

# 7-4

## PURCHASING A HOME

### You will need:

- **Papers on the student table**
- **Textbook**
- **Calculator**
- **Pen or Pencil**
- **Notebook**
- **Paper**

Red Items are needed during the lecture

### To do now:

1. Write down the objectives
2. Take out earbuds

**Estimate** closing costs.

**Create** an amortization table:

- manually
- with technology
- with extra payments

**OBJECTIVES**



To buy a home you will have to attend a meeting called the closing. At that meeting you will:

- Sign papers for your home loan
- Pay your down payment
- Get the keys to your new home!
- Pay closing costs

# Sample closing cost sheet

Closing cost were an additional 3.3%!!!!

## Closing Cost Details

### Loan Costs

<b>A. Origination Charges</b>	\$750
% of Loan Amount (Points)	
Processing Fees	\$375
Underwriting Fees	\$375

<b>B. Services You Cannot Shop For</b>	\$785
Appraisal Fee	\$535
Credit Report	\$43
Document Preparation Fee	\$120
Flood Certification	\$8
Tax Service	\$79

<b>C. Services You Can Shop For</b>	\$2,839
Survey Fee	\$600
Title - Lender's Title Insurance	\$1,491
Title - Settlement Fee	\$495
Title - Texas Title Policy Guaranty Fee	\$2
Title - Title Endorsement Fee	\$251

**D. TOTAL LOAN COSTS (A + B + C)** \$4,374

### Other Costs

<b>E. Taxes and Other Government Fees</b>	\$148
Recording Fees and Other Taxes	\$148
Transfer Taxes	

<b>F. Prepaids</b>	\$1,650
Homeowner's Insurance Premium (12 months)	\$1,250
Mortgage Insurance Premium ( months)	
Prepaid Interest (\$23.44 per day for 17 days @3.75 %)	\$398
Property Taxes ( months)	

**G. Initial Escrow Payment at Closing** \$1,658

Homeowner's Insurance	\$104.17 per month for 3 mo.	\$313
Mortgage Insurance	\$30.00 per month for 1 mo.	\$30
Property Taxes	\$438.37 per month for 3 mo.	\$1,315

<b>H. Other</b>	\$481
HOA Transfer Fee	\$250
Title - Owner's Title Insurance (optional)	\$231

**I. TOTAL OTHER COSTS (E + F + G + H)** \$3,935

**J. TOTAL CLOSING COSTS** \$8,309

D + I	\$8,309
Lender Credits	

### Calculating Cash to Close

Total Closing Costs (J)	\$8,309
Closing Costs Financed (Paid from your Loan Amount)	\$0
Down Payment/Funds from Borrower	\$25,000
Deposit	\$0
Funds for Borrower	\$0
Seller Credits	\$0
Adjustments and Other Credits	\$0
Estimated Cash to Close	\$33,309

Leah and Josh are buying a \$600,000 home. **Example 2**  
They will sign all the documents to own the home at the closing.  
How much should they expect to pay at the closing?

### **Closing Cost Rule of Thumb:**

Closing costs run 2 to 6% of the purchase price of the home.

Lowest:  $.02 \times 600,000 = \$12,000.00$

Highest:  $.06 \times 600,000 = \$36,000.00$

They should plan on closing costs between  
**\$12,000.00 and \$36,000.00**

## Example 2 – You try it!

Shannon purchased a home for \$400,000. What range of costs might she expect to pay at the closing?

## Example 2 – You try it!

Shannon purchased a home for \$400,000. What range of costs might she expect to pay at the closing?

$$\text{Lowest: } .02 \times 400,000 = \$8,000$$

$$\text{Highest: } .06 \times 400,000 = \$24,000$$

They should plan on closing costs between  
**\$8,000.00 and \$24,000.00**

Trudy and Tom have been approved for a \$300,000, 15-year mortgage with an APR of 3.98%.

The monthly payment is \$2,216.06.

To know the balance of the loan at any time during the life of the loan, they need to create an amortization table.

Trudy and Tom have been approved for a **Example 4** \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00				
2					
3					



Trudy and Tom have been approved for a **Example 4** \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00	2,216.06			
2					
3					

**Example 4**

Trudy and Tom have been approved for a \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00	2,216.06	995.00		
2					
3					

$$\begin{aligned}\text{Monthly Interest} &= \text{Principal} \times \text{Rate} \times \text{Time} \\ &= 300000 \times .0398 \times 1/12 \\ &= 995\end{aligned}$$

**Example 4**

Trudy and Tom have been approved for a \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00	2,216.06	995.00	1,221.06	
2					
3					

$$\begin{aligned}\text{Monthly Principal} &= \text{Monthly Payment} - \text{Monthly Interest} \\ &= 2,216.06 - 995 \\ &= 1,221.06\end{aligned}$$

**Example 4**  
Trudy and Tom have been approved for a \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00	2,216.06	995.00	1,221.06	298,778.94
2					
3					

$$\begin{aligned}\text{Ending Balance} &= \text{Beginning Balance} - \text{Monthly Principal} \\ &= 300,000 - 1,221.06 \\ &= 298,778.94\end{aligned}$$

**Example 4**

Trudy and Tom have been approved for a \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00	2,216.06	995.00	1,221.06	298,778.94
2	298,778.94				
3					

Beginning Balance = Prior Month Ending Balance  
= 298,778.94

Trudy and Tom have been approved for a \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00	2,216.06	995.00	1,221.06	298,778.94
2	298,778.94				
3					

**Example 4 – You try It!**

Trudy and Tom have been approved for a \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00	2,216.06	995.00	1,221.06	298,778.94
2	298,778.94	2,216.06	990.95	1,225.11	297,553.83
3					

This is a 15 year loan.  
Do you want to **manually** calculate the entire amortization table?!!!

