

FINANCIAL LITERACY 101
SUPPLEMENTAL MATERIAL

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PART 1
EXERCISES

Exercise 1-1 Rate of Return

1. An investor bought a stock for \$35 a year ago and it is worth \$42 now. What is the investor's rate of return on this investment?
2. Jason bought a stock for \$20 a year ago and it is worth \$18.4 now. What is Jason's rate of return?
3. The stock price of Microsoft is currently \$28.76. Janet paid \$24.89 for the stock 3 months ago. What is Janet's rate of return on the investment?
4. Amy just sold 500 shares of Google stock for \$625 a share and earned a 7.20% rate of return. What price did Amy pay for each share of the stock?

Exercise 1-2 Chapter Review

1. Finance is a subject that deals with _____, _____, _____ and how they are interrelated.
2. Investment is an asset or item that is purchased with the hope that it will _____ or _____.
3. Rate of return is the money you earn on an investment, stated as a _____.
4. The degree of uncertainty of the rate of return on an investment is called _____.

Exercise 2-1 Annual Percentage Yield

(Round your answers to the nearest thousandth of a percent.)

1. Bank A offers a savings account that pays 1.25% interest rate.
 - a. If interest is compounded annually, what is the APY on this account?
 - b. If interest is compounded monthly, what is the APY on this account?

2. Bank B offers a money market account with an interest rate of 3.0% and quarterly compounding. What is the APY?

3. You are considering three options to save your money. The interest rate on Account X is 8.50% and compounded monthly; the interest rate on Account Y is 8.75% and compounded annually; the interest rate on Account Z is 8.65% and compounded semiannually. Which account provides the highest rate of return?

Exercise 2-2 Chapter Review

1. _____ is the central bank of the US. It consists of the _____ and ____ regional Federal Reserve Banks.
2. The _____ is responsible for producing paper currency while the _____ is responsible for producing coinage. Both government agencies are part of the U.S. Department of Treasury.
3. About ____% of the newly produced notes and coins are used to replace those already in circulation.
4. The chairman of the Federal Reserve Board is appointed by the _____ and confirmed by the _____. The current chairman is _____.
5. Depository institutions rely on deposits from savers as the primary source of raising capital and use the funds to make loans. Examples of depository institutions include _____, _____, _____ and _____.
6. The _____ is the interest rate actually earned or paid in one year, taking into account the effect of compounding.
7. A _____ is a not-for-profit institution that offers financial services to its members.
8. A _____ is a financial institution that accepts savings deposits and invests the bulk of the funds in home mortgages.
9. When selecting a bank account, you should consider the following factors: 1) _____, 2) _____, _____, and _____, and 3) _____.
10. _____ is a type of bank account that pays a fixed interest rate for a set period of time. You do not have access to the money until the end of the period.
11. The process of earning interest on interest that was earned in a previous period is called _____.

Exercise 3-1 Monthly Budget

- Jerry would like to prepare a monthly budget and has collected the following information about his income and expenses. He has a part-time job and earns about \$520 each month. His employer withholds 10% of his wages for taxes. In terms of spending, Jerry needs to pay for lunches at school and gasoline for his car, which average about \$135 and \$60 each month, respectively. Jerry plays many sports and typically pays \$80 each month for those activities. He estimates that he pays \$40 for his cell phone and spends approximately \$70 on activities such as going to movies, renting video games and hanging out with friends. Jerry sets aside 5% of his monthly income for unanticipated expenses and plans to save at least \$50 each month.
 - Help Jerry prepare the budget using the following worksheet.

Monthly Budget			
Category	Budgeted Amount	Actual Amount	Difference
Income			
Wages			
Other Income			
Total Income			
Expenses			
Taxes			
Food			
Gasoline			
Sports			
Entertainment			
Cell Phone			
Other Expenses			
Total Expenses			
Contingencies			
Savings			
Surplus/Deficit			

2. After finishing the budget, Jerry decides to track his actual expenses and compare them with the budgeted amounts. He starts a spending log and records every payment he makes. At the end of the month, Jerry summarizes his spending in the following categories:
- a. Food: \$128
 - b. Gasoline: \$72
 - c. Sports: \$80
 - d. Entertainment: \$85
 - e. Cell Phone: \$40
 - f. School Field Trip (not budgeted): \$30

Jerry's income from his part-time job is the same as he expected; additionally, he receives \$25 for his birthday in the month.

- Does Jerry have a surplus or a deficit in the month?
- What is the difference between the budgeted and the actual amount?

