

FDIC

Money
Smart



A Roof Over Your Head

FDIC Money Smart for Young Adults



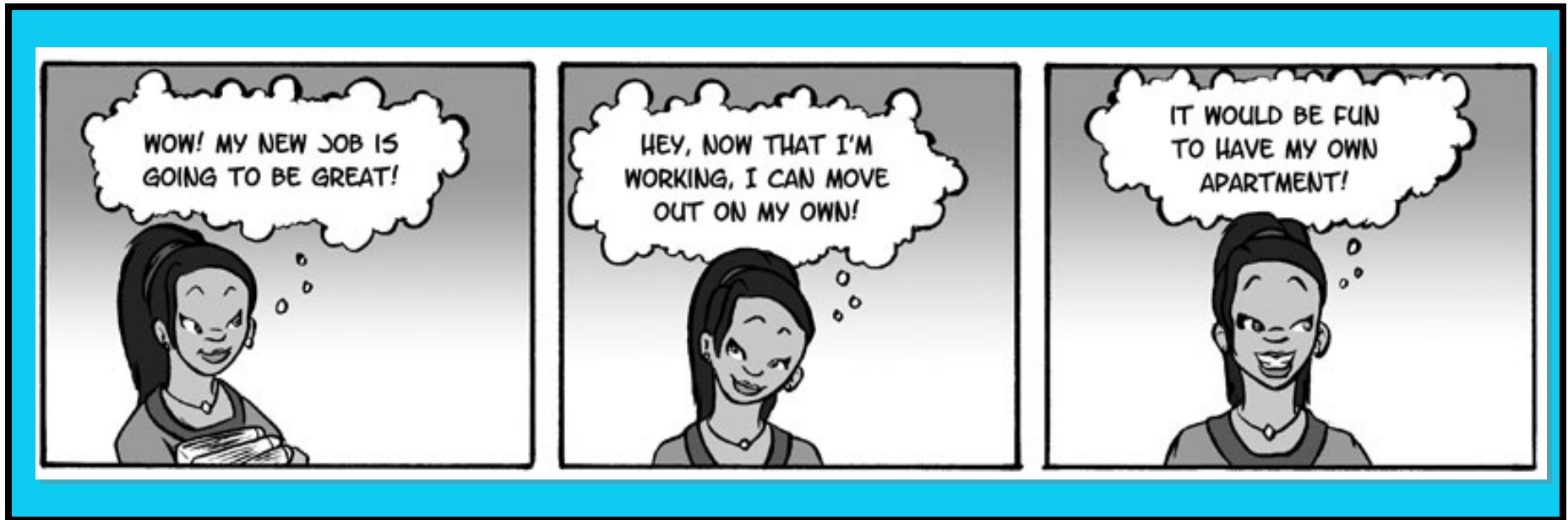
Building: Knowledge, Security, Confidence

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



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?

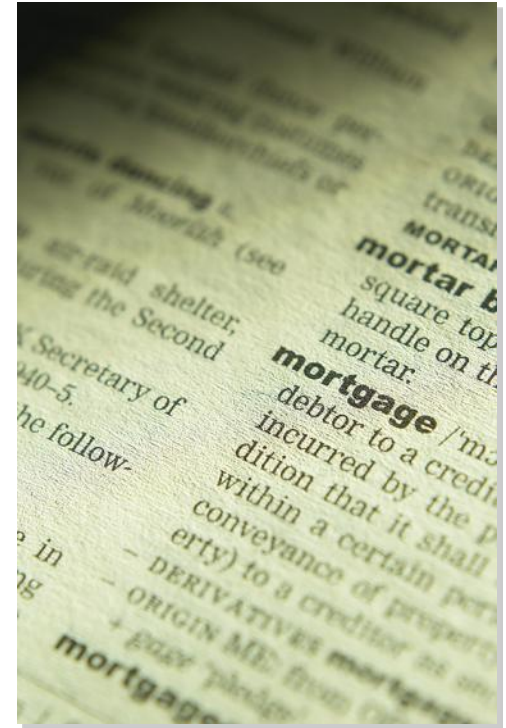
Complete Activity 2 in your Participant Guide

- 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



Module Summary



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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**