On your phone go to: [bankrate.com](http://bankrate.com)

☰ Bankrate

↑ Click on the 3 bars next to Bankrate

Click on Loans

Slide down several times to the “Loan Calculators” section.

Then click on

Student Loan Calculator



Fill in the questions:

Loan Amount: 300000

Loan term in years: 15

Interest rate: 3.98%

Click on Calculate

Slide down and click on the tiny blue words  
“Show amortization schedule”

Trudy and Tom have been approved for a \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00	2,216.06	995.00	1,221.06	298,778.94
2	298,778.94	2,216.06	990.95	1,225.11	297,553.83
3					

### Example 4 – Technology!

Fill in the 3<sup>rd</sup> row.

If you do this on a phone it rounds to the nearest dollar.

If done on a laptop it will round to the nearest penny.

We will do Bankrate to the nearest dollar.

Trudy and Tom have been approved for a \$300,000, 15-year mortgage with an APR of 3.98%. The monthly payment is \$2,216.06.

Payment # or Date	Beginning Balance	Monthly Payment	Monthly Interest	Monthly Principal	Ending Balance
1	300,000.00	2,216.06	995.00	1,221.06	298,778.94
2	298,778.94	2,216.06	990.95	1,225.11	297,553.83
3	297,554	2,216	987	1,229	296,325

### Example 4 – Technology!

Fill in the 3<sup>rd</sup> row.

If you do this on a phone it rounds to the nearest dollar.

If done on a laptop it will round to the nearest penny.

We will do Bankrate to the nearest dollar.

## Example 5

Trudy got a raise and they decided to use some of the money to make an extra payment of \$250 each month toward the mortgage. How much interest will they save?

	Without Extra Payment	With Extra Payment
Monthly Payment		
Payoff Date		
# of Years for Loan		
Total Interest Paid		
Interest Saved		

# Fill in the chart using Bankrate.

# Example 5

## Without Extra Payment

Monthly Payment

Payoff Date

# of Years for Loan

Total Interest Paid

Interest Saved

Loan term in years

15

Or

Loan term in months

180

Interest rate per year

3.98

%

CALCULATE

Monthly Payments

10:11

53%

Monthly Payments

**\$ 2,216.06**

Total Principal Paid

\$300,000

Total Interest Paid

\$98,890.40

ADD EXTRA PAYMENTS

COMPARE LOAN RATES

[Hide amortization schedule](#)

Estimated Payoff Date

**July 4, 2036**

Start Date

07/04/2021

Amortization Schedule

# Fill in the chart using Bankrate.

# Example 5

	Without Extra Payment
Monthly Payment	2,216.06
Payoff Date	7/4/36
# of Years for Loan	15
Total Interest Paid	98,890.48
Interest Saved	0

Loan term in years

15

Or

Loan term in months

180

Interest rate per year

3.98 %

**CALCULATE**

Monthly Payments

10:11 53%

Monthly Payments

**\$ 2,216.06**

Total Principal Paid \$300,000

Total Interest Paid \$98,890.48

ADD EXTRA PAYMENTS

COMPARE LOAN RATES

[Hide amortization schedule](#)

Estimated Payoff Date

**July 4, 2036**

Start Date

07/04/2021

**Amortization Schedule**

## Example 5

Trudy got a raise and they decided to use some of the money to make an extra payment of \$250 each month toward the mortgage. How much interest will they save?

Now calculate the effect of the extra payments.

Click on gold box “Add extra Payments”

Add \$250 to your monthly payment

Click on “apply extra payments”

Slide down to the amortization schedule.

# Example 5

Fill in the rest of the chart.

	Without Extra Payment	With Extra Payment
Monthly Payment	2,216.06	
Payoff Date	7/4/36	
# of Years for Loan	15	
Total Interest Paid	98,890.48	
Interest Saved	0	



## Example 5

Fill in the rest of the chart.

	Without Extra Payment	With Extra Payment
Monthly Payment	2,216.06	2,466.06
Payoff Date	7/4/36	8/4/34
# of Years for Loan	15	<b>13</b>
Total Interest Paid	98,890.48	84,776.04
Interest Saved	0	<b>\$14,114.44</b>

What do I do now?

The 7-4 Assignment

When is it due?

**Next Class**

**WARNING:** Some of the TEST questions require that you use the amortization calculations by hand instead of using bank rate. Do homework problems 12 and 13 manually to prepare for the test.