

Buying a Home

“Work toward home ownership. This qualifies as an investment, not consumption. Buy the type of home your income will support. Improve the home and beautify the landscape all the time you occupy the premises so that if you do sell it, you can use the capital gain to get a better home.” (Marvin J. Ashton—“One for the Money”)

OBJECTIVES

The objective of this lesson is to educate families on the basics of buying a home. Whether this is a first home or not, this lesson will address important financial and nonfinancial factors that should be considered before buying a home. This lesson will also discuss what type of home the family can and should afford given their lifestyle.

For families with small children it would be perhaps more effective to review the story of the wise man and the foolish man, found in 3 Nephi 14:24-27. Families may want to use pictures, diagrams, or objects to help tell the story.

WHY?

Buying a home is likely to be the biggest purchase and investment a family will make. It is crucial to be able to pick a home that the family can reasonably afford without putting added financial pressure on the family. A good home that the family loves and enjoys taking care of will produce a home where the Spirit of the Lord may reside, instruct, and inspire.

LESSON (10 TO 20 MINUTES MAXIMUM)

1. Story and discussion.

Bill and Sally were as happy as they could be. They were both in their junior years at BYU and were two months away from getting married. As they made plans for their wedding, the topic of housing presented a challenging situation for the couple. Both were enrolled at BYU as full-time students and worked part-time, Sally as an event planner for BYU and Bill as an engineering intern for a local municipality. Bill and Sally both began working at early ages and had each saved enough to pay for missions and part of their educations. After reviewing possible married housing options (i.e., apartments near BYU or buying a home) they decided to look at the possibility of buying a home.

After searching realtor listings online, Sally found two modest townhomes near Bill’s work. Both townhomes were reasonably priced, and after walking through both in one day, Bill and Sally decided to make an offer on the second home. After two days of negotiations, Bill and Sally were able to secure a contract for the purchase of the townhome. Bill and Sally decided to forgo having the home inspected by a professional before closing on the home in order to save money; Bill trusted his

instincts to be able to recognize any structural or maintenance problems with the property. Because of his long work and credit history, Bill qualified for financing of the property but was required to pay \$3,000 in closing costs—a fee he had not anticipated. The couple closed on the home and received the keys one week before they were married.

The first month after their marriage, Bill and Sally realized they had underestimated the unforeseen costs associated with owning a home. Their combined income was only sufficient to pay their mortgage payment and tithing. They had not planned on having to pay a homeowners association fee, higher-than-anticipated utility payments, home owners insurance, and all other normal costs of living. Additionally, after moving in Bill realized that the kitchen sink had a major leak and the oven did not function properly. To make matters even worse, Bill and Sally awoke one morning to discover that their water heater had cracked due to corrosion and flooded part of their kitchen. Bill and Sally began to seriously contemplate if they had made the right decision in buying a house.

What do you think Bill and Sally should do?

What are some things they should have done before buying a home?

Why do we want to buy and own a home?

Suggestions for families with younger children.

Share with your children the story of the wise man who built his house upon the rock and the foolish man who built his house upon the sand (*See 3 Nephi 14: 24-27 for parable*). You may want to use pictures and diagrams as you tell the story.

2. Lesson material and discussion.

A. Budgeting for Owning a Home

i. Consult and follow your family budget

1. What kind of house payment can your family afford?

Calculate the following ratios with your children.

a. Front-end Ratio

$$\frac{(PITI)}{GrossIncome} \leq 0.33$$

P: Principal } *Mortgage Payment*
I: Interest }
T: Taxes: Property Taxes
I: Insurance: Home Owner's Insurance

b. Back-end Ratio

$$\frac{(PITI) + OtherFixedPayments}{GrossIncome} \leq 0.38$$

Other fixed payments include: tithing, car payments, tuition payments; does not include utility payments.

- ii. Read and discuss the following quote from President Spencer W. Kimball:

“Modern idols or false gods can take such forms as clothes, homes, businesses, machines, automobiles, pleasure boats, and numerous other material deflectors from the path to godhood.

“Intangible things make just as ready gods. Degrees and letters and titles can become idols.

“Many people build and furnish a home and buy the automobile first—and then find they ‘cannot afford’ to pay tithing. Whom do they worship? Certainly not the Lord of heaven and earth.” (Chapter 14: “Thou Shalt Have No Other Gods before Me”, *Teachings of Presidents of the Church: Spencer W. Kimball*, (2006), 145–53)

- *What does it mean to live within our means?*

President Ezra Taft Benson summarized Church teachings about mortgage debt in these words:

“Our inspired Church leaders have always urged Latter-day Saints to get out of debt, live within our means, and pay as we go. . . .

