Tell Your Story

Week 8

Does your current housing situation feel more like a dream or a nightmare?

DATE

REAL ESTATE AND MORTGAGES

KEEPING THE AMERICAN DREAM FROM BECOMING A NIGHTMARE

Homeownership is one of the biggest blessings we could ever experience. However, learning to navigate through the minefield of real estate and mortgages can be pretty daunting. With 40-year loans, interest-only options and reverse mortgages on the market, it's more important than ever to learn the ins and outs of personal real estate.

In *Real Estate and Mortgages*, Dave shares his most effective tips for buying and selling your home, and Chris breaks down the different mortgage options to reveal the best—and worst—ways to buy a house.

You don't pay off your house early by accident. This only happens if you've been diligently working that budget every month for several years.

BABY STEP 6

Pay off the house ________.

Renting

There is nothing wrong with ________________ for a little while. This demonstrates ________________ and wisdom.

However, renting should be a temporary situation, not your long-term plan!

And Jesus said to him, "Foxes have holes and birds of the air have nests, but the Son of Man has nowhere to lay His head."

—LUKE 9:58

When to Buy

Buying a house when you're not ready can be a disaster. You're only ready to buy if you are out of debt and have a fully funded emergency fund of 3–6 months of expenses. At that point, you can save for a big down payment. We call that Baby Step 3b.

Why to Buy

- It's a _____________ savings plan.
- It's an ________________ hedge.
- It grows virtually _________ __________.

What to Buy

Buy in the ______________ price range of the neighborhood, and never over-build your neighborhood through home additions and improvements.

Homes appreciate in good neighborhoods and are priced based on three things: ________________, ________________ and ________________!

If possible, buy near ____________ or with a ___________.

Buy bargains by ____________________ bad landscaping, ugly carpet, outdated wallpaper and the Elvis print in the master bedroom.

Always buy a home that is (or can be) attractive from the ____________ and has a good basic ______________.

An inflation hedge is simply an investment that is going up in value, which helps you stay ahead of the rising cost of inflation.

> *I had rather be on my farm than be emperor of the world.*
>
> – GEORGE WASHINGTON

Whether you're buying or selling a home, you should only work with an agent who has the heart of a teacher. We can help you find an Endorsed Local Provider (ELP) in your area.

daveramsey.com/find-elp

How to Buy

Real estate ______________ have full access to the Multiple Listing Service (MLS) and can make house hunting easier.

The MLS is simply a tool agents use to search frequently updated listings of available properties. Access to the MLS through an agent can open up a world of new options for a buyer.

Search for a home using ________________ listings.

Always get a land ______________ if buying more than a standard subdivision lot.

Have the home inspected mechanically and structurally by a certified _________ _________________.

Get an _________________, but understand that it is just an "opinion of value."

____________ insurance insures you against an unclean title, which is when your property ownership is called into question. It is a must-buy.

According to the Census Bureau, 31% of homeowners have no mortgage debt of any type.

Mortgage Guidelines

First, remember to ___________ debt.

The best house payment is one really, really big one up front, and then no more after that! Pay cash! It is possible!

The best plan is the ______%-down plan.

Get a monthly payment of no more than _____% of your take-home pay on a ____________ fixed-rate loan, with at least _____% down.

Why choose a **15-YEAR** mortgage?

(Figures based on 6% APR)

Let's say you buy a $225,000 house...

15-year mortgage = $1,899/month
30-year mortgage = $1,349/month

Fast-forward 10 years...

15-year mortgage has a balance of **$98,210**
30-year mortgage has a balance of **$188,292**

During that 10 years, you would have paid almost $162,000 on the 30-year mortgage, but only paid down the loan by $36,708!

