

Marriage and Money

▼ Issue Eight

What is a mortgage?

Your housing budget

**How much house
can a family afford?**

**How much are
house payments?**

Legal language

**Strategies to
make the lending
process easier**

As a newly married couple, one of your largest monthly expenditures will be for housing. Dollars spent on housing often amount to as much as 40 percent of a family's disposable income. Before you decide to buy a home, answer these questions.

- How much house can you afford?
- What are the costs associated with buying and owning a home?
- How do you qualify for a mortgage?

Owning a home is the American dream, but along with that dream comes a tremendous amount of debt and responsibility. When you decide to buy a home, you are making a major commitment. Go into the process with your eyes wide open. Remember, you want to own the home. You don't want the home to own you?

What is a Mortgage?

A mortgage is a loan from a financial institution that allows you to purchase real estate. It is the difference between the amount of cash you have to put down on the real estate and the selling price of the property. Mortgages are made for 15 to 30 years. Each month when the mortgage payment is made, the borrower is repaying principal (P) and interest (I). Many mortgage payments today also include payments for taxes (T) and insurance (I). Now when you see the popular abbreviation "PITI," you'll know that stands for principal, interest, taxes, and insurance.

NDSU
Extension Service

North Dakota State University
Fargo, North Dakota 58105

Your Housing Budget

How Much are House Payments?

The following chart is a guide to budgeting for house payments. If you know how much you will need minus the down payment plus the interest rate, you will have an idea what your payments would be. This does not include taxes (T) or insurance (I). This is based on a 30-year fixed-rate mortgage.

Loan Amount Interest Rate

	5%	6%	7%	8%	9%	10%	11%	12%
\$20,000	107	120	133	147	161	175	190	206
30,000	161	180	200	220	241	263	286	309
40,000	214	240	266	293	322	351	381	411
50,000	268	300	333	367	402	439	476	514
60,000	322	360	399	440	483	527	571	617
70,000	376	420	466	514	563	614	667	720
80,000	428	480	532	587	644	702	762	823
90,000	484	540	599	660	724	790	857	926
100,000	536	600	665	734	805	878	952	1,029
110,000	590	660	732	807	885	965	1,048	1,132
120,000	644	720	798	880	966	1,053	1,143	1,234
130,000	798	780	865	954	1,046	1,141	1,238	1,337
140,000	752	840	931	1,027	1,126	1,229	1,333	1,440
150,000	805	900	998	1,101	1,207	1,316	1,428	1,543
160,000	859	960	1,064	1,174	1,287	1,404	1,524	1,646
170,000	913	1,020	1,131	1,247	1,368	1,492	1,619	1,749
180,000	966	1,080	1,198	1,321	1,448	1,580	1,714	1,852
190,000	1,020	1,140	1,264	1,394	1,529	1,667	1,809	1,954
200,000	1,074	1,200	1,330	1,470	1,610	1,755	1,905	

Mortgage payments including taxes and insurance are not the only expenses you must plan for as a homeowner. You may decide to look for a less expensive home to have enough money for other things. Add these expenses to the total cost of owning a home. You will also need to set aside about 5% or more for a down payment and you will need to set aside approximately \$1700- \$1900 for closing the mortgage costs. Check the expenses below that you might have and estimate their costs.

- utilities (electricity, gas, water, garbage)
- cleaning supplies
- yard care equipment
- cable TV
- cleaning equipment
- telephone
- property owners association dues
- pest control

When you add these costs to the monthly mortgage payment, it is easier to see how the total housing costs can eat up a big chunk of the monthly budget.

Home Refinancing

If you already own a home but interest rates drop, you might want to reconsider refinancing your home. It may significantly lower your payments. Call a financial agency to help you decide if this is helpful for you. Generally, if you cannot recover closing costs within 24-36 months by reducing your payments, then refinancing is not worthwhile for you.

How Much House Can a Family Afford?

