



It's Your **Move**

A Real Estate
Consumer Education
Course



ACKNOWLEDGEMENT

The Missouri REALTORS® Educational Foundation, formally known as The CENTER, is grateful to everyone who helped create the first ***It's Your Move*** curriculum in 1984.

It's Your Move was originally developed in 1976 for the California State Department of Real Estate. California's publication was adopted and duplicated by other states; Oklahoma's program being the model for this version.

The Missouri REALTORS® Educational Foundation Board of Trustees are grateful to all contributors of this publication.

ABOUT THE MISSOURI REALTORS® EDUCATIONAL FOUNDATION

The Missouri REALTORS® Educational Foundation (MREF) is the not-for-profit education foundation of Missouri REALTORS®. With over 22,000 members, Missouri REALTORS® is the largest trade association in Missouri. MREF provides programs and activities related to consumer and business education, free enterprise, and entrepreneurship. Its primary focus is youth in Missouri.

It's Your Move is supported by contributions from Missouri REALTORS® who believe in economic education for the youth of Missouri. The Missouri REALTORS® Educational Foundation has collaborated with the Missouri Department of Elementary and Secondary Education (DESE) to align the ***It's Your Move*** curriculum to meet Missouri Learning Standards.

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Introduction

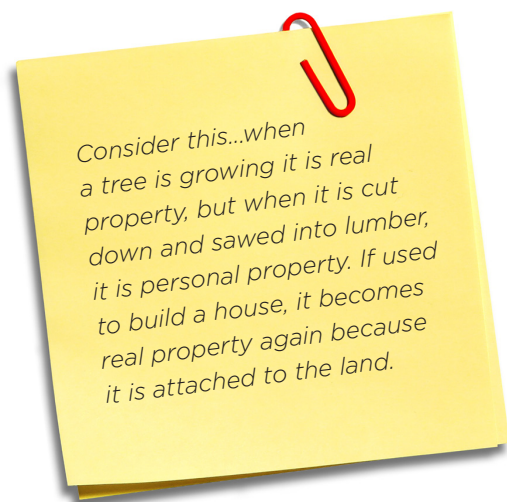
We all need shelter; it's a basic human need.

But the kind of shelter needed changes throughout one's life. A college student's needs are obviously not the same as those of a married couple with children.

Additionally, it is important for all of us to understand the basics of renting, buying and selling real estate because most of us, one way or another, will eventually be involved in these activities.

Real estate is defined as land and anything attached to its surface. It is the air above the land and the minerals below its surface. Houses and apartments are examples of real estate, also referred to as **real property**.

Personal property is property not attached to real estate. Examples of personal property include automobiles, furniture, books and clothing.



As we begin section one, note the purpose of this course is to provide you with information that will help you when the time comes to make decisions regarding renting, buying and selling real estate. After all, nearly 30% of your future income will be spent on housing which makes it extremely important to understand the process of renting and buying.

TOPICS THROUGHOUT THIS COURSE INCLUDE:

- *Obtaining good consumer credit*
- *Using a real estate agent when renting or buying*
- *Types of housing available*
- *Renting an apartment*
- *Responsibilities and rights of a tenant*
- *Responsibilities and rights of a landlord*
- *Subleasing*
- *Documents used in real estate transactions*
- *How to find available housing*
- *Advantages and disadvantages of home ownership*
- *What to look for in housing before purchasing*
- *The cost of buying compared to that of renting*
- *The process of buying a home*
- *Information on remodeling a home*
- *The process of selling a home*

All information provided in this course is designed to make you a more informed consumer, aiding in sound decision making.



For most people, the purchase of a house is the single largest business transaction they will ever make. That is why this information is so vital.



What is the first thing you need to know about money? Not just how much you have but how you use it. Before learning about renting and home buying, it is necessary to understand qualifications needed to do either. You must have good consumer credit.

Consumer credit is a part of everyday life.

Credit allows us a payment option for items such as a home, vehicle, education and much more. It also allows us to buy things we could not otherwise afford. During difficult times, credit can also be used to pay expenses resulting from medical and other emergencies.

Consumer credit, however, is not “free” or extra money. Even though it can be used for many valid purposes, credit should not be looked at as additional money or a bonus. Anytime you borrow money, even if you are required to pay only a small amount each month, you will eventually have to repay the debt from future earnings. If you pay only the minimum amounts (usually just the interest plus a small percentage of the principal), you may easily double or triple the cost of the original item purchased.

Learning to manage credit early in life is an important part of building a sound, financial base. Using credit wisely includes knowing which type of credit is best for you in each buying situation, how to avoid getting in over your head and knowing how to build and protect a good credit history. By establishing and maintaining good credit, you are more likely to obtain products and services you want and/or need.

QUALIFYING FOR CREDIT

It is important to know what lenders look for when deciding whether they should loan money or issue a credit card to you. Lenders gather information to determine whether you will be able and willing to repay your debt. In other words, they want to know if you are credit worthy. This will be the basis of your credit rating.

Credit worthiness is based on three C's: Capital, Capacity and Character.

Capital

What assets or financial resources stand behind your commitment to repay a debt? Do you have savings in a bank or credit union? Do you own property such as a home or vehicle? For most people, it takes time to accumulate money, property or other assets. If you are in high school, you are less likely to have capital. When considering a loan or issuing a credit card to a young person for the first time, lenders usually examine factors other than capital.

Capacity

Do you have the ability to repay the debt? Do you have a job? Do you earn enough to pay all of your bills? Is it likely you will continue to earn your present salary, or even more in the future?

If you do not have consistent income, you will find it very difficult to obtain credit. You can ask a relative or friend who qualifies for credit to act as your co-signer if you do not qualify on your own. Keep in mind, the co-signer would be equally responsible for payment. If you would default on the loan, the co-signer on that loan would then be held responsible for the repayment of the debt.

Character

Are you the type of person who will repay your debts as agreed? Do you have a history of paying your debts in the past? Have you made payments on time? Have you contacted the lender directly and promptly if you have had problems repaying?

If you can answer yes to these questions, then you have character in the credit sense. If you have never borrowed money, had a credit card or opened an account at a department store, then a lender doesn't know how to judge your character and may not want to give you credit.

If this happens, you may again consider asking someone to co-sign your loan. However, to show you have good credit character, repay the loan yourself and on time. You may then find it easier to obtain credit on your own in the future.



CREDIT SCORE

APPLYING FOR CREDIT

First you will need to fill out a credit application. You will be asked to provide personal information. After signing the application, you may want to ask the credit provider (usually the bank or credit card company) when you will find out if your application has been approved and how you will be notified.

HOW YOUR CREDIT APPLICATION IS REVIEWED

If you look like a solid applicant at this point, the credit provider may investigate further by getting a credit report on you from a credit reporting agency, sometimes called a credit bureau. The credit bureau keeps your credit history, highlighting the way you manage your debts. They collect and sell this information to those who are considering extending credit (or loans) to individuals. A credit report is a record of your credit history and shows such things as how much money you already owe and to whom, whether you pay your bills on time, your credit limits on other accounts and any actions creditors may have had to take to get you to pay.

CREDIT BUREAUS

There are multiple credit reporting agencies. It is recommended when you go to check your credit score you get a report from multiple agencies as each agency will have different information regarding your credit history. Some consumer groups recommend getting a copy of your credit score at least once a year to check for accuracy and fraud.

CREDIT SCORES (850 HIGH - 350 LOW)

You see ads on the internet and TV all the time. But how do you know what is a good credit score? Each credit agency creates a credit report which uses a statistical technique that combines several financial characteristics to form a single score to represent your creditworthiness. The higher the score, the better. A high credit score can help you obtain lower interest rate credit cards, the best rates on certain types of loans and lower insurance rates. Owners of rental property and potential employers may also check your credit score.

The following table is an example of how credit scores are viewed. Typical scores run from 350 to 850. This is just a general guide as each creditor has their own guidelines.



Credit Score Rating Example

720 – 850	Excellent
680 – 719	Good
640 – 679	Fair
350 – 639	Poor
000 – 349	No Credit



Credit providers cannot use your age, race, color, national origin, sex, marital status, religion or the fact you are receiving public assistance as reasons to deny you credit. The law is very specific about the kinds of questions credit providers can and cannot ask and the kinds of actions which are forbidden.

WHEN YOU DON'T PAY YOUR BILLS

Suppose you are willing to make a budget and save money, but you are already having a hard time making all your monthly payments. You find you are using credit for things you usually pay cash, taking cash advances on your credit cards and are consistently late when paying your bills. When the telephone rings you hope it is not a bill collector.

What should you do when you find yourself in this situation? The best thing to do is to deal with the situation directly. Contact your creditors and arrange for a payment schedule suitable to both of you. Don't buy anything else on credit until your financial situation is stable again.