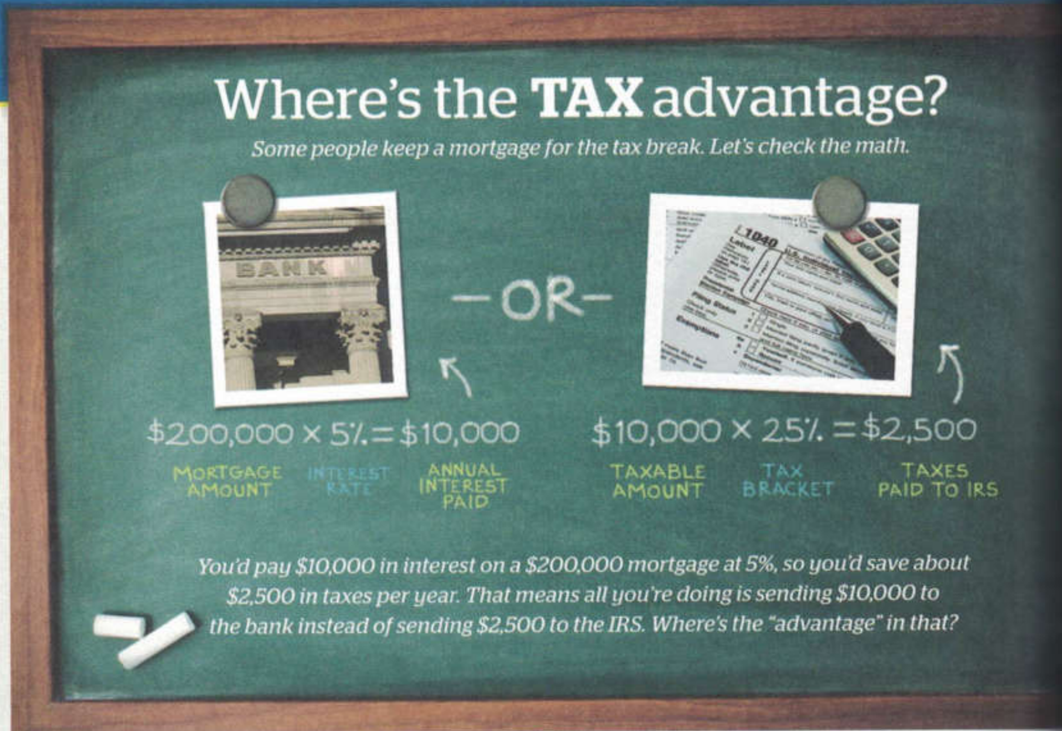
I knew a fifteen-year fixed-rate mortgage was the way to go, but now I really understand why it is so important on many levels.

—Larry

Horrible Mortgage Options

- ____________ – Adjustible Rate Mortgages
    - The concept of the ARM is to ______________ the risk of higher interest rates to the ________________, and, in return, the lender gives a lower rate now.
    - If you have an ARM, refinance immediately!
- Of course, ________________ - ________ loans are a bad idea because you are only paying the interest.
- ________________ Mortgages
- ______________________, or Bi-Weekly Payoff Program
- ________ Advantages of a Mortgage

You should definitely pay off the mortgage as early as possible, but don't pay a fee for some special program that pays it off early! Just make extra principal payments on your own.



Basic Ways to Finance a Home

______________________ loans are usually through Fannie Mae and are privately insured against default.

PMI is ______________ mortgage insurance.

______ (Federal Housing Administration) loans are insured by HUD—the federal government.

- Down payments are as low as ____% and are used on lower-priced homes.
- These loans are currently ____________ expensive than conventional financing and should be avoided.

PMI is there to protect the lender, not you. It costs about $70 a month per $100,000 borrowed. So if you have a $200,000 mortgage with PMI, you're paying about $140 extra every month.

However, if you put 20% down or pay your loan down to 80% loan-to-value, you can drop or remove PMI. Check with your mortgage company.

_____ loans are insured by the U.S. Department of Veterans Affairs.

- With a good down payment, the conventional loan is a _____________ deal than the VA.

_____________ financing is when you pay the owner over time, making him or her the mortgage holder.

- This is a _____________ way to finance because you can be creative in the structure of the loan.

- Be extremely careful with owner financing—and make sure the whole deal is in writing!

Challenges and Opportunities

If you do what we teach, your credit score will eventually hit zero, which means you'll need to find a mortgage lender that does _______________ underwriting.

> *Lenders still do manual underwriting, but they're getting fewer and farther between because it takes some extra effort on their part. If one bank tells you they can't do it, just keep looking.*

When you owe more on your house than it is currently worth, you are _____________ _____________ on your home.

