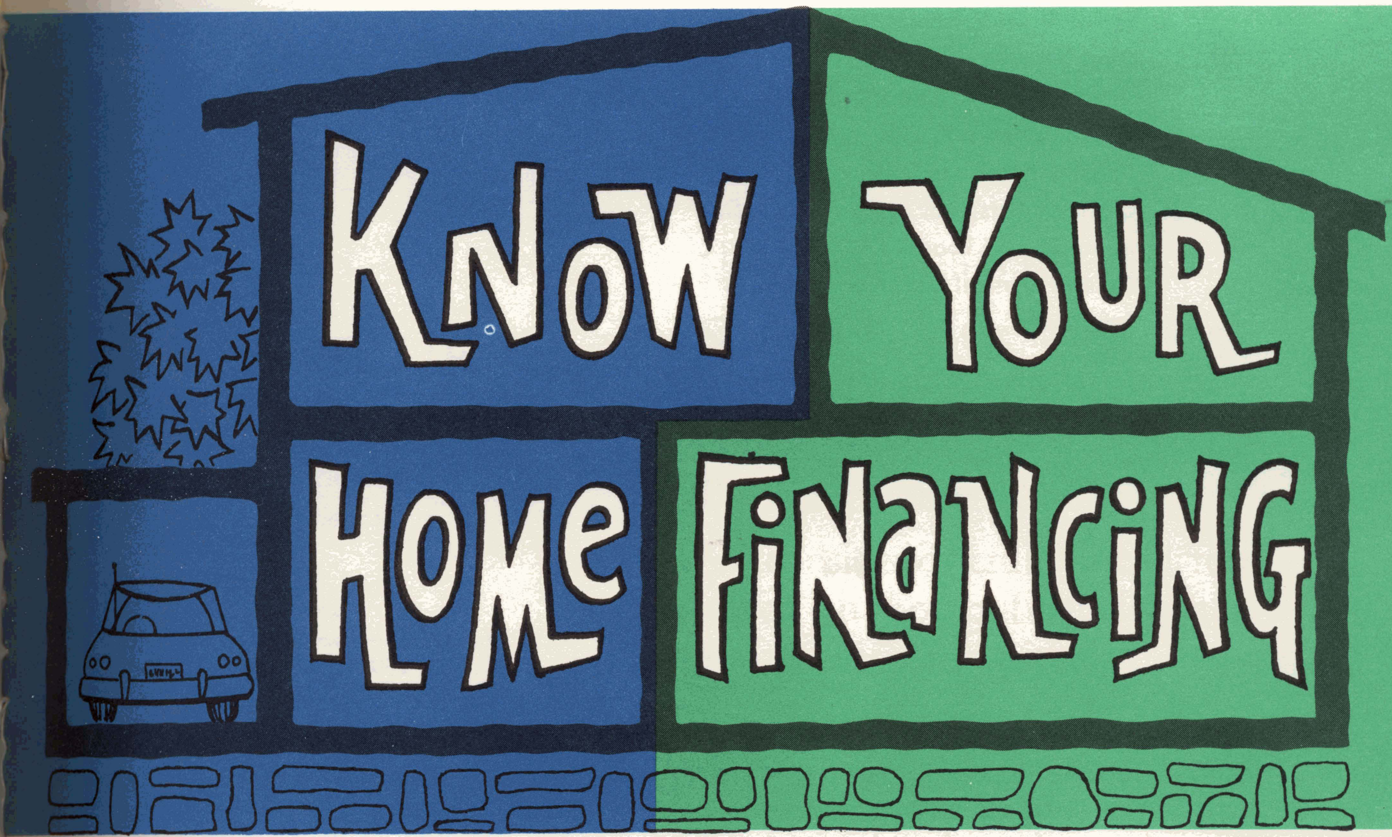
B-1034



TEXAS A&M UNIVERSITY
TEXAS AGRICULTURAL EXTENSION SERVICE
J. E. HUTCHISON, DIRECTOR, COLLEGE STATION, TEXAS

contents

ACKNOWLEDGMENTS

Barns Realty Company, Denton, Texas
Hopkins, George, Attorney-at-Law, Denton, Texas
Neblett, James H. and James R., Neblett Loan Agency, Denton, Texas.

KNOW YOUR HOME FINANCING

LAURA J. RUSSELL
Area Extension Specialist in Housing and Home Furnishings
JACK JENKINS
Area Extension Farm Management Specialist
TEXAS A&M UNIVERSITY

Careful, there!

Home ownership is tricky . . .

Know what is the largest single investment you'll probably ever make?

Buying a house . . .

So, consider carefully the factors involved in home financing–and eliminate its many pitfalls.