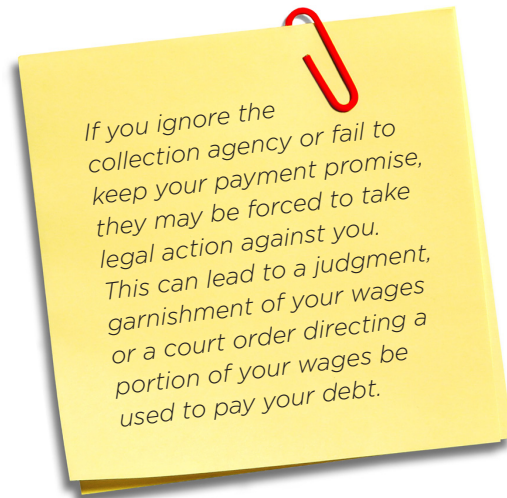


The worst thing you can do is to ignore the situation as it will not go away on its own. If you ignore your credit problems, your creditors will be forced to begin debt collection procedures.



Some creditors will turn your account over to a professional debt collection agency which will attempt to collect the amount you owe.

Debt collection procedures usually begin with a written notice as well as telephone communications reminding you your payment is overdue and the full amount of the bill is now expected.



With this garnishment, you have now lost control of a certain amount of your paycheck. These collectors are governed by a federal law titled the Fair Debt Collection Practices Act. These steps are all reported to the credit bureaus and will show up whenever anyone checks your credit record in the future.

YOUR CREDIT RECORD

Your credit record is a report of how you are currently paying your bills and a history of how you have paid your bills in the past. This information can stay on your credit report for seven years from the date of the last activity.

A bankruptcy will remain in your records for ten years and unpaid tax liens forever. Your creditor uses this file to determine your credit eligibility. The amount of time an account remains on your file does not seem so important if you have paid your bills on time or as agreed. However, it can seem like an eternity if your personal file is marked with slow payments, collection activity or judgments.

**“Don’t live a fairytale!
Get real about how much
money you have. Set a
realistic budget and financial
goals. Don’t justify purchasing
something you can’t afford.”**

- Dr. Phil

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YOUR CREDIT RIGHTS

Credit providers are closely regulated by federal and state laws which set the ground rules they must follow. Although state laws exist to regulate interest rates, the Consumer Credit Protection Act of 1968 (CCPA), with its amendments, is the body of federal legislation which protects consumer rights throughout the process.

Why you should establish good credit

There are many reasons to be responsible with your money and build a good credit history:

- *It establishes your ability to secure future loans for a home, vehicle and much more.*
- *When required, it allows you to connect utilities to your home.*
- *It makes it easier to rent an apartment as many landlords will do a credit check.*
- *Most employers do credit background checks on employees they wish to hire.*
- *Eligibility regarding educational loans may be affected.*

Having good credit can open a world of opportunity for you. Be careful with your money and make it work for you!

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**“Bad debt is sacrificing
your future day needs for
your present-day desires.”**

- Suze Orman

IDENTITY THEFT

Identity theft is one of the fastest growing consumer crimes today. Even at a young age, you should be aware identity thieves are always looking for a new identity. You should always be on guard for anyone who asks for your Social Security number. Why? Because with your Social Security number, the identity thief can obtain credit cards, make purchases, open bank accounts, write counterfeit checks, file for bankruptcy, get a car loan, get a job, file fraudulent tax returns, or even give your name to police during an arrest. They ruin your credit history without you even knowing it’s happening.

How does identity theft happen?

There are many ways an identity thief can obtain your Social Security number:

- Steal your mail
- Rummage through your trash
- Steal your wallet or purse
- Complete a “change of address” form for your mail
- Bogus e-mail or phone calls
- Swipe your card for an actual purchase or attach a device to an ATM machine where you enter or swipe your card, also known as “skimming”

What are some ways I can prevent identity theft?

- Do not carry anything in your wallet or billfold that has your Social Security number on it.
- Do not use your Social Security number as your driver’s license number.
- Do not respond to internet or telephone scams.
- Use a firewall or virus software when connected to the Internet.
- Do not give your Social Security number when requested without asking first how the information will be safeguarded and why it is necessary for them to have it.

To learn more, visit www.consumer.gov/idtheft

SUMMARY

All laws under the Consumer Credit Protection Act exist to keep the credit granting, reporting and collections process fair and reasonable. Properly applied, these laws protect both the consumer and the credit provider. Credit companies will continue to look for ways to meet your needs. You will be able to take advantage of such services throughout your lifetime if you learn to use credit responsibly.

CASE STUDY #1: A History of Bad Credit

You are a freshman in college with a part-time job, working approximately 20 hours a week. With the money you earn, you are able to pay for rent, utilities, gasoline, groceries and other miscellaneous expenses. You receive an application from a credit card company stating you have been pre-approved for credit. The fine print indicates a credit report may be ordered to determine your eligibility before you receive the card.

You fill out the application just to see if you'll be accepted, and you are! You immediately phone a few friends and invite them out to dinner, your treat, and you pay with your credit card. It isn't an emergency, but it is a whole lot of fun. You can pay later when your bill comes. Eventually, you have had a few more dinners, charged a little gas, purchased a few items and have now overspent the maximum allowed on the card. Realizing you can't possibly pay off the entire amount charged, you start paying the minimum balance due. Unfortunately, it is such a small amount the majority of the payment is applied to the interest and very little to what is actually owed.

In the meantime, your hours at work have been reduced and your paycheck is small. You're now making just enough money to cover the necessities – rent, utilities, groceries and gas to provide transportation to school and to your job. Now, you don't even have enough money to make minimum payments.

You decide to ignore the notices and eventually the account is turned over to a collection agency. You throw away the letters sent by the agency and eventually they threaten to take you to court. You do not try to work with the agency or the credit card company and devise a plan to avoid both. You move to a cheaper apartment, failing to notify the post office of the change. You can't afford a phone so there is no listing. Eventually the agency lists you as a "skip." You no longer receive notices from the agency and you no longer think about the debt.

It is now four years later, and you have just graduated from college. You are sending out resumes and applying for jobs. However, you don't seem to be getting a very good response; in fact, you can't even get an initial interview. After several rejections, you decide to call one of the personnel offices. They curtly ask you to read the rejection letter carefully. You do so and find that you have not been granted an interview based on information obtained from your personal credit record.

The letter lists the name, address and telephone number of the credit reporting agency from which they have received your file.

What is a credit reporting agency? You can't imagine what this has to do with you. You haven't had credit in years. Granted, when you had it, you didn't manage it very well; in fact, you didn't manage it at all. But you haven't heard anything from the credit card company and that was so long ago.

Now you are worried. How can you get a job when you can't even get an interview? What should you do?

As instructed, you contact the credit reporting agency listed on the rejection letter. Within a few days, you receive a copy of your file; name, address, Social Security number and date of birth. It all matches; the file appears to belong to you. You now look at the content of the file. There is one item, a credit card with a balance still owed and a notation, "charged off account." How can anything so old still be on your credit record?

After your initial shock, you contact the credit reporting agency to find out if this information can still be a part of your record. The agency informs you that there is a federal law called the Fair Credit Reporting Act that allows creditors to place credit information on file for seven years after the last date of activity. Credit reporting agencies do not make rejection decisions; they only retain the information.

You start to explain why you were delinquent paying the credit card bills. The credit reporting representative provides you with the name, address and telephone number of the credit card company so you can establish a payment arrangement. It is also suggested that you contact the companies who made inquiries into your file to let them know that you have arranged to pay off the debt. They may even be willing to grant a job interview.

Not only can poor credit jeopardize your reputation, it may also prevent you from renting an apartment or buying a home.

With your class, discuss how you can prevent this from happening to you.

Consumer Credit Quiz

Student Name: _____

Date: _____

1. True or False:

The history of how you have paid your bills in the past can stay on your credit report for up to seven years.

2. Why is it important to have good credit?

- It establishes your ability to secure future loans for a home.
- It makes it easier to rent an apartment as many landlords require credit checks.
- Most employers do credit background checks on employees they wish to hire.
- All of the above.

3. There are many ways an identity thief can obtain your Social Security number. Check all that would apply:

- Stealing your mail, bank statements, and/or credit card statements.
- Capture the information in data storage by "skimming".
- Rummaging through your trash.
- All of the above.

4. What should you do if a stranger asks for your Social Security Number?

- Give it to them.
- Ask for theirs as well so it's an even trade.
- Ask how the information will be safeguarded and why it is necessary for them to have it.
- None of the above.

5. True or False:

If you don't have a job or a regular salary, you will find it easy to obtain credit.

There are many reasons why, under certain circumstances, renting is a good choice. When you rent property, you are the **tenant**. As a tenant, you have possession and control over the property. The person or management company you rent from is the **landlord**. The tenant may choose to rent either a house or apartment.

More than likely, purchasing property requires a down payment. Most people will need time to save that money. Renting is then a logical option, giving the future buyer time to save the down payment.

Renting is also a good choice if your job requires frequent moves to other parts of the country. In addition, many people rent when they move to a new area. They may need time to learn about their new surroundings and decide which area will best fit their lifestyle and financial capabilities.

The obvious benefit of apartment living is you will not be required to spend time on maintenance and yard work; two activities which demand a lot of a homeowner's time and attention.

However, renting a property does not offer ownership over the long term. Owning a house gives you equity or an ownership interest in the property, as well as tax benefits which include deduction of mortgage interest and property taxes.