There is a general rule of thumb that says you can afford a house that costs up to but not more than two and one-half times your annual gross income. If your combined income is \$35,000, then you can afford a house that costs no more than \$87,000. Gross income is income before taxes are deducted.

PITI plus other long-term debt should not exceed 33-41 percent of gross income.

Long-term debt includes car payments, installment loans, credit card debt, child support payments and any other debt that will take more than 18 months to repay.

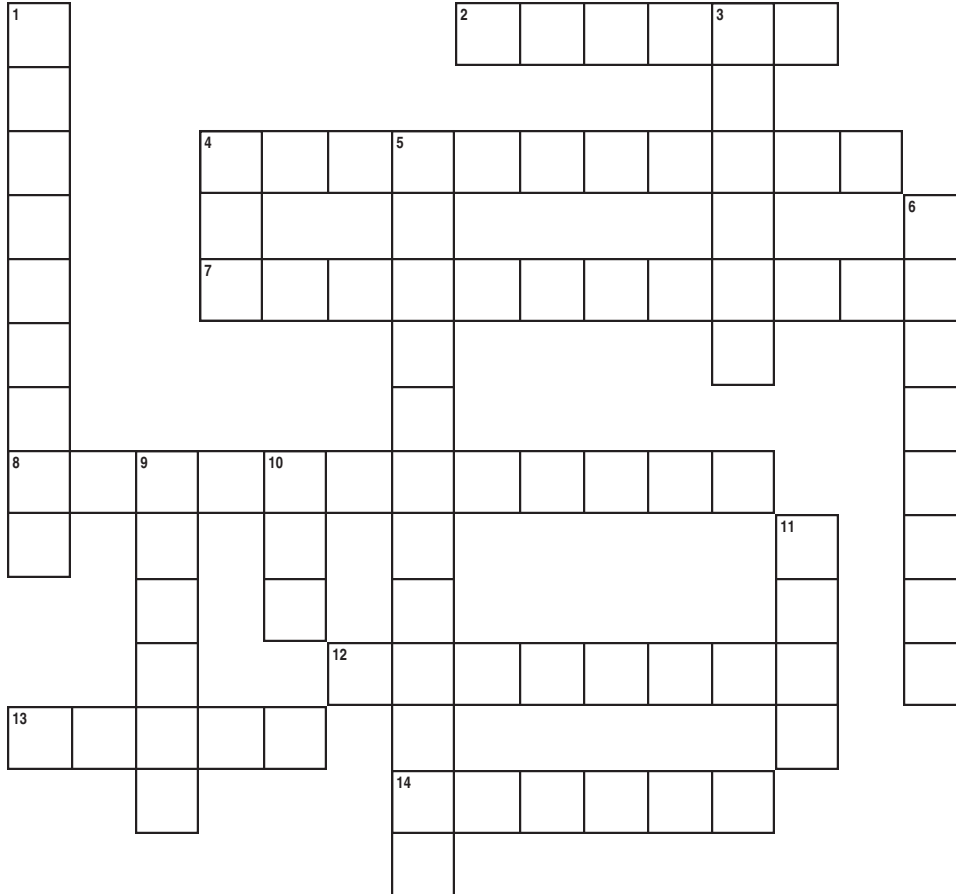
For more information on buying a house, call the county office of the NDSU Extension Service or Housing Finance Agency, P.O. Box 1535, Bismarck, ND 58502-1535, phone (701) 328-8080.



As a newly married couple, one of your largest monthly expenditures will be for housing

Legal Language

Use the words in the column on the right to complete this crossword puzzle. Be familiar with these terms before applying for a home mortgage. See back for key.



Puzzle Terms

- Escrow
- Deed
- Mortgage
- Title
- Interest
- Points
- Appraisal Fee
- Principal
- Survey
- Amortization
- ARM
- FHA
- Equity
- Foreclosure
- Earnest Money



See back for key

Across

2. Required to determine the specific boundaries of a tract of land.
4. A process which occurs when a borrower fails to pay a mortgage.
7. Gradual payment of a mortgage.
8. Money paid to obtain a professionally prepared estimate of the value of property (2 words).
12. A loan to purchase real estate with the real estate serving as collateral for the loan.
13. The legal right of ownership.
14. An account containing money for insurance and tax payments and handled by a third party.