In the last decade, the average cost of new houses has increased about 50 percent. Higher prices account for some of the increase, but higher incomes have led to larger houses, improved materials and more and better mechanical equipment.

Recent studies show that enclosed space costs range from about $9 to $20 or more per square foot. Costs vary according to location, size, type and quality of house. The kind and amount of mechanical equipment affect costs, as well as items such as garages, tiled bathrooms, paved terraces, heating and cooling systems and landscaping. "Builder's houses," constructed in large numbers at one time, cost less than custom-designed, individually built houses.

Land costs vary as much as that of buildings. Great differences exist between the value of unimproved farm land and well-situated lots with paved streets and sidewalks, water, electricity and gas. Lot value is directly proportional to the desirability of the location and the size of the building site. Before you buy a building site, have an architect check the adaptability of the size for the plan, excavations, retaining walls and drainage, all of which add extra expense. If streets adjacent to the lot being considered are not paved, the property owner is usually required to pay half the cost of paving. Because of land desirability, the lot investment in many areas accounts for about 18 percent of the cost of the house. A few years ago, it was only about 10 percent.

HOUSING ALLOWANCE

Whether renting or owning a house, a monthly cash expenditure is necessary. The amount to spend on a house is a special personal problem which does not depend entirely on size of income. Family size, age of family members, stability of income and the values held by family members are important factors which tend to influence the amount spent for housing.

A good comfortable house should enhance life by contributing to a sense of family achievement, security and well-being. The family who over-spends on its home will not attain these benefits.

A suggested approach for planning is to establish facts about income and living expenses before determining the amount that can be safely spent for housing. By listing the amount spent for the following items, either monthly or annually, it is possible to determine how much of the income might be spent for shelter.

Items	**Amount**
Food	________
Clothing	________
Utilities	________
Medical care	________
Life insurance	________
Contributions	________
Savings	________
Recreation and entertainment	________
Transportation	________
Installment payments	________
School and college expenses	________
Total living expenses other than housing	________
Total income	________
Minus tax and retirement benefits	________
Total net income	________
Minus total living expenses other than housing	________
INCOME AVAILABLE FOR HOUSING	________

If available income is less than that needed to meet family requirements, a flexible allowance for housing is possible.

Values held by family members will determine the extent to which resources may be transferred satisfactorily from one source to another. A family with a high preference for a house may choose to utilize all or a part of the funds currently spent on recreation and entertainment to obtain more adequate housing. A family with a low preference for home ownership, placed in similar circumstances, may choose to continue renting rather than make concessions in the spending plan.

The amount required for down payment on a house can be accumulated by adopting a regular monthly savings plan, based on income after taxes, as shown in Table 1. Interest on the monthly savings is excluded in the figures used.

For example, a family with a monthly income of $300 after taxes discovers that the house it has chosen will require an $800 downpayment. To meet the required down payment, the family must put aside $33.33 each month for the next 2 years.

TABLE 1. AMOUNT NEEDED TO COMPLETE DOWN PAYMENT (Actual Amounts Exclude Interest on Savings)

Monthly salary (after taxes)	Amount required for down payment $200	$400	$600	$800	$1000	$1200	$1400	$1600
$ 300	17.00	33.33	25.00	33.33	27.77	33.33	29.16	33.33
400	17.00	33.33	25.00	33.33	41.66	33.33	38.88	44.44
500	17.00	33.33	50.00	33.33	41.66	50.00	38.88	44.44
600	17.00	33.33	50.00	33.33	41.66	50.00	58.33	44.44
700	17.00	33.33	50.00	66.66.	41.66	50.00	58.33	66.66
800	17.00	33.33	50.00	66.66	41.66	50.00	58.33	66.66
900	17.00	33.33	50.00	66.66	83.33	50.00	58.33	66.66
1000	17.00	33.33	50.00	66.66	83.33	50.00	58.33	66.66
1100	17.00	33.33	50.00	66.66	83.33	100.00	58.33	66.66
1200	17.00	33.33	50.00	66.66	83.33	100.00	116.66	66.66

1-year period
2-year period
3-year period
4-year period

SELECTING A HOUSE

Select your house with care. It should meet family and individual needs and wants and possibly provide for future expansion. In today's market, houses sell themselves.

If You Buy —

A house is both an investment and a means of saving.

Space is only as good as the use made of it. An older house or a new one may be a bargain in price if the living features are a bargain too. Visit houses as well as favorite neighborhoods to learn what to look for before using a check list to judge a house properly.

Certain features of a house may be desirable while others are not and may affect the resale value of a house. For example, a two-bedroom house may seem adequate at the time of purchase but may become inadequate later. A moderate-priced, two-bedroom house has more resale potential than one in the upper-price bracket.