Exercise 3-2 Time Value of Money

1. How much money will you have in 3 years if you save \$20 in an account that pays a 4.5% annual interest rate?
2. How much will \$1,000 become in 50 years if it is compounded at 3.0% annually?
3. How much do you need to deposit into an account with a 7.5% interest rate in order to accumulate \$200 in ten years?
4. Your bank account pays a 2.5% interest rate. In order to have \$1,000 in five years in the account, how much do you need to deposit today?
5. If you save \$1,000 each year and the interest rate on your bank account is 5%, how much money will you have in 20 years?
6. If the interest rate on your bank account is 6% and you start saving \$500 each year at the age of 18, how much money will you have at the age of 30?
7. Given an interest rate of 4%, what is the present value of a series of payments of \$100 that will be received every year over the next 15 years?

Exercise 3-3 Chapter Review

1. A _____ is a detailed plan of financial activity that pertains to income and expenses expected during a specific period in the future.
2. When your income exceeds your spending, you have a _____; on the other hand, when your expenses exceed the income, you have a _____.
3. Preparing a detailed plan for future financial activities may help you:
 - a. _____.
 - b. _____.
 - c. _____.
 - d. _____.
4. List three possible sources of income for teenagers: _____, _____, and _____.
5. List five typical expenses for teenagers: _____, _____, _____, _____, and _____.
6. _____ are things you must have in order to survive or meet the minimum living standards; _____ are discretionary expenses that may be delayed or substituted without affecting your ability to survive.
7. A major difference between short-term and long-term budgeting is that you should take into account the _____ when planning for the long run. The concept basically means that a dollar today is worth more than a dollar in the future.

Exercise 4-1 Cost of Consumer Credit

1. Jack would like to borrow \$8,000 for the purchase of a car. The APR on a 5-year auto loan is 6.0%. What is Jack's monthly loan payment? When the loan is paid off at the end of Year 5, how much total interest will Jack have paid?
2. Sharon is planning to buy a new car and needs to borrow \$13,000 with a 5-year loan. The bank tells her that the interest rate depends on her credit. The following table shows the relationship between the interest rate and a borrower's FICO score.

FICO Score	Interest Rate	Monthly Payment
720-850	4.20%	
690-719	6.00%	
660-689	7.80%	
620-659	10.80%	
Below 620	18.00%	

- Calculate Sharon's monthly loan payment given each interest rate.
- Sharon finds out that her FICO score is 650. Compare t someone with excellent credit (FICO>720), how much additional interest does Sharon need to pay over the life of the loan?

Exercise 4-2 Chapter Review

1. _____ is the use of credit for personal needs by individuals and families, in contrast to credit used by businesses and governments. The two basic types are:
 - a. _____, which is a one-time borrowing that has a specified loan amount and is for a specific purpose. It is usually repaid with equal periodic payments over time.
 - b. _____, which is a loan whose maximum amount is approved by the creditor but not delivered to the borrower at once. Over time, the borrower can get money from the lender (up to the maximum amount), or pay back a portion or the entire amount of the principal.
2. The situation where a borrower fails to make timely payment of interest and/or principal on a loan is called _____.
3. _____ is the maximum amount you can borrow using a specific open-end credit.
4. 4Cs are the four key factors lenders of consumer credit consider when they assess the riskiness of a loan: _____, _____, _____, and _____.
5. The _____ is a number that summarizes an individual's history of using credit. It was developed by Fair Isaac Corporation and has a range of ____ to _____. This score takes into account five categories of information: _____, _____, _____, _____, and _____.
6. _____ is the cost of credit expressed in a yearly rate; it includes the interest rate as well as other lender fees the borrower is required to pay.
7. The gradual repayment of loan principal over time is called _____.

Exercise 5-1 Chapter Review

1. When making financial decisions, you often need to consider various types of cost. For example, _____ is the cost associated with one additional unit of production, or with a specific decision; _____ is the cost of an activity that is measured in terms of the value of the best alternative that is not chosen.
2. When selecting a credit card, there are several features you should consider, including: _____, _____, _____, and _____.
3. _____ is the situation where a person's identification (including name, social security number and/or any account number) is used or transferred by someone else for unlawful activities.
4. List five factors you would consider when choosing an apartment: _____, _____, _____, _____, and _____.
5. A _____ is a written agreement under which a property owner (called the _____) allows someone else (called the _____) to use the property for a specified period of time in exchange for a monetary benefit (which is the _____).
6. _____ is a type of home insurance that protects the holder against accidents, damages and losses that occur in a rented residence.