Finding an Apartment

There are several sources to consult when seeking an apartment. Check your local newspapers, apartment rental agencies or online. Professional help can save you time and money. Some real estate companies also have rental departments staffed by knowledgeable agents that can be found online. Also consider asking family and friends if they know of properties for rent.

CONSIDERATIONS TO DISCUSS WITH A RENTAL AGENT:

- Will I have to sign a lease?
- What rules and regulations will I have to consider?
- Can I have pets?
- Can I operate an in-home business?
- Are there vehicle restrictions?
- Who is responsible for maintenance and repair?
- What are the up-front costs?
- Will deposits be required for electricity, gas, water, phone, internet and cable television?
- What are the requirements for the return of a security deposit when moving out of the rental unit?

Although these items will vary with the situation, an experienced rental agent can give you advice which will be important in choosing an apartment or home to rent.

BEFORE YOU GO TO LOOK AT APARTMENTS, ASK YOURSELF THE FOLLOWING QUESTIONS:

How much can I afford to pay in rent?

Carefully itemize your expenses. A general rule of thumb is your housing costs per month should not exceed 30% of your gross pay (*income before deductions*). Before signing a lease, be sure to consider the cost of utilities since this must be factored into your monthly housing expense as well. Determine who will pay for exterior maintenance such as yard work, minor repairs and the outside of the building.

Should I rent a furnished or unfurnished apartment?

Most apartments are unfurnished which means furnished apartments normally command a higher rent. Many unfurnished apartments also include a stove and refrigerator. Always ask in advance if the landlord provides them since they are expensive to buy and to move when you go on to your next home. If your income will allow it, you may want to look into buying some basic pieces of furniture. Remember, whatever you purchase must be insured at your expense. The landlord is not responsible for insuring the contents of an apartment. Another option is to rent furniture. Many cities and towns have a variety of companies that lease home furnishings.

What location do I want?

Walk or drive through several areas where rentals are available. Where do you feel most comfortable? Is the area safe? Consider the distance to your work or school. If you have a car, drive to your place of work or your school and check the time required at different times of the day. Access to public transportation is vital if you don't drive. You will also need to think about how far you are willing to travel for shopping, recreational facilities and for visiting friends and family.

What is my lifestyle?

As a young adult, you may be happier in an apartment complex with other young people. In addition, a complex that has a swimming pool, sauna, tennis courts, etc., will probably be more appealing but you will have to pay for those extra amenities. You will want to look for an apartment suitable to both your lifestyle and your budget.

Am I going to keep my pet?

Most landlords will not allow pets; therefore, it might limit your rental options if you seek an apartment that accepts pets. You must realize violation of this restriction has very serious consequences, especially if there is damage created by the pets.

INSPECTING THE APARTMENT

Once you have found an apartment you are considering, check the following:

- *Are the rooms large enough for my furniture?*
- *Is there adequate closet space?*
- *Will I need a separate storage locker?*
- *Is there a designated place to park my car?*
- *Are the apartment and premises clean and in good condition?*
- *Are the kitchen appliances clean and in good repair?*
- *Are there any signs of insects or rodents?*
- *Are there any signs of water damage or mold?*
- *Is it cheerful? Will you like coming home?*
- *Are the utilities reasonable?*

If possible, it would be wise to talk with one or two other tenants to find out how responsive the landlord is to problems and if the complex is generally well run.

CASE STUDY #2: Teresa's Checklist

Teresa has just finished high school. She's happy about her new office job in her hometown. Now, she wants her own apartment.

Teresa does not have a vehicle so she must depend upon public transportation. Her parents are apprehensive about her moving out on her own and insist she do everything possible to find a safe, convenient and reasonably comfortable place to live.

Teresa is an organized person. Before beginning her search, she makes a list of things to check as she looks at apartments. Thus far, her list includes the rent, closet space and distance to the bus stop.

What other items do you think should be included on Teresa's list?

The Lease Application

Most landlords will require you to complete a **lease application** before they will agree to rent to you. The information provided allows the landlord to check your credit and character so he or she can decide about renting to you. Although applications vary greatly in the amount of information sought, the sample application on page 11 is typical. When applying for your first lease, consider possible references you can list on your application form such as your school counselor, youth minister or activities director.



The Rental Agreement

There are two types of rental agreements:

1) An **oral rental agreement** is usually called a month-to-month agreement. The landlord and the tenant orally agree on the terms and the amount of rent the tenant will pay each month. With this type of agreement, the landlord can increase the rent or the landlord or tenant can terminate the agreement at any time with 30 days written notice. Quite often misunderstandings arise when nothing is written down. For this reason, most people avoid this type of agreement.

2) A **lease** is a written rental agreement which stays in effect for a specific length of time. The written agreement can be for as little or long a term as agreed upon. Both parties are bound to the terms as set out in the lease for the length of time the lease is in force. For instance, the landlord cannot raise the rent for the duration of the lease. A tenant cannot acquire a pet if pets are forbidden in the lease agreement.

Remember, the lessee is responsible for paying rent for the period of the lease even if his or her circumstances change, such as a job transfer or job loss. On the other hand, the lessor cannot evict the lessee unless terms or conditions of the lease have been broken.

It is advisable to get help in understanding the terms of a lease from an attorney or real estate professional. Under no circumstances should you sign a lease without full understanding of the agreement. All blanks should be filled in or crossed out (*and initialed by both parties*) so changes cannot be made later without the knowledge of the other party. If you don't agree to any condition in the lease agreement, either negotiate with the landlord to get it changed or do not sign the agreement. An easy way to make changes is to cross out, in the lease itself, the terms or words in disagreement and write in the terms agreed to with all parties initializing the changes.



SUMMARY OF TENANTS' AND LANDLORDS' RIGHTS AND RESPONSIBILITIES:

- *The landlord and tenant must follow the rules of the rental agreement.*
- *The landlord must provide clean, safe housing.*
- *The landlord must disclose the presence of all known lead-based paint.*
- *If the lease requires the landlord to maintain the interior and exterior of the property, the landlord must keep all services to the property, such as electricity, gas, water, sewer and heating, in good working order.*

- The tenant has the right to expect a livable rental unit.
- The tenant must report any maintenance problems that arise in the property such as a leaking roof, dysfunctional plumbing, electricity, water, sewer, heating system, etc.
- The tenant must pay rent as agreed.
- The tenant must maintain the property to prevent abnormal wear and tear (cleaning, vacuuming, etc.)

Keep a copy of the lease (or sale contract) with your other important documents!

RENTAL APPLICATION EXAMPLE

RENTAL APPLICATION

RENTAL UNIT:
Address of rental unit tenant is applying for: _____

PERSONAL INFORMATION:
First Name: _____ MI: _____ Last Name: _____
Social Security #: _____
Home Phone #: _____ Cell Phone #: _____ Best Time to Call: _____
E-Mail Address: _____
Driver's License #: _____ State Issued: _____ Expires: _____

CURRENT ADDRESS:
Current Address: _____
City: _____ State: _____ Zip: _____
How long at this address: _____ Manager/Owner's Name: _____ Phone #: _____

CURRENT EMPLOYER:
Present Employer: _____
Your Position: _____ How long in this position: _____
Supervisor's Name: _____ Phone #: _____
Street Address: _____
City: _____ State: _____ Zip: _____
Current Salary: _____

The applicant hereby represents all information listed above is true, correct and complete. The applicant authorizes verification of the above information including, but not limited to, obtaining a consumer credit report. The applicant agrees to furnish additional information upon request. The cost of this credit processing is \$ _____ to be paid by the applicant. This cost is not rent or a deposit and will not be refunded.

Applicant Signature: _____ Date: _____

Lead-Based Paint

Many houses and apartments built before 1978 have paint containing lead, also referred to as lead-based paint. Lead from paint, chips and dust can pose serious health hazards if not taken care of properly.

Federal law requires individuals receive specific information before renting or buying pre-1978 housing.

RESIDENTIAL LEAD-BASED PAINT DISCLOSURE

Landlords must disclose known information on lead-based paint and lead-based paint hazards before leases take effect. Leases must include a disclosure form regarding lead-based paint.

Sellers must also disclose known information on lead-based paint and lead-based paint hazards before selling a house. Sales contracts must include a disclosure form regarding lead-based paint. Buyers have up to 10 days to inspect for lead hazards.

CASE STUDY #3: From the Landlord's Point of View

Bill's married brother, Marshall, has lived in another town for several years. While home on vacation, Marshall tells Bill he and his wife are about to purchase a duplex (a two-family home) in the community where they now live. They plan to live in one side and rent out the other.

Bill is particularly interested in the duplex purchase because he has been studying real estate in a high school course. Bill asks Marshall what kind of rental agreement they will use for the rental side of the duplex. The couple is undecided, so Bill suggests they require a 12-month lease which spells out the tenant's responsibilities. Bill and Marshall sit down to write out the terms of the lease which should include everything Marshall and his wife would need to protect their property and their investment.

What terms you would suggest they include?