The realtor, a liasion between the seller and the buyer, works toward helping you acquire the house you desire in a neighborhood which has advantages over other areas.

When a house is listed with a realtor, the seller pays 4 to 6 percent commission. If the owner sells the house, a commission is not involved in the transaction. If a buyer is shown a house by a realtor and another realtor shows him the same house, the buyer may become involved in a lawsuit, unless the exclusive sale clause is omitted in his contract.

The realtor is responsible for drawing up a contract agreeable to both the buyer and seller.

If You Build —

Use an architect if possible. Architect-designed houses may make the difference in whether the needs and desires of a particular family are incorporated into the plan. Look at houses designed by architects and talk to the owners.

Choose a reliable builder. Get the names of people for whom he has built houses and talk to them. Talk to bank officials, real estate brokers and others familiar with local builders. This takes only a few hours in the beginning, but may save months of inconvenience later.

Building costs vary in different localities. Special features or "extras" increase the cost of a house. Average base building cost per square foot of floor area in the United States is $12. It will be higher or lower as related to building costs in your area. In Texas, the building cost

(Continued on Page 8)

CHECK SHEET FO

	Check one: Yes	No
1. Does the neighborhood provide:		
a. Protection from new commercial structures nearby?	______	______
b. Schools, churches, shopping centers, transportation nearby?	______	______
c. Storm sewers, paved streets and curb and gutters paid for?	______	______
d. Electrical, gas and sewage service?	______	______
e. People you will enjoy as neighbors?	______	______
f. Fire and police protection?	______	______
2. Does the **lot** provide:		
a. Proper drainage?	______	______
b. Fertile topsoil?	______	______
c. Adequate driveway area?	______	______
d. Adequate rights-of-way?	______	______
e. Proper location with small front area and maximum private area and short drive?	______	______
f. Privacy?	______	______
3. Does the house:		
a. Face north-south?	______	______
b. Lend itself to expansion, if needed?	______	______
c. Have a foundation on solid ground?	______	______
d. Have vapor barrier and gravel beneath if it has any concrete foundations?	______	______
e. Have a termite shield of non-corroding metal on top of the foundation walls beneath the sills?	______	______
f. Have adequate insulation in walls and ceilings?	______	______
g. Have weatherstripped doors and windows?	______	______
h. Have studs and joints been adequately spaced?	______	______
i. Have a roof overhang that protects from rain or sun?	______	______
j. Have adequate gutters and downspouts?	______	______
k. Have a white or light roof to reflect heat?	______	______
l. Have copper plumbing lines installed by licensed plumber?	______	______
m. Have an electrical system of at least 100 amperes?	______	______
n. Have the appearance you desire?	______	______
o. Have enough outdoor storage space?	______	______

LECTING HOUSE

	Check one: Yes	No
4. Does the **interior** of the house provide:		
a. A main entrance with foyer and clothes closet?	______	______
b. A family entrance close to the kitchen?	______	______
c. The living, working and sleeping areas zoned from each other?	______	______
d. Traffic lanes that do not criss-cross?	______	______
e. Door ways near corners of the rooms?	______	______
f. Bathroom entrance out of living and work area view?	______	______
g. Correctly-installed and operating bathroom fixtures?	______	______
h. Wall space for furniture arrangement?	______	______
i. Each person a minimum of 250 square feet of space?	______	______
j. At least medium-sized bedrooms (140-190 square feet)?	______	______
k. Recreation area?	______	______
l. Storage of all items of each family member in easy reach?	______	______
m. The kitchen work triangle (refrigerator to sink to range) in proper order?	______	______
n. Kitchen dining area, if desired?	______	______
o. Adequate counter-top surface?	______	______
p. Range hood?	______	______
q. Well-finished and fitted moldings?	______	______
r. Properly insulated ducts and drains for air conditioning?	______	______
s. Ten to 20 electric circuits?	______	______
t. Permanent finish walls?	______	______
5. If house is FHA financed:		
a. Are the lot and landscaping included?	______	______
b. Does the mortgage contract provide a prepay payment clause?	______	______
c. Is the interest rate the lowest available?	______	______
d. Is title insurance available?	______	______
e. Will the seller pay for the title insurance?	______	______
f. Will 25 percent of the buying income be available to spend on housing?	______	______
6. Have you totaled seven "no's" or more?	______	______

IF SO, BETTER THINK TWICE!

(Continued from Page 5)
is somewhat lower than the national average of $12, as shown by the FHA building cost figures in Table 2.

TABLE 2. TEXAS FHA BUILDING COST FIGURES

Town	Percentage
Lubbock	8
San Antonio	8
Houston	11
Fort Worth	14
Dallas	15

Ten percent may be deducted from the base price when the house is one and one-half stories or two stories since more space is available for foundation and roof.