Thinking about refinancing your mortgage to get a better rate? This bonus online article will walk you through the process.

daveramsey.com/fpu/refinance

3 C's of Homebuying:

- Be cautious
- Be careful
- Be coherent

To qualify for manual underwriting, you'll need a solid, stable employment history as well as records showing at least two years of paying rent and utilities early or on time.

In a ______________ sale, the home is sold for less than the amount owed, and the lien holder agrees to accept the proceeds from the home sale as payment in full without recourse.

This is a horrible and unethical way out of a bad mortgage situation. If you signed up for the loan, then you owe the money. It doesn't matter if the home has lost value or not.

Willfully walking away from a mortgage—even though you have the money to make the payments—is called __________________ default.

Selling a Home

When selling a home, you should think like a ______________.

The return on investment of fix-up dollars is ____________________.

The most important aspect of preparation is attention to _______________ appeal.

When selling your home, make sure that it is listed on the __________________.

When selling, statistical research has found that the best real estate agents are worth _____________ than they cost, unless you are a seasoned pro.

90% of buyers use the internet to look at homes as part of their house hunting. That means 9 out of 10 buyers will know all about your house before they ever even make it to the curb.

—Better Homes and Gardens

The exposure through the ________________ Listing Service is worth it.

When selecting an agent, do not rely on ____________________ or ________________.

You should __________________ at least three real estate agents.

Have your agent do a detailed Comparative ___________ Analysis (CMA) to accurately price your home.

Offering a home warranty will typically not make a sale. If the buyer asks for a warranty, then consider it with the offer.

ANSWER KEY

RENTING	BORROWER
PATIENCE	INTEREST-ONLY
FORCED	REVERSE
INFLATION	ACCELERATED
TAX	TAX
FREE	CONVENTIONAL
BOTTOM	PRIVATE
LOCATION	FHA
LOCATION	3%
LOCATION	MORE
WATER	VA
VIEW	BETTER
OVERLOOKING	OWNER
STREET	GREAT
FLOORPLAN	MANUAL
AGENTS	UPSIDE
INTERNET	DOWN
SURVEY	SHORT
HOME	STRATEGIC
INSPECTOR	RETAILER
APPRAISAL	ENORMOUS
TITLE	CURB
HATE	INTERNET
100	MORE
25	MULTIPLE
15-YEAR	FRIENDSHIPS
10	RELATIVES
ARMS	INTERVIEW
TRANSFER	MARKET

One-Minute Takeaway

What jumped out at you in this lesson? How can this affect your story?

Small Group Discussion

True life-change happens when you open up and work through this material together. Break up into discussion groups of no more than 20 people to talk through the following questions. Be honest in your answers!

1. Many American families are currently living in a home that they cannot afford. What are some situations that might cause someone to become "house poor," and what are some solutions?

2. There are often two extremes when it comes to renting: Some people think it is always a waste of money, and others choose renting as a long-term way of life. When is it a good idea to rent instead of buy? Why are we sometimes in such a rush to buy, even when we can't afford it?

3. Look at the "Housing" category on your zero-based budget. Based on your overall financial condition, would you consider your housing situation to be a blessing or a curse? Are you living the American Dream or teetering on the edge of an American Nightmare?

Breakout Group Exercise

Break into smaller groups of 4-5 people to work through the following activity. Choose a leader to read through the exercise aloud and keep the group on task. Your coordinator will call the groups back together to report your findings.

Case Study 1

This is an especially exciting season in Mark and Julia's life together. They have been married for five years, have two kids, and have spent the last three years getting out of debt and building up their emergency fund. They are now financially ready to stop renting and purchase their first home. The average home price is $200,000 in their area, and they are committed to staying within the guidelines they learned during *Financial Peace University*.

As a group, let's help them make a wise financial decision.
Here are some details about their finances:

- Mark and Julia have a **monthly take-home pay of $4,000**
- They have **$10,000 in their Baby Step 3 emergency fund**
- They have **$15,000 set aside for a down payment** (not including their emergency fund)

DISCUSSION QUESTIONS

1. Using the simple calculation taught in FPU, determine the maximum monthly payment that Mark and Julia can afford.

2. If Mark and Julia decide to purchase a $200,000 home, what is the minimum down payment they'll need according to the mortgage guidelines outlined in this lesson?