Deposits and Fees

Most leases include provisions for various deposits and/or fees. The amount required for a damage or **security deposit** can range from a partial month's rent to a full month's rent, in advance. A damage deposit assures the landlord there will be fair compensation if the property is damaged. It will also encourage you to leave the property in the same condition you received it. The landlord may also require a **cleaning deposit** which may or may not be refundable. If your rental unit allows pets, there may be an additional "pet deposit." Refer to the lease for clarification.



Changing the Property

A tenant cannot make changes to the rental property without the consent of the landlord. For instance, you may want to paint or wallpaper a room, but your lease may require the landlord's written consent. Any improvements you make to the property at your expense belong to the landlord, so be careful about investing your money in someone else's property. In addition, painting or wallpapering a room could be considered damage to the property and your deposit could be forfeited to pay for returning the property to its original condition.

Breaking a Lease/Sublease

If circumstances occur which require you to move before the end of your lease, refer to the lease to determine your alternative. If there are no sublease provisions, discuss your situation with your landlord as soon as possible and seek their cooperation.

A **sublease** is a lease from one tenant (**lessee**) to another (called *subtenant* or *sublessee*). The agreement between the landlord (*the lessor*) and the first lessee remains in force and governs the terms of the sublease. If subleasing is allowed in your lease, be aware that you remain responsible through the end of your lease for rent, as well as any damages which may occur by the replacement tenant. It is preferable to see if the landlord will consider locating a new tenant to replace you and have the new tenants sign a lease in his or her name.

CASE STUDY #4: An Apartment with Problems

You live in an apartment with problems! Some you can solve, some you cannot. Here's the situation:

- You accidentally break a full-length mirror which is mounted on a bedroom door by the apartment owners. *Who is going to pay for replacing it; you or the landlord? Why?*
- The sun has faded the wallpaper in one room, and it has been decided by you and your landlord it needs to be re-papered. *Is the cost going to be on you or the landlord? Why?*
- One of the wall sockets in the living room seems to spark inside each time you plug something in. You can hear it "crackle" and can faintly smell hot metal. You feel it should be repaired. *Will this cost be on you or the landlord? Why?*
- On two occasions, you have noticed a rat run from the apartment garage to a small hole under the foundation of the building. You tell the landlord. *Does he have to do something about the rats? If so, why?*

Government Subsidized Rental Housing

Federal, state and local governments offer certain financing options to give families who make less than the **median income** an opportunity to rent decent, affordable housing. There are low interest government loans, grants and tax credits which provide developers with financing to build or rehabilitate multifamily rental units. In return, the government may require developers to build in certain neighborhoods where good housing is hard to find or set reduced rental rates so low and middle-income families can afford to rent.

Many of the government loans and grants for housing come from the **U.S. Department of Housing and Urban Development (HUD)**. Developers may apply directly to HUD for programs; for others, they must apply through their city or state governments. A program which benefits low income renters (*and homebuyers*) directly is Section 8 Housing.

Section 8, or the Housing Choice Voucher Program, is a Federal housing program which provides housing assistance to low-income renters and homeowners. This assistance comes in the form of rental subsidies, limiting the monthly rent payment of the assistance recipient.

In Missouri, one of the primary agencies administering housing programs on HUD's behalf is the **Missouri Housing Development Commission (MHDC)**.

MHDC administers several programs which finance the construction of privately owned and managed rental apartments and houses. Though the private owners can make most of their own decisions about how they manage their properties, MHDC does have rules about maximum rents and maximum tenant incomes in order to provide quality housing for low and moderate-income families.

To learn more about MHDC, visit www.mhdc.com

Discrimination in Housing

Fair housing is a right protected by federal and state laws. Fair housing means you may freely choose a place to live without regard to your race, color, religion, sex, national origin or simply because you are disabled or have children in your family. It is against the law to deny people the opportunity to live where they want to live.

If you feel you are being treated unfairly, you may want to contact HUD, the Missouri Human Rights Commission or your local human rights commission.

Renting can be a pleasurable experience if you find a property which fulfills your needs, meets your budget and is treated like your home.

Renting a Home Quiz

Student Name: _____

Date: _____

1. What percentage of your gross income should your housing cost not exceed per month?

- 25%
- 30%
- 35%
- 40%

2. True or False:

Just because an apartment offers several amenities (*i.e., swimming pool, tennis courts, exercise facility, etc.*) does not mean it will cost more.

3. Which of the following are correct?

- Under no circumstances should you sign a lease without fully understanding it.
- If you don't agree with any terms in the lease, either have it removed or negotiate the change prior to signing anything.
- It is advisable to get help in understanding the terms of a lease from an attorney or real estate professional.
- All of the above.

4. What should a renter do with the landlord when first moving into a property?

- Invite the landlord to your move-in party.
- Show the landlord what changes you're going to make to the property.
- Document the condition of the property.
- All of the above.

You have decided you are ready to become a homeowner. Before you start your home search, it would be beneficial to ask yourself these questions:

- *Do I prefer an old or new home?*
- *How many bedrooms do I need?*
- *How many bathrooms would I like?*
- *Yard size?*
- *Ranch, two-story or bungalow?*
- *Single family or multi-unit housing?*
- *Is proximity to shopping or public transportation important?*
- *Do I want to be close to schools and does the school district provide bus service?*
- *What monthly payment can I afford?*

These questions are very basic, and others can be added to the list to fit specific considerations.



Why Buy?

For most people, the primary reasons for buying a home are shelter and pride of ownership. You can usually make your own choices about location and architectural style, in addition to decorating according to your own taste and what you can afford. Home ownership gives you a feeling of security and provides a lasting and growing investment.

THE REAL ESTATE AGENT

It is always your choice to use or not to use a real estate professional. You can check the real estate ads and contact owners who advertise their homes as "For Sale by Owner;" or, because of the detail involved, you may decide to call an agent. A **real estate agent** has met certain standards of education and is licensed by their state's real estate commission to assist buyers and/or sellers with real estate transactions.

The designation, **REALTOR®**, refers to real estate agents who are members of the National Association of REALTORS® (NAR) and belong to a state association and local board/association. REALTORS® subscribe to a strict Code of Ethics which governs their real estate practices with the public and with other REALTORS®. In addition, they are usually educated in real estate far beyond just the requirements for obtaining a real estate license. REALTOR® is a trademark and only NAR members may use the term.

AGENCY DISCLOSURE

At your first meeting with the agent, they will explain the rules of agency which govern all real estate licensees. They will also provide you with a written explanation and disclosure.

Seller's Agent - represents the seller and receives a commission from the proceeds of the sale of the house. The seller's agent acts in the best interest of the seller while treating the buyer fairly and honestly.

Buyer's Agent - represents the buyer and is either paid a fee by the buyer or receives a portion of the commission as mutually agreed upon with the agent of the seller. The buyer's agent acts in the best interest of the buyer with fair consideration for the interests of the seller.

Dual Agency - a situation in which both the buyer and seller are represented by one agent or office.

Transaction Broker - an individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor. A broker is typically a licensed real estate professional who most usually represents the seller of a property. A broker's duties may include determining market values, advertising properties for sale, showing properties to prospective buyers and advising clients about offers and related matters.

When selecting an agency, be sure you ask questions. The importance of this relationship cannot be emphasized enough.

What Price?

Before you start looking for a house, you should get an idea of the price range you can afford. Real estate agents and lending agencies call this "qualifying the buyer." They can help you determine what you can afford for housing. Some general rules apply.

The first is your monthly housing cost (*which includes principal, taxes and insurance*) should not exceed 30% of your income. The second is your total installment payments, such as a car payment and your house payment, should not exceed 35% of your monthly income, combined.

In order to qualify you for a loan, the lender will consider your credit history to determine whether you pay your bills on time. They'll want to know how long you have been at your current job and may contact your employer to determine the stability of your job. All this information is confidential with the lender, so it is essential the borrower (*you*) tell the truth.

It is quite possible the lender will offer to lend more money than you need. Ask yourself how much discretionary income you want for travel and entertainment. Or, do you want new furnishings, and will you want to do improvements right away? Are you handy or will you hire someone to paint, do carpentry work, etc.? If not, a smaller loan may be the wise decision so you can spend your discretionary money as you see fit. Avoid being "house poor," that is, having little or no money left after paying the monthly cost of owning a home.

Financing Options

Go over the list of questions you have asked yourself about your housing needs. Then, if you decide to work with a real estate professional, the agent can show you properties which meet those needs. If you and the real estate agent determine you will probably qualify for some type of loan, the next step would be to contact a loan officer at a bank or mortgage company to discuss available loan options.

When you borrow money, the amount you borrow is called the **principal**. **Interest** is the money that is paid for using someone else's money. The **term** of the loan is the period of time in which you will repay it. A **down payment** is a portion of the cost of the home, paid in cash at the time of the sale, to reduce the amount of the principal. Most lenders require the down payment to be paid from the buyer's own funds.

FIXED RATE AMORTIZED LOANS

Until recent years, a **fixed rate amortized loan** was the standard way to borrow money. To amortize means to pay off a loan with a series of regular payments. With this type of loan, the interest rate does not change and the monthly payments remain the same for the life of the loan. A portion of each monthly payment is for interest and a part goes toward repaying the principal. At the beginning of the loan period, most of each payment is applied toward the interest owed. As the unpaid balance on the loan decreases, a larger percentage of each payment goes toward reducing the principal.