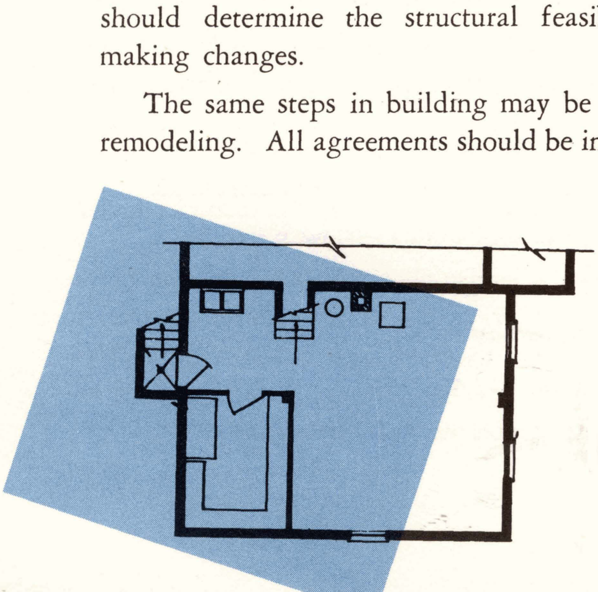
Add 10 percent to the base for an unfinished basement or brick veneer outside walls. For central air conditioning, about 5 percent usually is added to base costs.

A lawyer is needed to draw up a contract, because each detail, including materials and construction methods, should be specifically stated. Items should not be vague, nor should you agree to work them out on the job later. If a change order becomes necessary, it should be in writing signed by the contractor and the owner stating any extra costs and exactly what is to be done.

If You Remodel —

Plans and changes in a house are made to meet the needs and desires of the family. To insure that the house remains sound, a builder should determine the structural feasibility of making changes.

The same steps in building may be taken in remodeling. All agreements should be in writing.



REDUCE UNCERTAINTY INCREASE SECURITY

LOAN SOURCES

The national home mortgage debt now amounts to about $200 billion. Getting the best home loan on the best terms requires "shopping around." Although they are about to commit themselves to the largest single loan that usually occurs in their lifetime, too, many individuals naively assume that a mortgage is a mortgage!

A mortgage is a special loan for buying a house. A lender puts up the cash to buy the house. It is a legal document binding the person to repay the loan in regular monthly payments plus interest for a specified number of years. The house, land and improvements are pledged as security. The owner promises to pay taxes, keep the house insured and maintain the property in good condition. If the owner defaults on payments, the lender has the legal right to foreclose the lien, leaving the owner at the mercy of the lending agency to recover the amount of money from the foreclosure that is left after the loan agency is completely repayed.

Veteran's Administration Mortgage

To qualify for Veteran's Administration Loan, a person must be a veteran of World War II or the Korean War. World War II veterans must apply before January 25, 1967. Korean War veterans have until January 31, 1975.

The VA mortgage is also known as the GI mortgage. Advantages of this mortgage are lowest interest charges of all mortgage loans, lowest down payment requirements and certain built-in legal protections for the buyer. At present, the highest allowable interest rate for a VA Loan is 5¼ percent. This may fluctuate slightly in coming years. Some lenders require 5 to 10 percent cash down payment while others require nothing. The loan may run as long as 30 years and may be pre-paid in advance with no penalities.

The government does not put up the money (except in the case of a VA direct loan). It protects the lender against loss by guaranteeing up to 60 percent of the mortgage up to a maximum guarantee of $7,500. There is no limit on the mortgage amount. It could be $10,000 or any higher amount.

A VA appraiser will inspect the house and set an appraisal value before a loan is approved. The prospective buyer gets a copy of the appraisal called a "certificate of reasonable value." He cannot be charged more than this amount. It is illegal for the seller to ask more than the appraised value of the house.

VA loans are sometimes difficult to obtain because of low fixed interest rates. Many lenders do not offer them, since they get higher interest return for their money on other mortgages.

In small towns or rural areas where a prospective buyer cannot get a VA mortgage, he may apply for a VA direct loan. This is the only time the government actually extends cash for any mortgage. Direct VA loans are made up to $15,000 and do not require a down payment (unless the house costs more than $15,000). Direct loans are not available in most metropolitan areas where enough mortgages should be available.

To get a VA loan, the prospective buyer takes his original military discharge certificate to the nearest VA office and gets a paper called a "certificate of eligibility." This paper must be presented to the bank or lender making the mortgage.

A non-veteran can assume a VA loan when buying from a veteran.

