Baby Step 6™

Pay off your home ________.

Paint, lawn care, wallpaper, etc. make a home sell faster and for more money. So DO IT!

"You never get a second chance to make a good first impression."

– Zig Ziglar

"A man builds a fine house; and now he has a master, and a task for life; he is to furnish, watch, show it, and keep it in repair the rest of his days."

– Ralph Waldo Emerson

Selling a Home

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

The home should be in "near perfect" condition.

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

The most important aspect of preparation is attention to the ___________ appeal.

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

When selling, statistical research has found that the best realtors are worth _______ than they cost.

The exposure through the __________ Listing Service is worth it.

When selecting a realtor, do not rely on ___________________ or ___________________.

"Prepare your outside work, make it fit for yourself in the field; and afterward build your house."

– Proverbs 24:27 (NKJV)

These are professionals. You should always _______________ them.

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

Buying a Home

Home ownership is a great investment for three main reasons:

1. It's a _________________ savings plan.

2. It's an _________________ hedge.

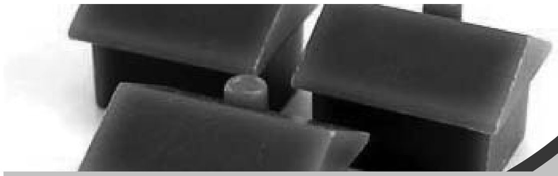
3. It grows virtually _______ - _________.

   You can have a gain of $250,000 single or $500,000 married and pay zero tax on the sale of your personal residence if you hold it at least two years.

Title insurance insures you against an ____________ title, which is when your proper ownership is in question. It is a good buy.

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

Realtors' access to the _________ system can make house hunting easier, but be careful. Many agents can only think like retailers, which is not what you want when buying.



“Any structural weirdness you are willing to overlook will cost you at resale.”

– Anonymous

What To Buy

Buy in the ________________ price range of the neighborhood.

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, outdated carpet, ugly wallpaper, and the Elvis print in the master bedroom.

However...

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

Have the home inspected mechanically and structurally by a certified _____________ _______________.

Appraisals are an “___________ of value,” but it’s a better opinion than the current homeowner has. Always order one if in doubt.

What Not To Buy

1. _________________ or _______________ ____________

2. _________________

Mortgages

"For which of you, intending to build a tower, does not sit down first and count the cost, whether he has enough to finish it — lest, after he has laid the foundation, and is not able to finish, all who see it begin to mock him, saying, 'This man began to build and was not able to finish'?"

– Luke 14:28-30 (NKJV)

First, remember to ___________ debt.

The best mortgage is the _______% down plan.

But if you must take a mortgage...
Do not buy until you are ready. That means you are out of debt with a fully-funded emergency fund.

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

Get a payment of no more than _____% of your take home pay on a ______________ fixed rate loan, with at least _____% down. Have a fully-funded emergency fund left over after closing.

Why choose a 15-year mortgage?

(Figures based on 6% APR)

I. $225,000	15 years	Pay	$1,899 /mo
II. $225,000	30 years	Pay	$1,349 /mo
		Difference	$550 /mo

But after 10 years...
The 15-year loan has a balance of $98,210 while the 30-year loan 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!

To calculate how an ARM adjusts, see "How to Figure the Change in Your ARM" at the end of this lesson.

The FTC says that reverse mortgage options have the most fraud in the mortgage business.

Horrible Mortgage Options

1. Adjustable Rate Mortgages (ARMs) were brought on with the advent of ______________ interest rates in the early 1980's.

    - The concept of the ARM is to _____________ the risk of higher interest rates to the _________________ and, in return, the lender gives a lower rate up front.

    - Of course, ______________ _________ loans are a bad idea because you are only paying the interest—*duh!*

    - You can qualify for more home with ARMs, but the risk of financial stress later is not worth it.

2. _________________ Mortgages

    - Bad idea because you are putting a paid-for home at risk and the fees are horrible.

3. ___________________, or Bi-Weekly Payoff

    - Allows you to make a half-payment every two weeks, which equals 13 payments a year. The reason it pays off early is because you make one extra payment a year.

    - Do not pay a fee for this option. You can easily do this on your own.

4. __________ Advantages of a Mortgage

- Do not fall for the myth that you should keep your mortgage for the tax advantages. The math doesn't work.

Where's the Tax Advantage?

Mortgage Amount	Interest Rate	Annual Interest Paid
$200,000	5%	$10,000

Mortgage interest is tax-deductible, so you would not have to pay taxes on this $10,000. That is why many people tell you to keep the mortgage. But what does this really save you?

Taxable Amount	Tax Bracket	Annual Taxes Paid
$10,000	25%	$2,500

So, if you keep your mortgage just for the "tax advantages," all you are really doing is sending $10,000 to the bank instead of sending $2,500 to the IRS. Where's the ***"advantage"*** in that?

You can avoid PMI with a 20% down payment or by paying your existing mortgage down to 20% loan-to-value.

Basic Ways to Finance a Home

1. __________________, usually through FNMA and privately insured against default.

   - Down payments range from 5% to 20% or more.
   - These loans are available in all forms and formats.
   - PMI is _________________ mortgage insurance.

2. _______, which is 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.

3. ________, which is insured by the Veterans Administration.

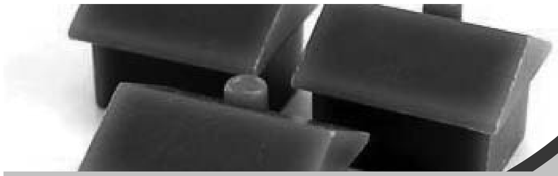
- Designed to benefit the veteran; the seller pays everything, allowing a true zero-down purchase.