ALTERNATIVE FINANCING

Because interest rates have fluctuated in recent years, alternative mortgages have been developed to better meet the borrower's need for affordable home financing and to meet the lender's need to earn a profit even when interest rates change.

The most common of these alternative loans is the **Adjustable Rate Mortgage**, or ARM. ARM's allow the lender to adjust the interest rate of the loan at scheduled, agreed-upon times. The rate is tied to an index such as the US Treasury Bill. If the interest rate is adjusted upward, monthly payments go up; if adjusted downward, payments go down. Interest rate caps place a limit on the amount the interest rate can increase each year and during the life of the loan.

With most ARM's, the interest rate and monthly payment change every one, three or five years. Some ARM's have more frequent interest and payment changes. The period between one rate change and the next is called the **adjustment period**.

Generally, lenders charge lower initial interest rates for ARM's than for fixed-rate mortgages. You may even qualify for a larger loan if you go with an ARM because sometimes lenders base loan qualification on current income and the first year's payment. If interest rates remain steady or go down, an ARM could be less expensive over a longer period than a fixed-rate mortgage.

However, as an ARM carries a risk factor, an increase in interest rates could lead to higher monthly payments in the future. There are many factors to consider when deciding whether to borrow mortgage money with a fixed interest rate or to go with an ARM.

LEASE/PURCHASE

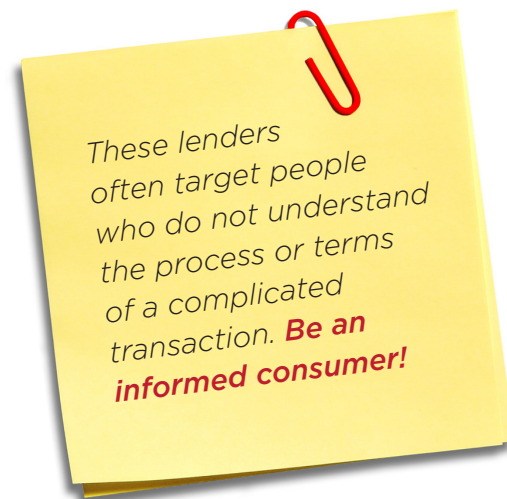
Sometimes an opportunity may arise to enter into a lease-purchase agreement with a landlord. This is an agreement allowing portions of your lease payments (rent) to be used at a later date to purchase the leased property.

Buyer Beware

As you begin to look at mortgage loans, whether through a bank or a mortgage company, be very careful as you make your decisions. Often borrowers are tricked into unfair loan terms by aggressive sales tactics. This is called "*Predatory Lending*." Predatory Lending can destroy a homeowner's equity in their home and may lead to foreclosure for failure to make payments.

Some signs of Predatory Lending are:

- *Aggressive and deceptive advertising*
- *Loans made without regard to the borrower's ability to pay*
- *Financing excessive fees into loans*
- *Charging higher interest rates than the borrower's credit allows*



Affordable Housing

A single-family home is considered affordable housing if the family who buys the home makes the median income for the area where they live, the monthly mortgage payments (*including tax and insurance*), plus utilities, equal 30% of the family's income, and the home sells for the median sales price for that area. In an effort to make affordable housing possible for low income families, there are non-conventional loans available through private lenders and government agencies.

One option is a loan insured by the federal government. Two federal agencies offering mortgage insurance programs are the **Federal Housing Administration (FHA)** and the Veterans Administration (VA). The purpose of mortgage insurance is to protect the bank from loss if the borrower fails to repay the loan.

Additional loan options are available through special programs offered by the Federal National Mortgage Association, or "*Fannie Mae*," and the Federal Home Loan Mortgage Corporation, or "*Freddie Mac*." These are private, not-for-profit, government-chartered corporations that buy loans from local lenders. This arrangement is known as the "secondary market." For example, when a local bank makes a mortgage loan, it may sell the loan on the secondary market to Fannie Mae or Freddie Mac, thus replenishing its supply of mortgage money. This assures money is always available when homebuyers need it. Fannie Mae and Freddie Mac in turn pool these loans into "*mortgage-back securities*" that pay dividends to the stockholders with the mortgage payments made by the homeowner. As you can see, when you buy a home, you trigger many business transactions that benefit our national economy.

In this state, the **Missouri Housing Development Commission (MHDC)** is a financing resource for first-time homebuyers who borrow money under the First Place Loan Program, financed through the Mortgage Revenue Bond (MRB) Program. MHDC has down payment assistance options as well. Families who are renting are used to making monthly payments for housing but may not have enough cash to make a down payment on a house. MHDC offers a qualified first-time buyers' loan or grant money for the down payment or **closing costs** on a new home.

The agencies described above depend on local banks and mortgage companies to make their programs available. In fact, it's the local lenders who take the applications and process all paperwork before the loan is made.

Prepayment Privilege

Be sure any loan you accept has a prepayment privilege which gives you the right to pay off the loan before maturity without any financial penalty.

Looking for a Home

You are now ready to look at homes. More than likely, you will not find a home that meets every need and desire you have, so be prepared to compromise. Unfortunately, the perfect house has probably not been built!

WHICH IS BETTER? OLD OR NEW?

There is no right or wrong answer to this question. Old homes and new homes have their advantages and disadvantages. For the same price, an older home may have larger rooms and a larger yard, be closer to schools and shopping, and have that charm only age can provide. However, there can also be disadvantages. The layout of the rooms may be inefficient for your criteria and there may be a lack of modern appliances, standard in most new homes. Wiring and plumbing may be inadequate, and more maintenance is usually required for older homes.

New homes have the appeal of being fresh and unscarred. The wiring should be adequate for today's needs and new appliances will be under warranty. But, new houses are not always perfect.

After a few months, there may be cracks in the foundation, a leaky roof or other problems due to less than perfect craftsmanship, or other factors.

You may also have to pay for new landscaping which is costly and can take hours of work. There are no simple answers to the old or new question but there are benefits and drawbacks to each. As a buyer, you will want to consider all aspects.

When considering any home, it is advisable to have the house inspected by a professional home inspector. If repairs are needed, incorporate the costs into the sale price. Purchase agreements can be written contingent upon the seller making the necessary repairs.

WHICH IS BETTER? BUILD OR BUY?

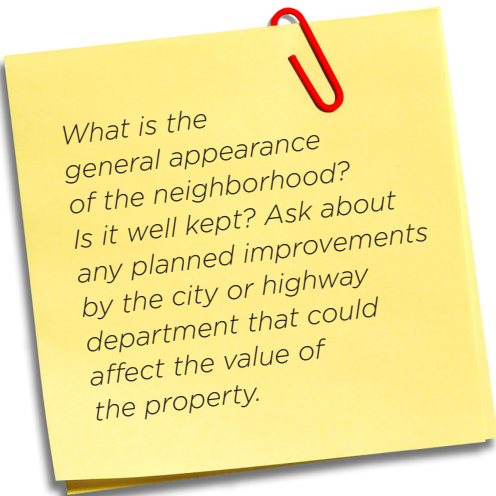
Many people want to build in order to have a home which will fit their own specifications. An architect, a contractor and an attorney may be needed. Building takes time, patience and the ability to make decisions, but it can also mean a home that is custom made for your particular wants and needs.

Buying an existing house might be less expensive, but you must compromise on some features. On the other hand, you may also save enough money from buying an existing home to add some features yourself. Many new subdivisions offer the advantages of newness without the problems of custom building. You may be able to choose the architectural design, and perhaps color, flooring, cabinets, etc.

ASK YOURSELF THESE QUESTIONS

Once you have found a house in which you are serious about, you should have a professional inspector look at the house. You will receive a written report on its structural condition and the condition of other structural components of the house. Also consider the following questions:

- *Does the house have a good floor plan?*
- *Does it fit your living style, and will it be suitable for many years to come?*
- *What are the lot boundaries?*
- *What is included in the sale of the property? Does the portable storage shed come with the property? Does the antique dining room chandelier remain? Agreement on such matters should be included in the sale contract.*



What is the general appearance of the neighborhood? Is it well kept? Ask about any planned improvements by the city or highway department that could affect the value of the property.