Exercise 6-1 Taxation

1. Suppose you are subject to a 33% tax rate and your investment in stocks earns a 15.00% return in the year. What is your after-tax rate of return?
2. You are subject to a 20% tax rate and your goal is to earn a 6.40% rate of return after paying taxes. How much before-tax return does your investment need to produce so you can reach your goal?
3. Your investment generates an 8.50% before-tax return, but after paying taxes, you actual return is 7.14%. What is tax rate?

Exercise 6-2 Chapter Review

1. _____ is an asset or item that is purchased with the hope that it will generate income or increase in value. _____ is the money you earn from it, stated as a percentage.
2. The four stages in the life cycle of investing include: _____, _____, _____, and _____.
3. A bond is a contract through which a government or a corporation (the _____) borrows money from investors (the _____). The system that evaluates the possibility of default by the borrower is called _____.
4. _____ are those whose ratings are below investment grade (typically BB and below). They have much higher risk than investment-grade bonds.
5. _____ is a type of investment that reflects ownership of a corporation represented by shares that are a claim on the corporation's earnings and assets. Investors who own shares of a corporation are called _____.
6. When investing in a stock, your return may come from two sources: 1) _____ are the periodic payments the company makes to distribute its earnings to owners; 2) _____ is the amount by which the sale price of the stock exceeds its initial purchase price.
7. Many indexes have been created to measure the performance of the stock market. The most recognized examples are:
 - a. _____, which is based on the prices of 30 large companies. It is the oldest and most quoted stock market indicator.
 - b. _____, which is based on the prices of all stocks traded on the NASDAQ system.
 - c. _____, which is constructed by Standard & Poor's and based on the prices of 500 large corporations.
8. _____ is defined as land and improvements on the land (such as buildings and landscaping). Examples include houses, condominiums and other types of properties. Properties that are purchased for income-producing purposes are called _____.
9. A _____ is an entity that pools money from many investors and invests in a variety of investment opportunities. It provides investors the benefit of _____, which means combining a large number of investments to reduce risk.

10. A _____ is a collection of investments owned by the same individual or organization.
11. List four types of tax that individuals and families may need to pay: _____, _____, _____, and _____.
12. An _____ is a special investment account that allows the owner to defer paying taxes on money saved for retirement.
13. Rank bank accounts, stocks, real estate and bonds based on the level of risk involved in each investment (from the highest to the lowest): 1) _____, 2) _____, 3) _____, and 4) _____.

Exercise 7-1 Home Mortgages

1. Consider a \$320,000, 30-year mortgage with a 7.20% interest rate. What is the monthly payment?
2. Katie is planning to buy a home for \$260,000. She has saved some money so can afford to pay \$50,000 for down payment. If the interest rate on a 30-year mortgage is 6.00%, how much is Katie's monthly mortgage payment?
3. James needs to borrow \$450,000 for the purchase of a new home. He is considering two options: a 15-year mortgage with a 3.60% interest rate and a 30-year mortgage with a 4.20% interest rate.
 - a. What is the difference in terms of monthly mortgage payments?
 - b. What is the difference in terms of total interest James needs to pay over the life of each loan?
4. Kelly needs to borrow \$240,000 with a mortgage and the lender charges 2.50 discount points. In order to get the loan, she also has to pay additional fees of \$3,600. What is Kelly's total closing cost?

Exercise 7-2 Chapter Review

1. The _____ is the midpoint of an ordered array of actual transaction prices of homes. It is a commonly used market indicator of housing value.
2. List three expenses that usually need to be paid by homeowners, but not by apartment renters: _____, _____, and _____.
3. During the home-buying process, you may work with various real estate professionals. One example is a _____, who is licensed to provide services such as showing homes, making offers and counteroffers, negotiating prices, and assisting in the closing. Another example is a _____, who takes a mortgage application, processes and reviews credit, and prepares documents for the lender.
4. A loan that uses real estate as collateral for its repayment is called a _____.
5. There are many different types of mortgages. For example:
 - a. _____: a mortgage whose interest rate remains constant over the entire life of the loan.
 - b. _____: a mortgage whose interest rate changes periodically based on a predetermined formula.
 - c. _____: a mortgage whose monthly payments do not include principal repayment.
6. A _____ is a one-time fee paid by the borrower to reduce the interest rate on a mortgage and is equal to one percent of the amount borrowed.
7. Consider a fixed-rate mortgage that is amortized over 30 years:
 - a. The monthly payment _____ (increases/decreases/stays the same) over time.
 - b. The interest payment _____ (increases/decreases/stays the same) over time.
 - c. The principal repayment _____ (increases/decreases/stays the same) over time.
8. According to the U.S. tax code, only the _____ portion of a mortgage payment is tax deductible.
9. Expenses that are related to completing a real estate transaction but separate from the actual price of the property are called _____.
10. _____ is the cost of credit expressed in a yearly rate; for a mortgage it includes the interest rate as well as other lender fees the borrower is required to pay, such as discount points, origination fee, broker fee, etc.