Federal Housing Administration Mortgage

Anyone can apply for an FHA mortgage. Certain income requirements based on the house price and mortgage carrying charges must be met. The house itself must also pass certain minimum construction standards set by the FHA. This means that the house is reasonably well built, a new house or an old house in fairly good condition. It does not mean, however, that the house is flawless, excellently constructed or a bargain. It also does not mean necessarily that the house is superior to another house sold with a conventional mortgage. An FHA approved house is good assurance that the house is soundly constructed.

The FHA interest now is usually lower than conventional mortgages. FHA rates now stand at 5¼ percent and more cannot be charged. Above this amount, a ½ to 1 percent insurance service charge is added which makes a total of 5¾ percent. This makes an FHA loan more expensive than may have been expected at first. The ½ to 1 percent service charge may be lowered to ¼ of 1 percent. Part of this service charge is later returned as a rebate when the mortgage is fully paid or when the owner has had the house 5 or 6 years before selling it.

An advantage of an FHA loan is its low down payment scale. It is 3 to 5 percent for houses priced up to $18,000, and then more for higher priced houses. The top limit on an FHA mortgage is now $22,500. If more is spent for a house, the difference is paid in cash. An FHA mortgage can last as long as 35 years.

When money is scarce, as in the late 1950's, an FHA mortgage may be hard to obtain since lenders prefer the higher interest rate they can get on conventional mortgage loans.

An FHA mortgage is often made by many of the same banks and other lenders who offer conventional loans. Like the VA loan, the FHA loan does not extend cash. It insures the lender against loss if the mortgage is foreclosed. The lender furnishes the money. Therefore, it is called an "FHA-insured" mortgage.

If a person is on active military duty, he can take advantage of an "FHA-in-service" mortgage which is designed to help military personnel buy houses. The maximum mortgage loan obtainable is \$20,000, rather than \$22,500. The Department of Defense pays the ½ of 1 percent service charge for as long as the buyer is on active duty. This means *5 percent* lower monthly payments. Eligibility information is available at local military headquarters.

On a \$10,000, 25-year mortgage, every ½ of 1 percent additional interest raises the total interest payment about \$900. Lengthening the time in which to repay may cost more money. Extending payment time from 25 to 30 years on a 6 percent, \$10,000 loan, reduces monthly payments only \$4.50, yet the total bill rises \$2,250.

The Conventional Mortgage

Conventional loans are not FHA or VA-insured. These mortgage loans may be made by banks, savings and loan associations, insurance companies, other lending institutions or individuals who finance house purchases.

A conventional mortgage loan is usually the easiest to secure, involves the least "red tape" and can be obtained quickly — sometimes within a few days. It generally carries the highest interest rates, the largest down payments and more "small print" restrictions.

Interest rates range from about 5½ to 7 percent in Texas. Down payments generally range from 10 to 40 percent.

The down payment required usually is less for a new house than for an older house of the same price. It also depends upon the appraisal value of the house and the buyer's credit rating. A conventional mortgage generally runs from 10 to 25 years, but seldom longer.

The buyer is usually not informed of the appraisal value figure. He pays for the appraisal, but the report goes to the lender. To find out, the buyer must ask. He has a right to know because the appraisal value of a house might be lower than the selling price. If it is much lower than the selling price, find out why.

Rural Housing Loans

The Farmers Home Administration makes rural housing loans. These loans are made to farm owners and owners of other real estate in rural areas and small rural communities up to 2,500 population which are not part of an urban area. Special provisions are provided for rural senior citizens aged 62 years or over.

The interest rate is 4 percent per year on the unpaid principal. Each loan is scheduled for repayment within a period consistent with the borrower's ability to pay. The maximum term is 33 years.

Qualification and application information is available in local county Farmer's Home Administration offices.

OTHER LOAN CONSIDERATIONS

The Prepay Without Penalty Clause

If this following provision cannot be included in the mortgage contract, contact another.

The *prepay without penalty clause* allows the buyer to pay off his mortgage ahead of time without a penalty clause. Monthly payments do not decline. Only overall time required to pay off the mortgage and total interest are reduced. Some lenders accept prepayment up to 20 percent of the mortgage in any year without penalty. Others charge extra for prepayment. The FHA permits prepayment up to 15 percent in any year without penalty. The VA will accept prepayment in any amount without penalty.

Premium Charge

The paying of "points," sometimes called a "discount," has been widely practiced with FHA and VA mortgages. It is a premium or a bonus that is paid above the house price so that the lender can get the low-interest, government-backed mortgage up to 12 or more points. The tighter the national money market, the greater the points charged.