- *Are there any issues that might impact the desirability of the house? Is it in a high crime area? Are there registered sexual offenders in the neighborhood? Is there a history of known drug offenses or manufacturing in the area?*
- *What is the zoning? For instance, an area zoned "R1" will have only single-family residences. Areas zoned "R2" and "R3" may include multiple unit housing. In "C" zoned areas, businesses and commercial establishments may operate, and industrial and manufacturing activities are allowed in "M" zones. Symbols may vary from community to community, so be sure to check on zoning regulations before you purchase.*
- *Research the school district to see if it will meet your needs.*
- *Most real estate contracts contain "contingencies." A contingency is an act or event that depends upon certain conditions. For instance, buying a house may be contingent upon getting a loan at a certain interest rate, or upon selling your current home. For your protection, be sure all contingencies are contained in the contract so in the event you cannot satisfy them, you are not bound to the purchase.*
- *How much are the real estate taxes?*
- *What are the energy costs for the house? Ask the seller or your agent for recent utility bills.*
- *Will it be costly to maintain the house and yard?*
- *Are there any easements? An easement is a legal agreement giving specified people the right to use another person's land for a certain purpose, such as the right to cross the property or to service or install utilities.*
- *Most importantly, can you afford the house? Do the math!*

Making an Offer

Once you have found a house you wish to buy, you are ready to make an offer. Ideally, you will now have a document from a lender which commits to a specific loan amount if certain conditions are met such as a satisfactory appraisal and credit report. You must determine the amount of your offer. A real estate professional can provide you with comparable sales data for the area. Compare what you think is a fair price with what the seller is asking. This will determine the amount of your offer.

CASE STUDY #5: A Perfect Home?

Richard and Claire are looking for a larger home. They know the equity in their current house will be more than enough to make a down payment. They've found a 35-year old house with a huge yard that has captured their hearts. The house is a good buy. Both Richard and Claire have demanding jobs and two active teenagers. They wonder if they can manage the problems that come with the house. The yard has many trees, shrubs and plants which will warrant a lot of care. The house needs repairs including a new roof, paint and a garage door, among several other things.

Richard and Claire have gone back to look at the house a dozen times. They've gotten so emotionally attached to it they can hardly consider looking at others. Yet, they know a big yard and an older home in need of repair may take more time than they have.

What's the solution? What would you do if you were a member of this family? Why do emotions play such a big part in choosing a home? What may happen if Richard and Claire buy this house? What if they don't? Discuss as a class.

If you use the services of a real estate agent, he or she will prepare the offer on a Contract for the Sale of Real Estate form. More than likely, the seller will “counter” your offer with a different price and terms. The agent fills an important role in these negotiations since the agent can act as a buffer in what might be an emotionally charged situation. The agent is obligated by law to present all offers and counter offers to buyers and sellers.

THE REAL ESTATE CONTRACT

After the negotiations are over, both you and the seller will sign the Residential Sale Contract. It states you agree to buy the property and the seller agrees to sell. It will indicate the price and amount of the deposit. Any special conditions or contingencies will also be written into the agreement.

As the buyer, you will pay a deposit most commonly referred to as earnest money. **Earnest money** is a term that has been used over the years to indicate a person is “in earnest” about the agreement. The earnest money will be placed in escrow for your safety.

When something is placed in escrow, it is held by a third party, such as in a special non-interest-bearing bank account, until certain conditions have been fulfilled.

Missouri law requires **real estate brokers** to complete standard real estate contracts (such as the Residential Sale Contract) which have been approved by legal counsel. The standard contract form cannot be materially changed without additional approval by an attorney. Further, the real estate agent is not permitted to charge a separate fee to the buyer or seller for filling out standard forms related to the sale of real estate, nor give legal advice to the buyer or seller. If either party requires advice regarding legal rights, an attorney should be consulted. If neither the buyer nor the seller is represented by a real estate agent, it is advisable to get assistance from an attorney when completing the legal documents required for the sale.

THE CONTRACT IS SIGNED

As soon as both you and the seller have a “contract,” the time for securing a written loan commitment and any other contingencies stated in the contract begins. Be prompt in making an appointment with your loan officer and setting dates for all inspections required by the contract. If an inspection reveals a problem with the property, you and the seller can negotiate a settlement for the repair that is satisfactory to both of you. When all contingencies are satisfied, it is time to close the sale. If all contingencies cannot be met, the terms of the contract will determine what needs to be done to terminate the contract and what is to be done with the earnest deposit. Fortunately, most sale contracts do go to closing.

Closing the Sale

The loan is committed, and all contingencies have been satisfied. You are now ready to close. Many legally binding documents are signed on the day of closing. Ask to see blank forms in advance so you will be familiar with them. **Ask questions about anything you don't understand before the closing day.**

A final buyer walk through is recommended to make certain agreements regarding the condition of the property have been kept.

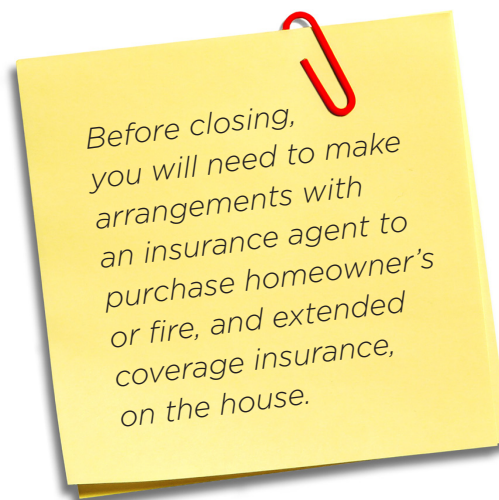
The Real Estate Settlement Procedures Act (RESPA) protects the consumer during closing and requires all closing activities be disclosed by the lender and other agencies. Under RESPA, your lender must provide you with a *Good Faith Estimate of Settlement Charges* at the time you apply for a loan. RESPA also requires a HUD information booklet about settlement costs be sent to the borrower within three days of the loan application. Finally, lenders must use the HUD Uniform Settlement Statement at the time of closing.

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Buyer costs may include an appraisal fee, credit report, inspection and recording fees and title insurance. Some of these costs will be calculated as a percentage of the loan.

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If the down payment of the loan is less than 20% of the sale price, the lender will usually require **private mortgage insurance (PMI)**. The benefit is that PMI protects the lender from financial loss and allows the lender to make a higher risk loan with financial loss and allows the lender to make a higher risk loan with a lesser down payment.



It is of benefit to have this information in a binder at closing to protect you and the lender's interest in the property.

You may decide to have your property taxes and hazard insurance included in the monthly payments instead of paying a lump sum once a year. This combined monthly payment is known as **principal, interest, taxes and insurance (PITI)**.

There are two terms which should be reviewed at this time due to their importance to the sale of real estate and to the closing. **Title** is the legal right of ownership and **deed** transfers the right of ownership to another party or parties.

Local custom often dictates the location of the closing and the parties who are present but closing generally takes place at the office of the lender, the title company or the real estate office. The title company plays an important role in the closing process as it specializes in insuring title to property. The insurance protects the lender or the buyer against loss arising from disputes over ownership.

When a title company receives a request for title insurance, a search of public records is made to ensure the seller is the legal owner of the property and there are no liens or other outstanding claims. A lien is a legal claim against a property that must be paid off when the property is sold. A mortgage or first trust deed is considered a lien. A representative of the lending company and of the title company will attend the closing.

At closing, the seller is paid the full purchase price of the house, minus any unpaid mortgage balance, real estate taxes owed by the seller and additional selling expenses. The check to the seller includes the amount of the loan, the down payment and any selling expenses to be paid by you, the buyer.

Selling expenses often include “**points**” which are a form of pre-paid interest. These can be “*discount points*” which are interest charges paid upfront at closing. A point is equal to one percent of your loan amount. By paying more points at closing, you will usually lower your interest rate.

There are also “*origination points*” which are processing fees assessed by the lender for the loan. When you sign a **promissory note**, you are signing a written promise to the lender stating the loan will be repaid. The **deed of trust** or mortgage gives the lender a lien on the house through the life of the loan.

The big moment comes when you receive the deed to the property showing rightful ownership.

The closing officer will see records at the courthouse proving you are the property owner on record.

Buying a home is a scary, but satisfying, experience. To feel confident a wise and lasting investment has been made, remember to carefully read all reference material about buying a home.

Thoroughly examine all forms before signing them and ask the professionals any questions that arise, no matter how insignificant they may seem. With careful planning, the rewards of home ownership are endless, and many happy years can be spent in the house of your choice.



Buying a Home Quiz

Student Name: _____

Date: _____

1. True or False:

Both building and buying a home have their advantages and disadvantages.

2. True or False:

For most people, the primary reasons for buying a home are shelter and pride of ownership.

3. Which of the following is not correct when buying a home?

- Your job stability is not taken into consideration when qualifying for a loan.
- Your total monthly housing cost should not exceed 30% of your income.
- In order to qualify you for a loan, the lender will consider your credit history to determine whether you pay your bills on time.
- Most lenders require the down payment to be paid from the buyer's own funds.

4. True or False:

Interest is the amount of money paid for the use of someone else's money.

5. What are at least three questions you should ask yourself when you have found the home you wish to buy?

- How much are real estate taxes?
- Will it be costly to maintain the house and yard?
- Can I afford the house?
- All of the above.

There are many reasons why people sell real estate. One very common reason is a change of job requiring relocation. Another reason might be a family's housing needs change. There is a need for more room as a family increases in size or for less room as children grow up and move out on their own. No matter the case, understanding the process of selling a home can be of great benefit in the future.