- With a good down payment, the conventional loan is a ___________ deal.

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

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

  Example: No payments for a year, interest rates that graduate, or discount for early payoff.



Use this worksheet to estimate the monthly mortgage payment on a 15-year loan compared to a 30-year loan.

How To Figure Your New Payment

Monthly Payment per $1,000 in Loan Amount

Rate	15-Year	30-Year
4.5%	7.65	5.07
5.0%	7.91	5.37
5.5%	8.17	5.68
6.0%	8.44	6.00
6.5%	8.71	6.32
7.0%	8.99	6.66
7.5%	9.28	7.00
8.0%	9.56	7.34
8.5%	9.85	7.69
9.0%	10.15	8.05
9.5%	10.44	8.41
10.0%	10.75	8.78
10.5%	11.05	9.15
11.0%	11.37	9.52
11.5%	11.68	9.90
12.0%	12.00	10.29

__________ / 1,000 = ________ X ________ = ____________

Sales Price / 1,000 = #1000's X Factor = Monthly Payment

Example: Sales Price - $150,000, 15 years at 6%

$150,000 / 1,000 = 150 X 8.44 = $1,266

Sales Price / 1,000 = #1000's X Factor = Monthly Payment

This worksheet helps you decide whether or not it would make sense to refinance your current mortgage to a lower-interest loan.

Should I Refinance?

Current principal and interest payment (not including taxes & insurance) ____________________

New principal and interest payment – ____________________

Equals monthly savings = ____________________

________________ / ______________ = ____________________

Total closing costs divided by savings = Number of months to break even

Example: Refinance on a $150,000 Mortgage at 8% to 6.5%

$1,434 current payment - $1,307 new payment = $127 savings

$2,300 closing cost divided by $127 savings = 18 months

Will you stay in your home longer than the number of months to break even? If so, you are a candidate for a refinance.

ESTIMATED CLOSING COSTS TABLE

Loan Amount	Closing Costs	Loan Amount	Closing Costs
30,000	1,500	75,000	1,850
35,000	1,550	80,000	1,900
40,000	1,600	85,000	1,925
45,000	1,650	90,000	1,950
50,000	1,700	95,000	1,975
55,000	1,725	100,000	2,000
60,000	1,775	150,000	2,300
65,000	1,800	200,000	2,600
70,000	1,825	250,000	2,900

How to Figure the Change in Your ARM

Your Adjustable Rate Mortgage (ARM) adjusts based on the movement of an index. You can find your index in your original note or mortgage. The most commonly used index is the Treasury Bill (T-Bill). The one-year ARM uses the one-year T-Bill, the three-year ARM uses the three-year T-Bill, and so on. Other commonly used indexes are the LIBOR and the 11th District Cost of Funds.

First, find out what index you use and when it is adjusted.

Next, find out (also from your loan paperwork) what margin was assigned to your loan (usually 2.59).

Basically, your ARM adjusts as the index moves.

The index is usually published daily in the *Wall Street Journal*.

So, if you have a one-year ARM that adjusts with the one-year T-Bill and a margin of 2.59 (which is typical), then, at the one-year anniversary of your closing, you would look up the one-year T-Bill in the *Wall Street Journal*. Add the T-Bill to your margin and you have your new rate (if it is not capped).

Example: T-Bill 4.41 plus margin 2.59 = 7% new interest rate.

Warning: Almost all ARMs start below margin the first year, guaranteeing a payment increase at anniversary unless rates DROP.

Answer Key

Early	Survey	Homes	Tax
Retailer	MLS	Timeshares	Conventional
Enormous	Bottom	Hate	Private
Curb	Location	100%	FHA
Internet	Location	Renting	3%
More	Location	Patience	More
Multiple	Water	25%	VA
Friendships	View	15-year	Better
Relatives	Overlooking	10%	Owner
Interview	Street	High	Great
Warranty	Floorplan	Transfer	
Forced	Home	Borrower	
Inflation	Inspector	Interest	
Tax	Opinion	Only	
Free	Trailers	Reverse	
Unclean	Mobile	Accelerated	

Set Your Goals for the Week / Gazelle Focus

I will create a written, long-term plan for my real estate goals by this date:

Also this week, I am going to . . .

online resources™

Be sure to check out the special online features for this week.

- **Easy Payoff Calculator:** See how quickly you can pay off your mortgage!
- **Mortgage Calculator:** Find out how much house you can actually afford.
- **Get Help:** Ready to buy or sell a home? Find a local realtor with the heart of a teacher. If you need help, you can contact one of Dave's Endorsed Local Providers in your area.
- **Check Your Math:** Learn why it's a bad idea to keep a mortgage just for a tax deduction.

Review of the Last Section

1. What are some specific ways in which your unique personality style impacts your work life?
2. Discuss the three-year professional plan you outlined for yourself last week in the community forums.
3. Why is sacrifice so important in taking on a part-time job for short-term goals?
4. Recite all seven Baby Steps.

Discussion and Accountability

1. What does it mean to be "house poor"? Have you or someone you know been in that situation?
2. Is it ever okay to rent for a while? Why or why not?
3. Have you ever been late on a mortgage payment? If so, how did that make you feel?
4. What are the dangers in 30-year mortgages, adjustable rate loans, and home equity loans?
5. If you have to take out a mortgage, what guidelines does Dave recommend? According to those principles, how much house can you actually afford?
6. How would paying off your home early make you feel? How would it affect your retirement?

Homework

1. **There's only one section left!** Be sure to make the most of the time you have left in your 16-week membership by reviewing any past lessons from the lesson catalog.

3. ***Financial Peace Revisited*:** Read the subtitled sections "Real Estate Bargains" and "Owner Financing Bonanza" in chapter 13.