

Name Answer Key

Finance

Buying a Home Quiz Review

1) Between a 10 year fixed, 15 year fixed, 30 year fixed, or 10/1 ARM, what is the most common mortgage for Americans?

2) A home is valued at \$550,000 and has 2800 square feet.

a) Find 1% and 3% of the home's value  $\$550,000 \times 0.01 = \$5,500$   $\$550,000 \times 0.03 = \$16,500$

b) Give 2% of the home's value  $\$11,000$

c) Average the 2% number and the square footage to get an accurate estimate for a yearly home maintenance budget

$$\frac{11,000 + 2800}{2} = \$6,900$$

3) What would happen if you were able to pay one extra mortgage payment to the bank each year?

30 year mortgage gets shortened to 23 years

4) A home is to be purchased for \$435,000

a. What is the goal down payment for this home?  $435,000 \times 0.20 = \$87,000$

b. Why is it important for the purchaser to make the goal down payment? Down payment  $\geq 20\%$  avoids PMI

5) List two costs associated with housing are higher on Long Island than most other places in the nation

Price of Home, Property Taxes, Insurance, Utilities

6) What is one downside of renting a home/apartment?

- No equity
- Making landlord rich - not yourself
- Can be kicked out

7) Your total housing costs (mortgage + property taxes) should be approximately what % of your income in order for the bank to approve your loan?

a. less than 10%

b. less than 33%

c. around 50%

d. at least 75%

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8) Why would the same house be more expensive if placed in Mount Sinai, then if placed in Centereach?

#1 Driver of L.I. home values is school district  
#2 is location (proximity to water)

9) True or False: If a homeowner dies, the bank forgives the outstanding balance of the mortgage

False

10) Explain what a 5/1 ARM is

30 year mortgage 5 years of a fixed interest rate, rate resets every 1 year thereafter

11) – Complete the following chart:

Steven: Single person trying to buy a house

Salary:

120,000

Monthly Gross Salary

10,000

Monthly Gross Salary ÷ 3

3333

Yearly Taxes on House

6000

Monthly Taxes on House

500

Actual Monthly Mortgage Amount Steve Can Afford (Line 3 – Line 5)

2833

Loan Amount Per 1000 (Assume 30 year fixed at 4.25%)

\$4.92

Loan Amount Steve will qualify for (Line 6 ÷ Line 7 x 1000)

~~80,000~~ 575,800

Down Payment Available

80,000

Total Price House Steve Can Afford (Add Loan Amount + Down Payment)

\$655,800

A) Based on the last line, can Steve afford a home in Mount Sinai? Yes

B) If Steve buys the most expensive house he can afford, will he pay PMI?

$$655,800 \times .20 = \$131,160$$

yes he will pay PMI. 80,000 is not a 20% Down Payment