Changes in Value

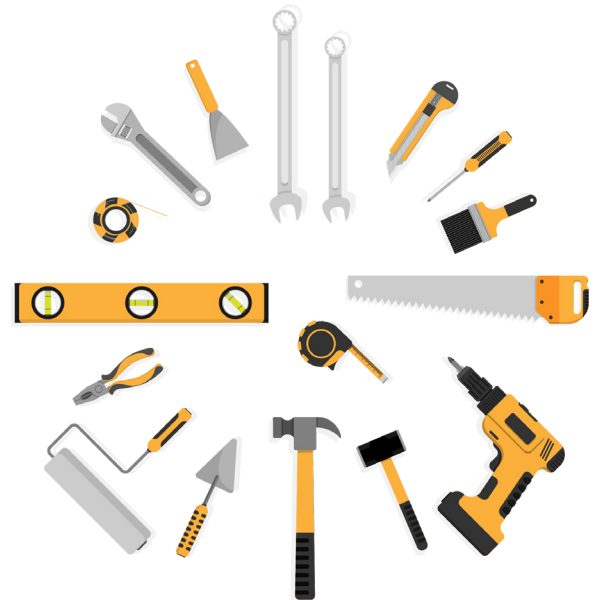
Property values can change. A house may be worth more today than it was years ago. Assuming it has been well cared for and maintained, a house can **appreciate** in value, meaning its value increases. Appreciation in value can be due to numerous factors: inflation, scarcity of housing, prime location, superior basic construction, etc. A house can also **depreciate** or decrease in value. Depreciation is frequently due to the age of the house, economic depression, poor maintenance, a decaying neighborhood, poor basic construction or an undesirable location.

Sell or Remodel

Before deciding to sell a home because it is now too small for your family's needs, remodeling should be considered. Remember, there are many expenses involved in selling your home such as the real estate commission, closing costs, the cost of moving and perhaps even the cost of new furniture.

Often an older home can be modernized less expensively than changing houses. New landscaping or the addition of a room, porch or patio can all make a difference in livability and appearance. Before remodeling is considered, the cost in dollars plus time versus the increase in the value of the house should be carefully assessed. At least two contractors should be contacted for written estimates of cost. Often there are city permits that must be obtained prior to any addition to a home.

DIYs (*Do It Yourselfers*) can save a lot of money, but no one should undertake a home improvement project unless the time, money and talent are available to do the job. It is always recommended to get advice from a professional even if you plan to do the work yourself.



You Decide to Sell

If you decide to sell your home, you must decide if you will sell your home yourself or if you will use the services of a real estate professional. If you decide to handle the sale yourself, you will want to proceed with caution. Should your decision be to sell through a real estate office, you will be able to leave most of the work to an agent.

One of your first tasks will be to decide the price you will ask for your home. The real estate agent's experience can be very helpful in determining price as well as making suggestions for improvements that could increase the asking price.

An appraisal by an independent appraiser will also help determine the market value.



A real estate agent will develop a marketing plan, list your property, advertise it, show it to prospective buyers and take care of the many additional details involved with a sale.



If you handle the sale yourself, you may want to seek legal advice when the time comes to create a contract. If your house was built before 1978, the law requires you disclose the presence of all known lead-based paint. (See Section 2).

SUMMARY

A prospective buyer may request you pay for a survey, title insurance and/or a homeowner's warranty. Your real estate agent can guide you in making decisions about these important considerations.

Selling can be as satisfactory an experience as buying, provided the seller learns as much as possible about the sale of real estate. You should talk to all professionals involved, consider any contingencies that are placed on the sale and examine and understand the closing documents before signing. With careful planning, you can proceed to another real estate purchase to suit the next stage of your life.

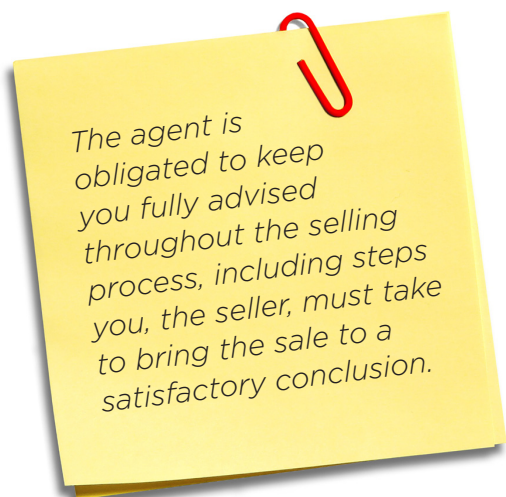
CASE STUDY #6: Sell or Remodel

Our friends Richard and Claire did buy the older house 10 years ago (see CASE STUDY #5). Now, their children are grown and living on their own.

Both Richard and Claire still work and with college tuitions a thing of the past, they can finally afford to finish fixing up their home; a more modern kitchen, turning the screened porch into a sunroom, adding a separate shower unit to the second-floor bathroom and permanent siding on the outside. All of these improvements will make the house more livable and more valuable.

The house is also more room than they now need. The large yard still requires a lot of care and the improvements they are considering will cost a lot of money. Maybe a **condominium** or smaller house is a better solution.

Write down every reason you can think why they should stay in their home and then make a list as to why they should sell their home. If they sell, should they rent a very nice apartment or is homeownership still the best option?



Selling a Home Quiz

Student Name: _____

Date: _____

1. What can cause a house to depreciate or decrease in value?

- Age of the home.
- Poor maintenance.
- Undesirable location.
- Poor basic construction.
- All of the above.

2. True or False:

If you decide to sell your home through a REALTOR®, they will handle the majority of the work.

3. Why might someone consider selling their home?

- A change of job requiring a location change.
- Their family's housing needs change.
- There is a need for more room as a family increases in size, or for less room as children grow up and move out on their own.
- All of the above.

4. True or False:

Selling can be as satisfactory of an experience as buying, provided the seller learns as much as possible about the sale of real estate.

Conclusion

You are the future of the housing industry. Your need for housing will influence the work of builders, developers, architects, real estate professionals, bankers and many other people.

You'll probably live in several apartments or houses during your lifetime. You may even invest in real estate, be it your own or someone else's.

Housing conditions will see many transitions throughout your lifetime. Rental fees will increase. Energy costs will go up. Home and lifestyles will change, and interest rates will most likely rise, fall and rise again.

Since property values tend to increase over time, many people feel real estate remains a good investment. And, as we have seen, the federal government encourages home ownership by providing low interest loans, grants and tax credits. Exercise caution when making decisions about real estate whether you are renting, buying or selling.

Remember to read the contract carefully, understand your legal responsibilities and your rights, do your homework when making decisions related to selecting a real estate agent, research the best loan option and take your time when looking for a home. More than likely, there are multiple homes available to fit your search criteria.

A residence really becomes a home when you move in. It can be much more than the shelter all humans require. It can be your security, your comfort and reflect your personality. Your own special touch turns a dwelling into a home. Remember, ***It's Your Move!***



Terms of Real Estate

The terms listed below are defined as they apply to credit and real estate.

Abstract of Title

A condensed summary of all documents and public records that affect title to a specific piece of real estate.

Adjustment Period

The period of time from one rate change to the next for an ARM. These usually take place every one, three, or five years.

Adjustable Rate Mortgage (ARM)

A type of alternative mortgage for which interest rates and payments are not fixed but adjust over the life of the loan to stay roughly comparable with prevailing market rates.

Agency

A legal relationship in which an owner/principal engages a broker/agent in the sale of property, or a buyer/principal engages a broker/agent in the purchase of property.

Agent

A person who legally represents another in a business transaction.

Amenities

Attractive features of a property which increase one's comfort or convenience.

Amortization

The means by which a home loan is scheduled to be paid off, including interest and principal, by a series of regular installment payments. Loans are typically amortized over 30 years.

Annual Fee

The yearly cost to use a credit card. Not all credit cards have annual fees.

Application Fee

A fee, often non-refundable, charged by the lender to cover costs of processing your application.

Appraisal

A formal, written estimate of the current value of a home.

Appraiser

A licensed agent who conducts an appraisal.

Appreciate

A rise in value of property.

Annual Percentage Rate (APR)

The cost of your credit expressed as a yearly rate.

Assumption of Mortgage

Alternative financing agreement under which the buyer assumes responsibility for making remaining payments on the seller's existing mortgage.

Bad Credit

Term used to describe a poor credit history.

Balloon Payment

A large payment made at the end of a loan period that settles the balance of the amount borrowed.

Bankruptcy

A legal declaration of the inability to repay debts.

Broker

A person who earns a fee or commission by bringing parties together and assisting them in conducting a business transaction.

Brokerage

Used interchangeably with a broker when referring to a firm rather than an individual; also called brokerage house or brokerage firm.

Building Codes

Community ordinances which regulate the structure of a building.

Ceiling

The highest price, interest rate or other numerical factor allowable in a financial transaction.

Cleaning Deposit

A deposit to cover costs of cleaning an apartment.

Cleaning Fee

A fee charged for cleaning an apartment; usually not refundable.

Closing Costs

Charges paid at the closing of a real estate transaction.

Commission

Payment to an agent, usually calculated as a percentage of the amount of sale.

Condominium

A type of multiple housing in which a unit is individually owned and common areas are jointly owned with other condominium owners.

Contingency

Some act or occurrence that depends upon certain conditions.