The reason for a points premium is that FHA and VA mortgages carry lower interest rates than the conventional, non-government backed mortgages. Since most lenders can make more profits by investing in conventional mortgages with higher interest rates, they will take an FHA or VA mortgage loan by discounting the loan in advance. The lender may take 4 points off the mortgage and give the seller 4 percent less. If the seller objects to absorbing this reduction, he adds this amount to the selling price of the house. It is obvious that the lender will make just about as much on the FHA loan as he would on a high-interest, conventional home loan.

Some lenders dislike the "point idea," and deal only in conventional mortgages.

The law forbids a buyer to pay more than 1 percent on a FHA or VA loan, but often the builder buries the point charge in the price of the house. The buyer pays the charges but is unaware of it.

Where to Obtain a Mortgage

Mortgages are obtained from savings banks, commercial banks, savings and loan associations, mortgage brokers, insurance companies or individuals. Shop around and consider each source. Get a comparison.

A savings bank is likely to give better terms than a commercial bank. A savings and loan association specializes in mortgage financing, but usually prefers conventional loans over low-interest, government-backed loans. Each of these mortgage sources can provide an FHA or VA mortgage, as well as a conventional mortgage. Consult your lawyer when choosing a loan source.

Down Payment

The minimum down payment required depends upon the loan. The minimum should not be the only guide. A large down payment means a smaller mortgage, smaller monthly carrying charges and less total interest. However, the buyer should avoid using all of his cash for the down payment. He should allow for moving expenses, any repairs, additional landscaping and redecorating.

A buyer can choose between (1) signing for a long-term 25 or 30 year loan with the lowest monthly payments but with the highest total interest, or (2) a relatively short term mortgage with monthly payments which may be too much of a burden. The best compromise usually is the term with the highest monthly payments the buyer can afford, allowing for additional expenditures for taxes, insurance and maintenance.

Lenders charge much less interest on home loans than on almost any other typical consumer loan. The buyer's costs of interest and taxes are income-tax deductible. Rent is not.

By analyzing the following chart, a buyer may decide on the best plan which includes principal and interest for different loan periods at different interest rates.

TABLE 3. MONTHLY PAYMENTS BASED ON A $10,000 LOAN

Maturity	5¼%	5½%	5¾%	6%	6¼%
(years)	- - - - -	-	Dollars	- - -	- -
10	107.30	108.60	109.80	111.00	112.29
12	93.75	95.10	96.30	97.60	98.89
15	80.39	81.80	83.10	84.40	85.75
20	67.39	68.80	70.30	71.70	73.10
25	59.93	61.50	63.00	64.40	65.97
30	55.23	56.78	58.36	59.96	61.58

The first example in Table 3, shows that the monthly payment on a $10,000 loan at 5½ percent would vary from $108.60 for a 10-year loan to $56.78 for a 30-year loan.

Sales Contract Financing

If a regular mortgage cannot be obtained, the seller may propose that he sell the "house on time." He will contract for the buyer to give him a down payment and pay off the balance in regular payments over a certain number of years. In effect, the seller gives a mortgage called contract financing. It can be tricky. The contract terms are the agreement between the buyer and seller. Since there is no one, such as FHA, VA or a bank to protect the buyer, sales contracts often carry varied protection for the seller. Prepayment may be excluded and improvement on the house may not be allowed without the seller's approval. Usually the reason for such contracts is that the house will not carry an FHA, VA or conventional mortgage. A buyer should employ a real estate lawyer to help protect his interest.

Second Mortgage

The second mortgage may aid in the purchase of a house, but it can be very expensive and even lead to loss of the house.

It usually carries a higher interest rate than the first mortgage. Its term may run only 5 or 10 years with higher monthly payments. The house may be over-priced if the first mortgage is much lower than the price of the house. The lender must approve the second mortgage since he is interested in the buyer's total financing burden and wants to avoid the first mortgage foreclosure.

A second mortgage is not permitted by FHA.

Another kind of second mortgage may be needed when the buyer is taking over an existing mortgage of a house. The existing mortgage may have been reduced over the years by the owner and a new buyer needs additional financing. It usually can be had at much the same interest rates and terms as the regular mortgage; however, the total monthly charges for both should be in line with the buyer's ability to pay.

Assuming an Existing Mortgage

A house may be mortgaged at a lower interest rate than the prevailing rate at the time it is bought. Many existing VA mortgages carry interest rates as low as 4 percent, the initial postwar interest rate on such mortgages, and 4¾ percent as late as 1959. Many FHA mortgages were issued at a rate as low as 4 percent. Old conventional mortgages also carry lower rates than new loans today. Usually a buyer can assume the same mortgage at the same interest rate, even if it is a VA loan and he is not a veteran. Closing costs usually are lower, compared to a new mortgage; however, a higher down payment may be necessary to meet the asking price of the seller.