PART 2

SUMMARY OF EXPERT INTERVIEWS

Chapter 2 The Financial System in the U.S.

Kathy Smith, Bank Branch Manager
Neighborhood National Bank

What are some of the products and services offered by a bank?

Checking accounts, saving accounts, bank CDs, money markets accounts, business accounts, loans, debit cards, and online bill pay.

Why is it important for a high school student to open a bank account?

- To learn financial responsibilities
- To know how to balance out account with money they earned
- To earn money on saving account
- To grow up in a financial sound world

What should someone consider when choosing a bank?

- The location of the bank
- Will he/she be comfortable with the bank
- The bank's products & services

How safe is the money you deposit in a bank?

- It's safe and secured. The FDIC insures up to \$250,000.
- Additional benefits: interest; no theft or robbery!

(For more information about FDIC, go to <http://www.fdic.gov/deposit/>.)

What's the biggest mistake you see clients make in their accounts?

- Balancing checking accounts
- Clients need education and the help of the financial institution.

Chapter 3 Financial Planning and Budgeting

Scott Broberg, Financial planner

What does a financial planner do?

He/she helps people establish goals (save money for retirement, buying house, go to college) and create/develop the plan to get to their goal. There is no guarantee that it will work out as planned. However, planning ahead helps you along the way when life changes.

Who can benefit from the services of a financial planner?

Everybody can use financial advice in some shape or form.

Practicality issue: How much would you pay for the advice?

You may get advice from other places when you first start out your career then eventually work your way into a financial planner office once you have more complexity to your financial situation.

At what point should someone seek the services of a financial planner?

Today, as soon as possible, because time is short and we need to make the most of the time we have and the limited assets we have in our life. Young people beginning to save money may go to a financial planner and pay a onetime fee to get guidance to move ahead. Once you start to accumulate assets, then it make more sense to have an ongoing relationship with a financial planner that you pay on a regular basis.

What should one look for in a financial planner?

1. Good fit! (comfortable with, trust that he/she can help you)
2. Comfortable to share financial information to the individual
3. How much are you paying? Are you getting a good value for what you are paying him/her?

What's the best financial advice for high school students?

Spend less than you earn! This also applies to all income levels!

What's the best age to start working with a financial planner?

Today! Think about where you are at this present situation and start to plan out for your future. Plan the next step!

When you are in high school, think about where you are going to college, how you are going to pay for college, and whether or not you have to work throughout college. When you are in college think about what kind of car you can afford, where you want to live, where you shop.

What's the biggest mistake you see people make with their money?

Overspending on cars for young people.

Advice: Save up money and buy a car on your own. Do not go out financing a vehicle.

What are some good financial habits to begin cultivating?

Decide what the most important financial goal is for you. Set the goal, and save money to get there. Save money up for that in liquid, and go out to make that purchase.

Chapter 4 Borrowing and Consumer Credit

**Manny Escuela, Regional Director, Education, Community Relations & Development
Money Management International**

What does your organization do?

It is the largest consumer credit counseling & service education company in the country.

What sorts of services?

- Budget and Debt Counseling
- Debt Management
- Foreclosure Prevention
- Bankruptcy Counseling
- Bankruptcy Education
- Financial Workshops

What should high school students be thinking about in terms of their finances?

Students should have a role model to emulate and see how responsible he/she (the role model) both earn and spend his/her money.

How can students protect themselves from aggressive credit card marketing?

- Parents should know their kids' needs and educate the kids.
- Teachers or organizations (like DRE) should bring financial literacy into school and educate kids so they understand.

(Interesting fact: There was a law passed on restricting aggressive credit card marketing on campus. However, the average student debt increases. The law only limited on campus, but the credit card companies are now using social media.)

What's the difference between a credit card, debit card, & secured credit card?