3. Julia has calculated that it will take six more months to save up a sufficient down payment. Mark believes they should pull money out of their emergency fund and pay it back to themselves later, but Julia disagrees. Explain to your group what you think they should do and why.

BREAKOUT DISCUSSION

Case Study 2

Brandon and Erin are in their mid-twenties and have been married two years. They are both working and enjoy their careers, and they have decided to wait a few more years before having children. At that point, however, Erin wants to leave the workplace and be a stay-at-home mom. With this in mind, the couple wants to make the most of their dual incomes while they can.

Let's take a look at some specific elements of their finances:

- *Income 1*: Brandon is an Audio Engineer at a local nonprofit radio station, and, after tithing, **he brings home $2,600 per month.**

- *Income 2*: Erin is an Advertising Manager, and, after tithing, **she brings home $4,000 per month.**

- *Savings*: The couple is **completely debt-free** with a **full emergency fund.**

- *Rent*: They currently **rent** a one-bedroom apartment for **$600 per month.**

DISCUSSION QUESTIONS

1. Brandon and Erin have committed to live solely off of his income and save all of her income to buy a home with FPU's "100%-Down Plan." Assuming their incomes stay the same, how long will it take for them to save up to pay cash for a $160,000 home?

2. When Erin told her father what she and Brandon planned to do, he got extremely frustrated with them. He doesn't understand why they don't upgrade their older cars and "live a little" while they're young and still have two incomes. If you were Erin, what would you tell him?

3. Brandon and Erin's friends often take expensive vacations and go out to eat several nights a week. Discuss some ways Brandon and Erin can defend themselves against the temptation to stray from their plan "just this one time" as different opportunities arise. How can they keep their dream in front of them and stay gazelle intense over the course of many years?

Case Study 3

The following questions come from actual radio calls that Dave has taken on his daily radio program, *The Dave Ramsey Show*. While they may not be specific to real estate, these calls cover several different topics that we have discussed over the past several weeks.

As a group, your objective is to answer the calls the way you think Dave would. Once all the Breakout Groups have finished, each group will share their answers.

When you get home, go online to FPU Central and listen to the audio of these actual calls to hear Dave's full answers.

QUESTIONS

1. "How much life insurance does my husband need to carry if he makes $60,000 a year?" *—Suzanne on Facebook*

2. "My husband and I have four small children, and we are paying $600 a month for our health insurance—which we barely use. We are seriously considering canceling the whole policy and just saving up some cash to pay for medical care. What do you think?" *—Audrey in San Francisco*

3. "Dave, why are you so against people buying brand-new cars unless they have a $1 million net worth?" *—Todd on Facebook*

4. "Dave, my wife has house fever! She's shopping online and wants to finance it 100%. She's angry with me because I won't agree to do it. What are some ways I can get through to her about this?" *—Alan in Amarillo*

5. "Every year I get a large tax refund, and I've heard you say that it's not a smart thing to do. Can you help me understand why?" *—Jen from Facebook*

This Week's Homework

Personal finance is 20% head knowledge and 80% behavior. Take charge of your financial behaviors by completing the following tasks this week. Be sure to work with your spouse or accountability partner where noted!

- [ ] **Calculate your mortgage payoff.**
  Homeowners: Use the online Mortgage Calculator at FPU Central to determine how much you will pay in interest over the course of your loan. Also, use the calculator to see the impact of extra payments every month.

  Non-Homeowners: Use the online Mortgage Calculator at FPU Central to determine how much house you can afford and to see the impact of different down payments and extra monthly payments. Just remember not to buy until you're ready, and always follow the Baby Steps!

- [ ] **Discuss your housing calculations.**
  Singles: Share your housing calculations with your accountability partner and get their feedback.

  Married Couples: Review your housing calculations together and review the impact it has on your monthly budget.

- [ ] **Celebrate your financial turnaround.**
  Fill out the Financial Reality Check on the next page or use the online version in FPU Central. Be sure to bring the results to class next week.

- [ ] **Reading Assignment**: Read the "Real Estate and Mortgages" chapter in *Dave Ramsey's Complete Guide to Money*.