Conventional Loan

Any loan secured by real property that is not insured or guaranteed by a government agency.

Convey

To transfer or sell real estate.

Cooperative

A type of multiple housing in which a cooperative member buys a share in a corporation that owns the building and then leases the individual unit that they occupy.

Co-signer

A person, other than the principal borrower, who signs for a loan and assumes equal liability for the loan.

Covenant

A binding agreement made by two or more individuals, parties, etc., to do or keep from doing a specified thing.

Credit History

A record of how people manage their debt that is collected and sold by credit reporting agencies.

Credit Limit

The maximum that may be owed on a credit card. This includes purchases, cash advances, finance charges, and fees.

Deed

A document that transfers right of ownership.

Deed of Trust

A document used in Missouri to pledge property as security on a loan.

Default

Failure to do what one is obligated to do.

Depreciate

A decrease in the value of property.

Duplex

Two single family residences joined together.

Earnest Money

A deposit paid by a buyer to demonstrate good faith.

Easement

A legal agreement that gives specified people the right to use another person's land for a certain purpose.

Eminent Domain

The power of a government to purchase property at a fair price from an owner if it is needed for public use.

Equity

An ownership interest; the difference between the present value of something and the amount still owed on it.

Escrow Agent

In the sale of property, a neutral third party – the escrow agent – is appointed to act as custodian of documents and funds during the transfer from seller to buyer.

Eviction Notice

A legal notice that a tenant is subject to being removed from a property by force, if necessary.

Federal Housing Administration (FHA)

A government agency which ensures repayment of a loan to the lender. The borrower is able to obtain a home loan with a smaller down payment and often at a lower rate of interest.

Fixed Rate Amortized Loan

A loan for which payments are for the same amount of money. The interest rate remains the same over the life of the loan and the loan is fully repaid at the end of the term.

Fourplex

Multiple housing with four units joined together.

Gross Income

Income before tax and other deductions.

Heir

A person who receives an inheritance.

Homeowner's Insurance

An insurance policy that combines liability coverage and hazard insurance.

Homeowner's Warranty

A type of insurance that covers repairs to specified parts of a house for a specific period of time.

HUD (U.S. Department of Housing and Urban Development)

A federal agency responsible for national policy and programs that address America's housing needs, improve and develop the Nation's communities and enforce fair housing laws.

Index

A measure of interest rates for ARMs; changes in the index determine how the interest rate will change.

Inheritance

Anything of value which may be acquired from ancestors.

Interest

The amount paid for the use of money.

Interest Rate Cap

A limit on how much the interest rate on an ARM can change.

Landlord

An owner of property who rents it to others.

Last Month's Rent

An additional month's rent paid at the beginning of a tenant's occupancy to assure the landlord that the tenant will not move out without paying the last month's rent.

Lease

A contract by which property is rented for a certain period of time.

Lease Application

The prospective tenant's application to enter into a lease with the landlord.

Lending Agency

A financial institution that makes loans.

Lessee

One who rents property under a lease agreement.

Lessor

Owner who leases to a tenant.

Liability

A financial obligation or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.

Lien

A claim on the property of another as security for the payment of a debt.

Manufactured Housing

Housing that is built in a factory.

Median Income

Average income for a specified area.

Mortgage

A legal agreement by which a bank or other creditor lends money at interest in exchange for taking title of the debtor's property.

Multiple Listing Service (MLS)

A system whereby descriptions of properties for sale are shared simultaneously with a number of real estate agencies.

Negative Amortization

Deferring interest payment by adding it to the unpaid principal balance. This occurs when monthly loan payments are not large enough to cover the cost of interest.

Net Income

Income after tax and other deductions.

Oral Rental Agreement

An unwritten rental agreement.

Owner

A person who has title and rights to property.

Payment Cap

A limit on how much the monthly payment on an ARM can change from one adjustment period to the next.

Permanent Fixture

Anything attached permanently to property.

Personal Property

All movable property and anything not permanently attached to the land.

PITI

An abbreviation for principal, interest, taxes and insurance charges which are collected as part of a monthly home loan payment.

Points

Additional fee paid to a lender at closing. Points are generally a percent of the total amount borrowed.

Prepayment Privilege

The right to pay principal in advance of when it is due. When this is done, interest is no longer owed on the amount of principal prepaid; lenders sometimes charge a penalty for prepayment of principal.

Prime Rate

Interest rate that banks charge to preferred customers.

Principal

1) The person who is represented by an agent in a business transaction. 2) A sum of money lent, borrowed or invested.

Private Mortgage Insurance (PMI)

Insurance that protects the lender if the borrower defaults on a home loan.

Promissory Note

An unconditional written promise to pay money.

Property Disclosure

A written representation by the owner concerning the owner's knowledge of the physical aspects and condition of the real estate and the improvements.

Real Estate

The land and all that is attached to it.

Real Estate Agent

A licensed real estate broker or sales associate who acts as a legal representative of another person in a business transaction involving the conveyance of real property.

Real Estate Broker

A person who holds a real estate broker license and who assists buyers and sellers in the conveyance of real property in order to earn a fee or commission.

Real Estate Sales Associate

A person who holds a real estate sales associate license and who acts under the authority of a real estate broker in the performance of many of the duties of the broker.

Real Estate Sales Contract

A document whereby the owner agrees to sell and the buyer agrees to buy.

Real Property

The land and all that is attached to it.

REALTOR®

A licensed real estate agent who is a member of the National Association of REALTORS®.

Rent

The amount paid for the use of property for a limited time.

Security Deposit

A deposit to cover any damage to property, any cleaning that may be necessary or any rent that may be due at termination of the tenant's occupancy.

Single Family Residence

A house designed to accommodate one family.

Sublease

An agreement whereby you lease property and turn around and lease or rent your apartment or house to someone else.

Tenant

One who lives on property but does not own it.

Term

The period of time over which a loan is repaid.

Title

The right of ownership.

Title Commitment

A promise to issue an insurance policy on a piece of property.

Title Insurance

Insurance that assures the buyer and seller as to the title of the property. The title company agrees to pay any claims not revealed to the extent of the policy.

Triplex

Multiple housing with three units joined together.

Underwriting

Standards established by a lender to determine whether a borrower qualifies for a loan.

Variable Rate

Interest rate that changes based on an index such as the prime rate with payments that may increase or decrease accordingly.

Zoning

Limits on property use in a specific area.

Missouri Learning Standards

The Missouri REALTORS® Educational Foundation has collaborated with the Department of Elementary and Secondary Education (DESE) to align the *It's Your Move* curriculum to meet Missouri Learning Standards. Below you will find the Personal Finance and English Languages Arts standards covered in each section.

Personal Finance Standards

SECTION ONE: Consumer Credit

- 9-12.PF.I.2.A Explain how today's choices have future consequences.
- 9-12.PF.I.2.C Analyze how choices can result in unintended consequences.
- 9-12.PF.V.1.B Compare sources of consumer credit such as credit cards, consumer loans, rent-to-own, title and payday loans.
- 9-12.PF.V.1.D Analyze various terms and conditions of credit cards and consumer loans.
- 9-12.PF.V.3.C Identify ways to avoid and/or correct credit problems.
- 9-12.PF.V.3.A Evaluate factors that affect creditworthiness including paying on time and payment history.
- 9-12.PF.V.3.B Explain the purpose and components of credit records and credit history as provided by credit bureaus.
- 9-12.PF.V.3.D Analyze why credit scores may be used by entities such as employers, landlords and insurance companies.
- 9-12.PF.III.2.C Describe effective responses to deceptive or fraudulent sales practices.
- 9-12.PF.V.3.H Explain responsibilities associated with the use of credit.
- 9-12.PF.V.3.F Explain the importance of annually verifying one's credit report.

SECTION TWO: Renting a Home

- 9-12.PF.III.1.A Differentiate between income and expenses.

SECTION THREE: Buying a Home

- 9-12.PF.I.1.A Evaluate the role of choice in decision making.
- 9-12.PF.III.4.C Analyze the costs and benefits of using or not using financial institutions and virtual exchanges.
- 9-12.PF.V.1.B Compare sources of consumer credit; credit cards, consumer loans, rent-to-own, title and payday loans.

SECTION FOUR: Selling a Home

There are no Personal Finance Missouri Learning Standards covered in this section.

English Language Arts Standards

SECTION ONE - SECTION FOUR

- 11-12.RI.1.D Explain two or more central/main ideas in a text, analyze their development throughout the text, and relate the central ideas to human nature and the world; provide an objective and concise summary of the text.
- 11-12.RI.2.B Analyze a text in which the author's point of view is not obvious and requires distinguishing what is directly stated from what is implied.
- 11-12.RI.2.D Evaluate an author's argument and reasoning for effectiveness, validity, logic, credibility, and relevance of the evidence.
- 11-12.SL.1.B Delineate a speaker's argument and claims evaluating the speaker's point of view, reasoning, stance, and evidence in order to propel conversations by posing and responding to questions that probe reasoning and evidence; ensure a hearing for a full range of positions on a topic or issue; clarify, verify, or challenge ideas and conclusions; and promote divergent and creative perspectives.