A debit card allows easier access to the money that's already in your checking/saving account, and it's only good for the money that you have in your account even though it has Visa/Master logo on your card.

A credit card gives you access to a set amount of money based on a certain credit limit for which you have qualified. You have to pay the money back plus interest. High school/college student interest rate is 16-25 percent.

Secured credit card is only good up to the limit for which you have made the deposit.

How can a high school student establish good credit?

Do not exceed 30% of the available credit. It will affect your credit score.

How can people avoid becoming overwhelmed with debt?

Save for it as much as you can or earn it.

How important is a person's credit score?

It's only important if you are going to use it. Everybody eventually needs to use credit. Four areas creditor are looking into are:

- character (repay timely),
- collateral (assets to buy: car, home),
- actual credit , and
- capacity (how you can pay it payback).

What kinds of resources are available to help people keep track of their credit score?

The only place you can get a free credit report is:

<https://www.annualcreditreport.com/cra/index.jsp>

No FICO score, but you will get your credit history. Get credit report at least once a year.

What's the biggest mistake you see people make with their credit choices?

Keeping up with the Joneses, falling for marketing messages

What's the best sign of credit success?

People who realized they can't afford their credit cards because they overextended it and enrolled in the debt management plan. With minimum cost, they will repay their debt in full with low/no interest rate.

How does bankruptcy affect a person's credit score?

It affects a credit score for at least 7-10 years. 7 years if it is reorganized debt paid in full. 10 years if it is discharged at bankruptcy court which allows the persons to have the debt discharged without paying it back.

What are some things people can do to set themselves up for a good financial future?

- Parents should set good example on spending money.
- Get kids involve in family budgeting (money you have, the amount of bills you pay).

How can kids play a role in helping maintain the family's finances?

Not buying brand names, buying used items.

Refer parents to:

<http://www.crediteducation.org/>

<http://www.moneymanagement.org/>

Are all credit cards bad?

Look on varies website to what is available in term of interest rate.

<http://www.cardtrak.com/>

<http://www.bankrate.com/>

Get low rate, no annual fee

Are “payday” loans a good idea?

Stay away as much as possible. High interest rate!

What are your guidelines on savings?

- Utilize employer matching.
- Save at least 10% of your income for an emergency fund and your financial goals.

How is your credit score calculated?

Two areas have the most impact on the score:

- The amount of money they owed (30%)
- Their history of repaying their debt (35%)

Chapter 5 Financial Decision-Making in College

Emmi Harward, Head of College Counseling
The Bishop School

What sorts of things should college bound students consider in terms of paying for their college education?

- What they want to study
- What they want to get out of the college experience
- Figure out their funding sources (private/public school tuition, scholarship, outside sources of funding, financing)

What college financing resources are available to students?

- High school/college counselor
- Websites (about state aids/fed aids)
- Parents
- Internet

<http://scholar.dlhjr.com/>

When students are looking at paying for college, what should they consider?

Value vs. cost of education

Is a college education worth the investment?

Four-year college becomes basic requirement for many professional organizations. It makes sense to start looking for funding and financing early.

What can student do to plan ahead for paying for their college tuition?

- Talk to family to see if there is financial resource family can offer
- Federal/state aid
- Resource from high school
- College website
- Community
- Save money

Tali Abramson, Property Management Director

What qualities do you look for in a tenant?

- Fair housing (no discrimination based on race, color, national origin, religion, sex, familial status)
- Pay rent on time
- Great credit history

How can prospective tenants best prepare themselves to rent an apartment?

- At least 18
- With credit history - Renters without credit/rental history require extra month of deposit or need to get a co-signer.

What sort of things should first time renters be thinking about when they look for a place?

Cleanliness, people (friendly staffs), and location

What types of questions should prospective tenants ask the landlord or property manager?

School? Library? Accept pets? Furniture? What are the options when you need to break up the lease?

What's the advantage of renting from a property management company over an individual landlord?

Less maintenance issues, landlord might have financial problems and you end up paying the rent and getting evicted!

What's the biggest mistake you see tenants make?

Tenants didn't manage their expectations right at the beginning and ended up breaking the lease.

Rich Dusansky, Economics Professor
University of Texas Austin

What did you discover when you recently went to buy a house?

My identity was stolen!

How was your identity stolen?

Someone got my social security number and my name, created false W2, electronically sent to IRS, and got a huge refund.

Who was responsible for stealing your identity?

A ring in Brooklyn, New York

What lesson have you learned from your experience?