Special Mortgage Help

If a buyer in a large city, small town or rural area is unable to get a mortgage, the Voluntary Home Mortgage Credit Program may help. This is a joint industry-government organization set up by Congress to aid home buyers unable to obtain local FHA or VA loans. The buyer must prove that he has been turned down by at least two local lenders. The program will seek a home loan for the buyer from cooperating banks and other lending institutions in nearby cities. This program has helped about 50,000 people to obtain mortgages amounting to almost $500 million.

Mortgage Approval

Mortgage approval may take only a week or so, 2 or 3 months or longer.

A buyer's income credit and job standing are checked. The value of the house and its neighborhood are appraised. Ownership records are checked to be sure there is clear title.

When the mortgage has been approved, the buyer receives a mortgage commitment from the lender. This makes it official and a date to close the loan is set.

PRELIMINARY COSTS

Certain "preliminary loan costs" must be considered before determining the size of the down payment. These expenses are dependent upon whether a house is built or bought. Some of the preliminary costs may be included in the loan, while others may be paid in cash at the time the loan is made. Some of the expenses are paid to the seller of the property.

When *buying* a house, preliminary costs usually include:

Appraisal fees
Loan fees
Revenue stamps
Notary fees
Fees for recording the mortgage and deed
Legal charges for examining and transferring the title
Insurance and property taxes
Engineer's survey of property
Lawyer's fee (if any)

When *building* a house, preliminary costs include:

Most of those costs for buying a house plus costs of plans of architectural services
Interests on loan advances to pay contractors
Premiums for insurance (depending upon the agreement with the contractor)
Inspection fees

In FHA loans:

First year's mortgage insurance premium
Advance payment for first year's taxes
First year's premium on hazard insurance
Fees for photographs of the house
Loan examination fee (paid when application is made)

CONSTRUCTION LOANS

If the prospective home owner decides to build, he will probably need money to pay the builder as construction progresses. He should ask the lending agency when he can get the money for these advances and agree on the amount for each advancement. Most lending institutions follow a regular payment procedure and an agreement is drawn up at the time the loan is made. A typical schedule of payments might be:

30 percent — rough enclosure and rough plumbing completed
15 percent — exterior finished and priming, electrical roughing and plumbing, and heating piping complete
15 percent — insulation and gypsum board installed
15 percent — gypsum board taped or plastering completed, water and sewer lines connected
15 percent — flooring, tile work, and heating system complete, cabinets and plumbing fixtures installed
10 percent — remainder of work completed

CLOSING COSTS

When the loan is closed, the buyer is presented with a group of expenses called closing costs. They are in addition to the price of the house and can range from about $250 to $1,000 or more. They are paid on a new or an old house. They vary from city to city, but are required on closing all transactions. If the buyer is aware of them in advance, he may get special arrangements made by bargaining or refusing to buy the house unless they are reduced. These costs fall into three main groups.

Mortgage Service Charges

Mortgage service charges include the mortgage commitment fee, the mortgage broker's fee or just a fee. This charge covers the cost of obtaining the mortgage, preparing loan papers, notary fees and processing. It will range any-where from \$50 to \$300 or more — about 1/2 to 1 1/2 percent of the mortgage itself.

The size of the mortgage service depends largely upon the mortgage lender. Some lenders only charge about \$50 to \$75, others a percentage of the mortgage. Ask what it will be when shopping for a mortgage. Some lenders itemize mortgage fee charges, others do not.

Title Search and Title Insurance

Title search and title insurance will cost another \$75 to \$300, depending upon such things as the house price and location. This requires a check of the title records, usually at the local courthouse and a title search. A title insurance policy is recommended for most buyers. A mortgage lender usually insists on a title policy in addition to a search.

Title policies are of two types. The first is the mortgagee policy. It protects the lender only. There is also the owner or fee policy. This is what the buyer needs for title insurance protections. Most buyers should buy both kinds. Sometimes the cost of the title search and the mortgagee policy are combined into one charge.

Transfer of Ownership Charges

The transfer of ownership charges consists of small charges and cover such items as recording the fee, about \$5-\$15; appraisal fee, about \$40-\$50; federal and local tax stamps, from \$10-\$50; and legal fees. Depending upon the lender, the buyer may have to pay for the lender's lawyer, up to \$100 or more, as well as his own lawyer. The lawyer's fee should be determined in advance.

The payment of escrow money, required in getting an FHA mortgage, for insurance is not closing cost, but is usually paid on the closing day. Escrow money is an advance payment for taxes, fire and hazard insurance. It goes into a special fund to protect the lender should the owner fall behind in the regular monthly mortgage payments. When buying an existing house, the property and school taxes are usually paid up for a period after the buyer takes possession. The buyer reimburses the seller for what he has paid ahead.