- [ ] **Extra Credit**: Read the "Working in Your Strengths" chapter in *Dave Ramsey's Complete Guide to Money*.

Financial Reality Check

It's time to take another look at your progress! Reference your Gazelle Money Tracker on the Financial Peace Progress Chart and answer the following questions about how your financial situation has changed since the class started.

How much non-mortgage debt have you paid off?

This is the total amount you've knocked out during FPU. Be sure to include all of your non-mortgage debts and any progress you've made on your debt snowball.

TOTAL

How much money have you saved?

If you're working on Baby Steps 1-3, this represents your emergency fund savings. If you're on Baby Steps 4-7, this includes both emergency funds and any investments you've made during the class.

TOTAL

How many credit cards have you closed and cut up?

Remember, even if you pay off a card, the account is still open. To truly be rid of it forever, you must formally request that the credit company or bank officially close the account.

TOTAL

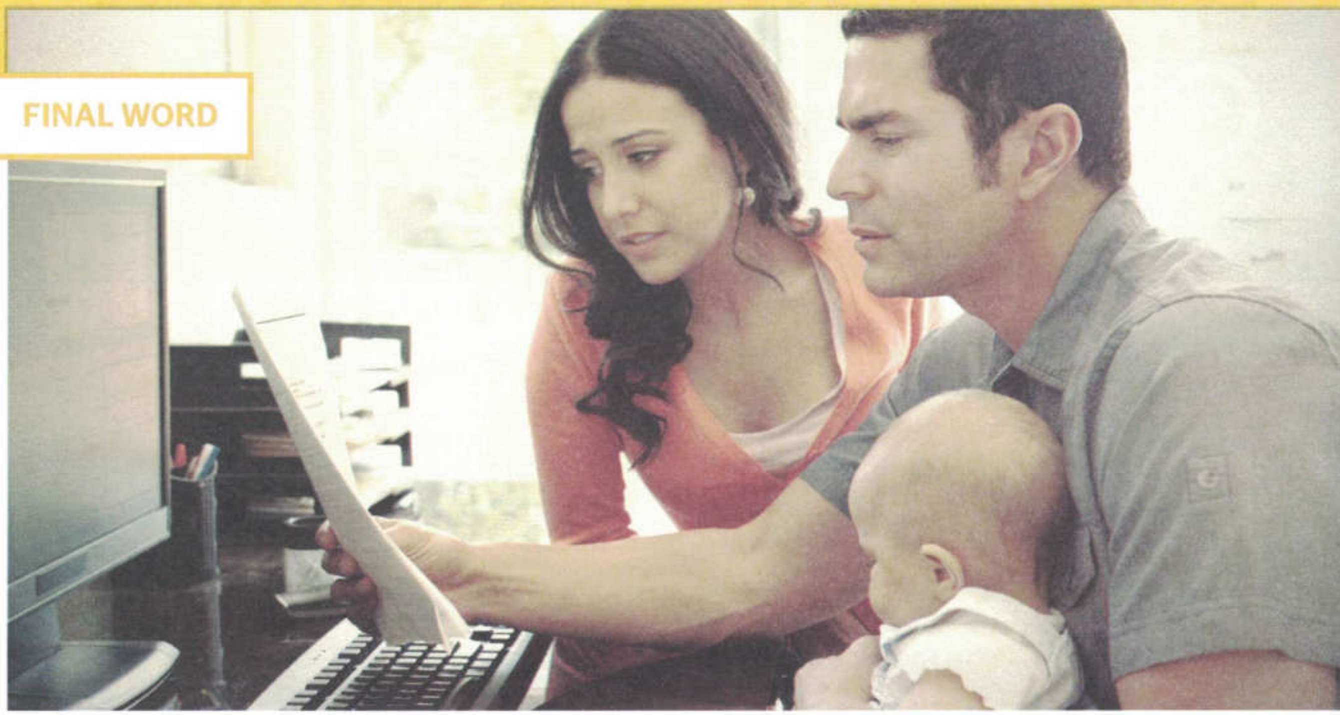
How has your charitable giving changed?

This includes your tithe and any other charitable donation you've made during the class.