- Take preventive measurement (credit monitoring).
- Be careful when getting phone calls asking your social security, getting email inquiries for your SSN, bank account number.
- Get credit freeze so no one can get your credit report.

Did the identity theft affect your home purchase?

With help, the deal was closed timely. If not, I might lose the deposit (\$10,000) I put down for purchasing the house.

Shannon Faulk, Insurance Agency Owner

Who needs insurance and why?

People who have acquired personal belongings in their life - It will protect them from disasters, accidents and not cause financial ruin for their family.

Is renter's Insurance a good idea?

Renter insurance is a good coverage to have. It covers individual & personal belongs, theft and liabilities. It is for people who do not own their home.

What are the legal requirements for homeowner insurance?

Purchasing homeowner's insurance is a legal requirement when you've borrowed money from a lender, such as a bank, to pay for your home. When you borrow money from a lender, you are entering into a contract with that lender. Purchasing a homeowner's insurance policy more often than not can be found in the terms and conditions. If your lender makes it a requirement for you to purchase homeowner's insurance, and they usually do, then you must purchase homeowner's insurance.

How does PMI insurance affect the cost of your monthly mortgage?

- PMI is extra insurance that lenders require from most homebuyers who obtain loans that are more than 80 percent of their new home's value. In other words, buyers with less than a 20 percent down payment are normally required to pay PMI to protect the lender if the homebuyers go into default.
- It's additional insurance coverage on the mortgage. It adds additional cost on the mortgage. PMI charges vary depending on the size of the down payment and the loan, but they typically amount to about one-half of 1 percent of the loan.
- Keep track of your payments on the principal of the mortgage. When you reach the point where the loan-to-value ratio hits 80 percent, notify the lender that it is time to discontinue the PMI premiums.

What should someone look for in an insurance agent?

- Knowledge
- Integrity
- Expertise

What is your best advice on purchasing car insurance?

- Do research first.
- Look for best product.

- Find insurance agent with expertise.

Some other notes on car insurance

- New driver usually pays more since no experience.
- The cost will be different based on type of vehicle, type of policy (individual or family).
- You should consider if liability insurance is the right type for you.

Chapter 7 Buying Your First Home

Mark Riedy, Professor
University of San Diego

Why are mortgages important?

An instrument ties you to the house and forces you to make payments on time. If you don't pay it on time, you may lose your house.

How important are mortgages to the state of the housing markets?

The state of mortgages changed dramatically over the last 20 years. Now people get can a mortgage better fitted to their needs.

What are some of the different types of mortgages available?

- Standard Mortgage: 30-year fixed rate, interest rate on the loan never changed
- Now we have different duration, variable rates for mortgages.

Why should a high school student care about what's going on in the housing market?

- Think ahead about how to qualify for buying a house and prepare early.
- Take good care of your credit score.

What makes the California housing market unique?

- The California housing market is the most creative one since the house demands are more diverse.
- The housing market went down in 2008 due to high prices and decreasing housing demand. The home price went down, and homeowner couldn't pay the mortgage.
- Housing market will have cycles. Since 2008, the housing prices went down dramatically, especially in California. The housing market will be more affordable for high school students when they are ready to buy a house in the future.

What lessons can be learned from the housing market crash?

- Make sure you have a job, a good paying job.
- Study mortgage market, work with lender, and find the best mortgage to fit your needs.
- Don't be misled that the housing prices will always go up! It will come down.
- That being said, buying houses, especially in California, is a good investment over your lifetime, but keep risks in mind.

How have the housing and mortgage markets changed over time?

- Housing market demonstrates cycles.
- Different parts of country react to economic situation differently.

What's the impact of the credit score on the mortgage payment?

Credit score does a couple things:

- If your credit score is low, you may not be able to borrow at all.
- If you have a low credit score, lenders may charge higher interest rates or make you pay points.

Chris Sorenson, Founder

Homeownership Education Learning Program (H.E.L.P).

What questions should a prospective home buyer ask a realtor?

- Who are your team members? How do you choose your team member (loan officers, loan originators)? Are there any benefits to you directly or indirectly by referring me to them?
- What can I expect from you from the prequalification phase, the home search phase, the escrow phase, the post closing phase?
- What do you expect from me as a buyer?

Get the answers in writing to mitigate the expectations being let down.

What's the most important quality for a real estate professional to have?

- Integrity (put client's interest above their own)

What options do buyers have if they're unhappy with their agent?

