renter's insurance: $25/month

Option B: Buy

- Monthly PITI: $1,850
- Maintenance (avg): $250/month
- Building equity: ~$400/month

a) What is the monthly difference in out-of-pocket costs?

Show your calculation...

b) What non-financial factors should be considered?

List factors like flexibility, maintenance responsibility, etc...

c) For someone planning to relocate in 2 years, which would you recommend and why?

Your recommendation and reasoning...

Part 4: Homeownership Readiness Assessment

Scenario 6: Personal Readiness

Rate your current readiness for homeownership (1 = Not Ready, 5 = Very Ready):

Criteria	Rating (1-5)	Steps to Improve
Credit score (620+ for conventional)		
Down payment savings		
Stable income (2+ years)		
Emergency fund (3-6 months)		
Debt-to-income ratio (under 36%)		
Geographic stability (3-5 years)		

Based on your assessment, when might homeownership be realistic for you?

Your timeline and key milestones...

Part 5: Critical Thinking

1. Why do lenders require PMI for down payments under 20%?

Your explanation...

2. A friend says "Renting is just throwing money away." How would you respond?

Your response...

3. What are three questions you should ask before buying a home in a specific neighborhood?

1.

2.