○ Little to no change ○ Giving substantially more ○ Giving for the first time

On a scale of 1-10, rate the following emotions in regard to your personal finances:

	1 Practically None	2	3	4	5	6	7	8	9	10 Extremely High
Fear	○	○	○	○	○	○	○	○	○	○
Anxiety	○	○	○	○	○	○	○	○	○	○
Confidence	○	○	○	○	○	○	○	○	○	○
Hope	○	○	○	○	○	○	○	○	○	○
Peace	○	○	○	○	○	○	○	○	○	○



FINAL WORD

Is a Mortgage Refinance Right for You?

When the real estate market is down, you'll hear a lot of hype about refinancing mortgages. They say things like, "Rates have never been lower!" or "Lock in now to save!" It's easy to get sucked in and think refinancing is the way to go.

But that's not always the case. Refinancing is a great option when you have the opportunity to get a lower rate on a more appealing mortgage. There's a little more to it than just that, though. And if you do refinance, you need to know how to go about doing it the right way.

Like anything else, you need to determine if a refinance is right for you based on the specifics of your mortgage. Here are some guidelines to get you started:

The Break-Even Analysis

A refinance makes sense when you can lower your interest rate enough to pay for the closing costs before you plan to sell your home.

Here's a simple example. If you have a $100,000 mortgage and you can lower your interest rate by 1% in a refinance, you'll save $1,000 a year. If your closing costs are $3,000, it will take three years to break even on your refinance.

Be realistic when you estimate how much longer you plan on being in your current home. How many more kids do you plan on having, and do you have enough bedrooms for them? Do you want a guest room, or are you comfortable converting it into a room for one of the kids? Ask yourself these types of questions when making that decision.

Points, ARMs and Seconds

When you're gathering quotes for a refinance, ask for a par quote or zero quote. That means the closing cost estimates will not include points or origination fees. Don't pay these fees, which are simply pre-paid interest. The savings, if any, don't justify the up-front expense.

If you have an Adjustable Rate Mortgage (ARM), Dave will almost always recommend you refinance into a fixed-rate mortgage. Even if you have to write a check to pay for the closing costs, it's worth it to avoid the risk that your payments could go up when the rate adjusts.

A lot of homeowners with second mortgages want to roll it into their first mortgage with a refinance. Not so fast! If the balance on your second mortgage is less than half of your annual income, pay it off in Baby Step 2. If not, go ahead and refinance it with the first mortgage and pay it off in Baby Step 6.

"Refinancing can be a great idea. But everyone's situation is different. You just need to make sure it works for you."

Going From 30 to 15

When you buy a home, if you're not paying cash, you should get no more than a 15-year mortgage. However, if you already have a 30-year mortgage and a good rate, you don't have to go to the expense of refinancing just to get the shorter term. Just calculate what your monthly payment would be on a 15-year term and be disciplined about paying that amount.

That said, you'll get a better rate on a 15-year mortgage. So if you plan on being in your house for a while, it might make sense to look into a refinance. Just make sure you fully understand the terms of the new mortgage before you sign on the dotted line.

Refinancing can be a great idea. But everyone's situation is different. You just need to make sure it works for you. Don't make a "smart" decision now that will cost you down the road. Use some of these tips to make sure you understand the refinancing process and make the most out of your savings.

KEY TERMS

Adjustable Rate Mortgage (ARM): Mortgage in which the interest rate changes periodically; a way for banks to transfer the risk of higher interest rates to the consumer

Curb Appeal: A home's degree of attractiveness from the perspective of a passerby

Comparative Market Analysis (CMA): A property's estimated value based on the actual sales price of similar properties

Equity: The value of a piece of property over and above any mortgage or liabilities related to it; basically, what you *own* minus what you *owe*

Fannie Mae (FNMA): The Federal National Mortgage Association, a privately owned corporation that trades in mortgages

Fixed Rate: An interest rate that does not change over time

Inflation Hedge: An asset that increases in value, which helps offset the rising inflation rate

Multiple Listing Service (MLS): Computer program used by real estate agents to search frequently updated listings of available properties

Mortgage: Loan secured by the collateral of real estate property

Private Mortgage Insurance (PMI): Insurance that protects the lender from default on a mortgage; usually required when the loan has less than 20% loan-to-value

Principal: Original amount of money invested, excluding any interest or dividends; also called the face value of a loan