Always insist on a complete list of closing day charges including lawyer's fees, before closing day.

HOME REPAIR LOANS

Ordinary installment loans seldom run longer than 3 years and the amount outstanding is usually under \$500. Home repair loans tend to run higher, especially for kitchen remodeling, adding a bathroom or bedroom, making a basement into a recreation room or covering the house with new siding. Home repair loans have increased in recent years, offering amounts up to \$3,000 for 5 years at rates quoted from 4 3/4 percent to 6 1/2 percent (actually 9 percent to 13 percent true annual interest). In addition to carrying charges, the borrower usually is urged to add 3/4 percent to 1 1/2 percent more for credit life insurance. The buyer also can get a home repair loan from FHA, Title I program. These loans usually are described as costing 5 percent, but their true annual interest cost is slightly under 10 percent. FHA loans run for 5 years and allow as much as \$3,000 to be borrowed.

OTHER FINANCIAL CONSIDERATIONS

Financial complications may arise after buying or remodeling a house in providing equipment, furnishings, and landscaping through the use of credit buying.

The charge for the privilege of using items before paying for them is buying on credit.

Family economists in the U. S. Department of Agriculture point out that most people have only a vague notion about the cost on installment credit.

The three methods in general use for computing interest offer alternatives in making a decision which fits the family spending plan:

Add-on:

If a family needs $360 for furnishings, equipment, or landscaping, with an interest rate of 9 percent to be paid in 24 monthly installments, they will pay $424.80 in monthly payments of $17.70.

Discount rate:

To get $360 in cash, the family will need to borrow $439.02, because all of the interest on the loan is subtracted before any money is turned over to the family, with monthly payments of $18.29.

Interest on the unpaid balance:

On the $360 loan with the interest ¾ of 1 percent a month on the outstanding balance (which is 9 percent a year), the total amount would be $393.75 with a monthly payment of $16.41.

Shop around and choose the credit method best suited to your family.

Better Homes and Gardens, "Home Building Ideas," Meredith Publishing Company, 1960 Annual Issue.

"Building or Buying The High-Quality House At Lowest Cost," A. M. Watkins, Doubleday and Company, Inc., New York, 1962.

"Buying on Credit," USDA, Food & Home Notes, Office of Information, January, 1964.

Consumer Report, Consumers Union of U. S., Inc., 1964.

"Financing the Home," Russell M. Nolen, Small Homes Council, University of Illinois, Urbana, Ill., Circular Series A 1.3, 1951.

"Inside Today's Home," Ray Faulkner and Sarah Faulkner, Holt, Rinehart, and Winston, Inc., 383 Madison Avenue, New York, Revised Edition, 1960.

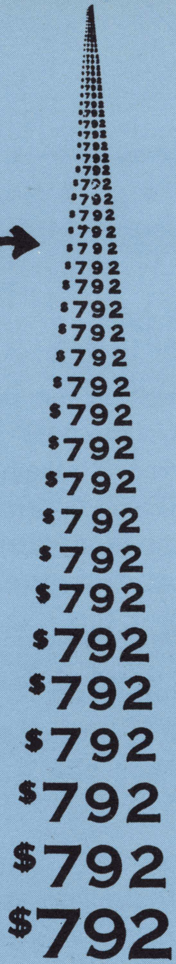
"Rural Housing Loans," USDA, FHA, PA-476, Washington, D. C., 1963.

"Your Shelter Dollar," Household Finance Corporation, Prudential Plaza, Chicago, 1961.

How You Can Own a New Home, West Coast Lumberman's Association, Portland, Oregon.

When Renting

AFTER 20 YEARS



$000.00

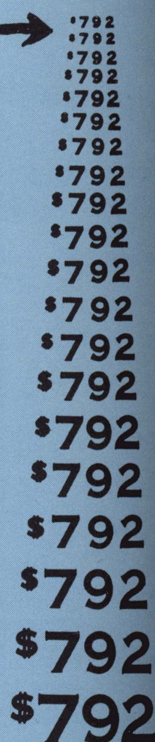
Family A has PAID FOR a home, but does not own it.

Family A

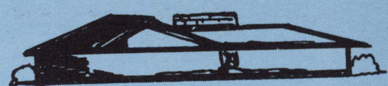
With annual income of $4165 (after taxes) pays annually in rent $792.00.

When Buying

AFTER 20 YEARS



Family B owns a home worth $10,000.



Family B

With annual income of $4165 (after taxes) pays annually on home $792.00.

Cooperative Extension Work in Agriculture and Home Economics, Texas A&M University and the United States Department of Agriculture cooperating. Distributed in furtherance of the Acts of Congress of May 8, 1914, as amended, and June 30, 1914.
20M—5-65