If buyer enters into contractual agreement with the agent that represents them (enlisted agent), it will be very difficult to break. You should only enter the agreement after you review it very carefully and decide this is the right person for you. You also need to make sure you and your agent match personalities.

Steps you can take:

- Contact the broker of record that the salesperson is working for and representing.
- Make sure that the Board of Realtors that these individuals belong to are made aware of the challenges.
- Contact Department of Real Estate, and file a complaint.

Who is the ideal prospective home buyer?

- Buyers who spend extensive time going over their individual budget
- Buyers who understand the borrowing process
- Buyers who are decisive about what kind of home they want to buy

Is it always better to buy than rent a home?

Buying home is a large commitment. There are a whole lot of issues in respect to maintenance, tax, and insurance. Buyer should consider it as a very long term strategy and see if it is right for them.

What advice would you give a high school student who wants to buy a home one day?

With compound interest, putting a little money away every week will add up to a huge amount.

- Decide what you want.
- Decide what you are willing to give up.
- Decide what your priorities are.
- Go to work.

How can people reach you if they have questions or need help?

Course:

http://www.dre.ca.gov/pdf_docs/re18.pdf

Website

<http://www.freehomeownershiphelp.org/>

Email

info@freehomeownershiphelp.org

Jaqueline Carlisle, Executive Director
NID Housing Counseling Agency

What are the biggest obstacles to buying a home?

- Intimidation factors: intimidated by the process, by engaging something new, by too much information
- Credit
- Down payment & closing cost

What is the most important thing a person can do to become financially literate?

- Availing themselves to education opportunities that are available
- Knowing & understanding the true cost of home ownership

What are the steps to home ownership?

- Educate yourself about the process.
- Maintain stable employment, at least 2 years.
- Know your credit history; know what is on your credit report. Correct the mistakes on the credit report.
- Have a budget. Do a personal budget and determine how large a monthly payment you can afford and comfortably pay.
- Research as much information as you can.
- Pre-approval
- Know what your priorities are. (Is it close to your employment? Is it close to your child's school?) It can narrow your search for the house.
- Search for a real estate professional that can help you. Look up the license history. Make sure you are comfortable sharing your information with him/her.
- Sign contracts. Make sure you do research and understand it before you sign it.

How can someone get the most out of home ownership?

- Buy what you can afford. Affordability is one of the biggest obstacles people experienced in not getting the most out of homeownership.
- Property maintenance and repair. Knowing it's important for ongoing maintenance of your property so you won't have big chunks of unexpected expenses.
- Budgeting is the key. Budget for maintenance, repair and long term things that have to be done to keep it well maintained.
- Energy efficiency upgrades

Your home should be the place you feel comfortable and you can enjoy. It should not be a cause of stress in your life. With proper planning and equipping yourself based on the affordability and overall cost of the homeownership, your house can be a beautiful home that you can enjoy!

Why is home ownership counseling more important than ever?

There is a lot of information out there. Some are correct; some are incorrect. It can be really confusing. With counseling, it can help you navigate the bulk information out there.

What does your organization do?

The National Investment Division-Housing Counseling Agency (NID-HCA) is a HUD approved non-profit organization with 25 years of experience in housing counseling and community building. NID-HCA has taken a leading role in advocating for our developing policies that would effectively address the housing and community development needs of underserved communities in need of traditional resources, products and services.

<http://nidonline.org/index.html>

What sort of resources can you suggest for those interested in purchasing a home?

- HUD (Housing and Urban Development) <http://portal.hud.gov/hudportal/HUD>

Michael Spilger, Real Estate Attorney

What does a real estate attorney do?

There are a lot of different areas in real estate law. It covers land use, landlord, tenant, commercial leasing. My practice focuses on buyers/sellers, borrowers/lenders, on real estate sale transactions.

When should someone seek out the services of a real estate attorney?

You usually don't need a real estate attorney when buying a house. It only happens when something goes wrong and the deal goes bad.

What's the difference between short sale and a foreclosure?

A short sale occurs when a property is sold at less value than it owes and the lender agrees to accept a discounted payoff. Foreclosure is the process of the lender taking possession of a mortgaged property as a result of someone's failure to keep up mortgage payments.

Example of Short Sale:

If the unpaid balance of a loan is, say, \$100,000 and a property sells for \$90,000, under a short sale the lender might accept \$90,000 as payment in full.

How does a foreclosure or short sale affect the credit score?

