

Personal Finance © 2012

Chapter 9: The Finances of Housing

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Lifestyle will determine how close to work you want to live, how long you plan to stay in one place, and how much privacy you would like to have.
2. Owning property provides stability, privacy, freedom of activities, and tax benefits.
3. You can obtain housing information from libraries, newspapers, the Internet, friends and family, real estate agents, and government agencies.

Higher Order Thinking

4. While both offer pride of ownership and tax benefits, a house usually has more space and privacy than a condominium. A condominium though would have fewer maintenance costs and responsibilities and be closer to recreation and businesses. A person or couple with no children would probably prefer to own a condominium.

English Language Arts

5. **Rental Options** Spreadsheets should compare at least three rental options, complete with as much information as possible. Paragraphs should state which option the student would choose and offer logical explanation, such as “I choose Option A because it has the lowest rent, even though the location is not as ideal. I would prefer to have a garage but will pass on that option at this time in favor of the lower rent.”

Mathematics

6. **Cost of Purchasing a Home** Down payment = $\$150,000 \times 10\% = \$15,000$; Total monthly payments = $\$724 \times 12 \text{ months} \times 3 \text{ years} = \$26,064$; Total property tax = $\$5,000 \times 3 \text{ years} = \$15,000$; Tax savings year 1 = $\$6,705 \times 35\% = \$2,346.75$; year 2 = $\$6,603 \times 35\% = \$2,311.05$; year 3 = $\$6,496 \times 35\% = \$2,273.60$; Total tax savings = $\$2,346.75 + \$2,311.05 + \$2,273.60 = \$6,931.40$; Loan balance after 3 years = $\$150,000 - \$15,000 - \$6,286 = \$128,714$; Gain on sale of house = $\$165,000 - \$128,714 = \$36,286$; Total out of pocket cost over 3 years = $\$36,286 + \$6,931.40 - \$15,000 - \$26,064 - \$15,000 = -\$12,846.60$

Section 2

Review Key Concepts

1. Advantages include greater mobility, fewer responsibilities, and lower initial costs.

2. Disadvantages include few financial benefits, a more restrictive lifestyle, and the involvement of legal issues.
3. Cost is determined by location, living space, utilities, security deposit, and insurance.

Higher Order Thinking

4. Answers may include that by having your friend's name on the lease as well as your own, he will be legally responsible for ensuring that the rent is paid and the apartment is kept in good condition.

21st Century Skills

5. **Solve Problems** Questions should be based on the priorities. For example, if a student lists mobility as a priority, they should include a question about possible lengths of lease. If the condition of the unit is a priority, the student may include a question about what improvements or decorations are allowed. Note that some priorities, such as cost or being near public transportation may not be included in queries for the landlord as the student might already know the answers before going to visit the location.

Mathematics

6. **Sharing Costs** Total house payment = $\$1,250 + \$275 = \$1,525$; Jerome's share of house payment = $\$1,525 \times 50\% = \762.50 ; Saved/(Lost) per month = $\$815 - \$762.50 = \$52.50$; Saved/(Lost) after one year = $\$52.50 \times 12 \text{ months} = \630.00 .

Section 3

Review Key Concepts

1. Homeowners enjoy a sense of stability and permanence, individual express, freedom to own pets, and financial benefits, such as income tax deductions and home equity.
2. To evaluate a property, you should walk through the neighborhood, examine the exterior of the home, assess the interior of the home, have a professional inspect the home, and review the inspection report.
3. You will first need to come up with money for a down payment, then get a loan to pay for the remainder of the purchase price, and finally come up with money for the closing costs.
4. Homeowners should make needed repairs, repaint as necessary, keep the house clean, and make sure the lawn looks nice when trying to sell a home.

Higher Order Thinking

5. Students may choose the 6.5 percent fixed-rate mortgage, recognizing that even though it is higher than the ARM, it will never change while the ARM could go up to 10 percent or more.

English Language Arts

6. Sell Your Home Advertisements will vary but may read something like: Attractive 2-bedroom, 2-bath home. Located close to schools and shopping. Includes fireplace in den and new carpet and paint throughout. List price: \$135,000.

Mathematics

7. Loan Amortization Loan amount = $\$200,000 - (\$200,000 \times 10\%) = \$180,000$;
Interest month 1 = $(7\% / 12) \times \$180,000 = \$1,050.00$; Principal month 1 = $\$1,198.00 - \$1,050.00 = \$148.00$; Loan balance end of month 1 = $\$180,000 - \$148.00 = \$179,852.00$;
Interest month 2 = $(7\% / 12) \times \$179,852 = \$1,049.14$; Principal month 2 = $\$1,198.00 - \$1,049.14 = \$148.86$; Loan balance end of month 2 = $\$179,852 - \$148.86 = \$179,703.14$;
Interest month 3 = $(7\% / 12) \times \$179,703.14 = \$1,048.27$; Principal month 3 = $\$1,198.00 - \$1,048.27 = \$$