Down

1. The amount of a debt, minus the interest.
3. The dollar value of real estate minus the amount still owed on it.
4. Federal Housing Authority
5. A deposit made to the seller of real estate to ensure that the property will not be sold to another party during negotiation (2 words).
6. The dollar cost of borrowing money.
9. Money paid in advance by the borrower.
10. Adjustable Rate Mortgage.
11. A legal document used to convey real estate ownership.

Common Real Estate Abbreviations

- 3BR 3 bedrooms
- Kit kitchen
- CH/A central heat and air
- Ba bath
- LR living room
- DR dining room
- h/w hot water heater
- ac acres
- s.f. square feet
- fncd bk yd fenced backyard
- fin financing
- WBFP wood burning fireplace
- hdwd floors hardwood floors

Strategies to Make the Lending Process Easier

Before applying for a home mortgage, complete the items below.

This preparation will make the process easier. Check off each item as it is completed.

- Check your credit report. Correct any inaccuracies and straighten out credit problems up front.
- Shop around. Commercial banks, savings and loans, and mortgage bankers all offer home loans and they all want your business. Compare interest rates, fees, and services before making a commitment to a lending institution.
- Organize your paperwork. Lenders require lots of items to support their decision to lend you money for a home. Have the following items available when you make application for a loan.
 - The purchase contract for the house.
 - Pay stubs for the last 30 days as well as W-2 forms for the past two years.
 - Tax returns for the past three years if you are self-employed. Also, if you are self employed, you may need a current balance sheet and other information about your business.
 - Bank account numbers and bank statements for the past one to three months.
 - A list of all debts, including total amounts, monthly payments, and account numbers.
 - A list of any stocks and bonds, with values to date. If you rent, canceled rent checks from the past 12 months.
 - Certificate of Eligibility from the Veteran's Administration if you want a VA guaranteed loan.

Key



Across

- 2. Survey
- 4. Foreclosure
- 7. Amortization
- 8. Appraisal Fee
- 12. Mortgage
- 13. Title
- 14. Escrow

Down

- 1. Principal
- 3. Equity
- 4. FHA
- 5. Earnest Money
- 6. Interest
- 9. Points
- 10. ARM
- 11. Deed

For more information on mortgages, see the Extension publication: Shopping for a New or Reduced Term Mortgage (HE -242), online at www.ext.nodak.edu/extpubs/yf/fammgmt/he242w.htm.

NEXT MONTH: Insurance: Life, Auto, Health, Property

Adapted with permission from University of Arkansas Division of Agriculture Cooperative Extension Service.

Adapted from the Marriage and Money series by Joy Buffalo, Franklin county extension agent, family and consumer sciences, and Lynn R. Russell, Extension family resource management specialist.
Adapted by Sharon Kickert-Gerbig, Extension agent, Stark/Billings Counties, and Julie Hudson-Schenfisch, nutrition education agent, Family Nutrition Program.
Revised by Debra Pankow, family economics specialist, North Dakota State University Extension Service, November 2005.

This newsletter may be copied for noncommercial, educational purposes in its entirety with no changes.

Requests to use any portion of the document (including text, graphics or photos) should be sent to permission@ndsuxt.nodak.edu.

Include exactly what is requested for use and how it will be used.

For more information on this and other topics, see: www.ag.ndsu.edu

County Commissions, North Dakota State University and U.S. Department of Agriculture cooperating. Duane Hauck, Director, Fargo, North Dakota. Distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. We offer our programs and facilities to all persons regardless of race, color, national origin, religion, gender, disability, age, veteran's status or sexual orientation; and are an equal opportunity institution. This publication will be made available in alternative formats for people with disabilities upon request, (701) 231-7881. Web-2-06