“Now I do not mean to say that all debt is bad. Of course not. Sound business debt and reasonable debt for education is one of the elements of growth. Sound mortgage credit is a real help to a family that must borrow for a home.” (*Church News*, 17 Mar. 1962, p. 13)

- Use the provided worksheet to determine your target mortgage amount.

B. Other Costs to Consider

iii. Real Estate Fees:

1. Closing costs are typically between 2 and 3 percent of the value of the mortgage.
2. Some mortgage brokers/lenders will charge closing points on the value of the loan.
3. Research with individual lenders/brokers as to their fees and costs.

- iv. Homeowners insurance: All lenders will require borrowers to acquire homeowners insurance to protect the value of the home. Research reputable insurance companies and the rates associated with premiums.
- v. Homeowners Association (HOA): If buying a condo, townhome, or other property located within a homeowners association, find out what fees homeowners must pay and what is included in the HOA payment.
- vi. Utility costs: Utility costs will increase with home ownership. When budgeting for a home, increase utility costs by 10 to 20 percent.

C. Importance of Having an Emergency Fund

- vii. Ask your children what you can do to plan for unforeseen financial costs.
- viii. As illustrated in the story of Bill and Sally, it is important to establish an emergency fund that can be used to pay for unforeseen home costs, such as a bursting water heater.
- ix. As a rule of thumb, save enough to cover three to six months mortgage payments.

“What if you lose your job and cannot find employment for several months?”

“What if you have to pay unforeseen medical expenses? What if you are injured and cannot return to work for a long time? Or the washing machine and the car break down at the same time? Or a family member is hospitalized, and although you have medical insurance, the deductible amounts and the co-payments are costly?”

Do you have enough money set aside to help cover such financial emergencies? If not, it’s important to establish an emergency savings account—a reserve fund that will lessen the shock of financial hardship.” (Vaughn Cox, “Emergency Savings the ‘Centsible’ Way,” *Ensign*, Feb. 1992, 65)

D. Research Available Homes, Prices, and Markets

- x. Buyer’s Agent: When buying a home, a buyer’s agent will act in your behalf without requiring payment. A buyer’s agent is a registered realtor who collects commission from the seller and represents the buyer in negotiations.
- xi. The following Web sites provide useful information concerning home values and real estate basics. Explain to your children the importance of doing research before buying a home.
 - 1. Zillow.com: displays approximate home values on aerial photographs.
 - 2. Housevalues.com: similar to Zillow.com
 - 3. Realtor.org: National Association of Realtors
 - 4. Realestateabc.com: basic home buying instructions

5. Realtor Websites:
 - a. Century21.com
 - b. KW.com (Keller Williams)
 - c. Coldwellbanker.com
 - d. Remax.com
- xii. Talk to local home owners about the neighborhood, the owners of the available property, local schools, stakes, and wards.
- xiii. Visit the local county assessor's office or Web site to research the property tax associated with the property and if there are any outstanding balances.

ACTIVITY

Activities can encompass a number of different ways to support and clarify your objectives. These include:

1. Games. Possible games for families of all ages:

- Jenga
- Lincoln Logs
- Build clay houses
- Sand castles
- Graham cracker and icing houses

2. Treats. Suggestions for treats:

- Make graham cracker and icing houses
- Shape sugar cookies into houses (using shapes and piecing them together)

ASSIGNMENTS

Include some assignments that the family should try to accomplish the next week or the next month that will help them incorporate the objectives you are trying to accomplish into their daily lives. Assignments could include:

1. Questions and Application. Create a home-buying savings chart for the future (*see Savings FHE lesson*). Where can your family cut back to save for the future purchase of a home?

2. Questions and Journals. What kind of house would you like own someday? What will it take now to have that house in the future? What can you do now to begin saving for your first home?

3. Application. Encourage the application of what you have taught to the lives of those you are teaching.

- Assign each family member a specific task for home buying

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- i. Help older children look up home values online.
- ii. Take children through available homes/model homes and get their input.
- iii. Explain and assign future chores (i.e., mowing grass, weeding, painting, etc.)
- iv. Explain to young children what their responsibilities will be in the new home (to help make the point more applicable to smaller children, explain that in a new home there will be no coloring on walls, spills on carpet, dirt brought inside, etc.)

SUGGESTED SONGS

- The Wise Man Built His House Upon a Rock
- How Firm a Foundation

AUTHORS

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