Foreclosure will affect your credit score from 200 to 250 points. A short sale will affect your credit score from 150 to 200. You are in trouble anyway. The waiting period to get a loan for a person who has short sale record is somewhere between 2 to 3 years. For people with a foreclosure record, the waiting period will add another year or two.

When is it important to read over the terms of a real estate document?

You should have an attorney looking over the self-created forms. The biggest blunder is not having all of the inspections before you close the deal. The standard contract allows contingent on the buyer's approval of physical inspection, buyer checking out on school system, and zoning. That is the homework buyers need to do. Hire physical inspector to check on the property. If inspector red flags an issue, you should have it check out by licensed repairmen before you close the deal.

Supplemental Interviews

Dionne Faulk, Managing Deputy Commissioner
California Department of Real Estate

What is the purpose of the California Department of Real Estate?

To safeguard and to promote the public interest in all real estate matters. We protect consumers and safeguard all their real estate interest, issue licenses for real estate corporations, real estate brokers, real estate agents. We also investigate real estate frauds. We also very dynamic financial literacy outreach program. We implement the program a couple years ago and you can find it available at all California community colleges. The name of the program is “Financial Sense to White Picket Fence”. It educates the college students on financial literacy matters. We also are currently implementing a financial literacy program in all of the high schools. The goal is to educate high school students on financial literacy matter before they graduate.

You can check out of all the information on DRE’s website.

<http://www.dre.ca.gov/>

Jeff Davi, Former Commissioner
California Department of Real Estate

What is your best advice for a first time homebuyer?

- Find a real estate agent who is licensed by state of California and with whom you enjoy working.
- Get pre-approved for you loan.
- Buy a property that meets your budget.
- Learn the market in which you are buying.
- Rely on your real estate agent and use their expertise to make informed decisions.

**Steve Ellis, Assistant Commissioner
California Department of Real Estate**

What are the first steps someone should take when they decide they want to purchase a home?

Get pre-qualified! Prequalified means a loan officer has determined a borrower is credit worthy and financially able to qualify for a certain loan.

**Bill Moran, Assistant Commissioner, Enforcement
California Department of Real Estate**

What sorts of resources are available to consumers who want to know they're dealing with reputable people during the home buying process?

- Check Department of Real Estate website (<http://www.dre.ca.gov>).
- Check local Better Business Bureau.
- Check internet service providers such as Yelp, Angies list.
- Check internet search engines.

**Tom Poole, Assistant Commissioner
California Department of Real Estate**

What sort of loan terms should someone look for before signing on the dotted line?

Before signing for it, you should do due diligence and do your homework. Break down the loan in terms of terms and conditions & costs and expenses.

The areas you should look at for loan terms are:

- The interest rate that is been charged
- Fixed or adjustable rate mortgage
- The term of the loan, 15, 30 years or hybrid
- Is there a prepayment penalty associated with the loan?
- Is the loan fully amortized?
- What is your monthly payment?

The areas you should look at for costs and expenses are:

- Appraisal fee
- Escrow fee
- Title insurance
- Processing fee
- Points

How can a potential homebuyer protect themselves during the loan process?

You should do due diligence and do your homework.

- Pull you credit record. If there is a mistake, correct it.
- Apply for loans.
- Compare different loan offers.

What sorts of resources are available to assist someone in protecting themselves?

- The brochure “Using the services of a mortgage broker” provided by DRE (http://www.dre.ca.gov/pdf_docs/re35a.pdf).
- DRE California Real Estate and Financial Services License Information. http://www.dre.ca.gov/gen_lic_info.html
- National Mortgage Licensing System (NMLS) <http://www.nmlsconsumeraccess.org/>
- HUD (Housing and Urban Development) <http://portal.hud.gov/hudportal/HUD>
- Fannie Mae <http://www.fanniemae.com/portal/index.html>

Wayne Bell, Chief Counsel
California Department of Real Estate

What questions should someone use in interviewing a real estate professional?

- How long have you been in the residential real estate business?
- Are you experienced in the neighborhood/neighborhoods that I am interested in purchasing the home?
- Do you have any expertise?
- Do you have any professional affiliations? Are you a member of a Board of Realtors, a member of a local board?
- How many homes have you sold or assisted in purchasing in the area that I am interested in buying?
- What are you going to do to help me locate a home? Open house? Internet?
- How much time are you going to spend with me each week?
- How are you going to help me to determine the value of the home?
- When the offer is ready to be made, are you going to help me put together an offer? How are you going to align the offer with the true value of the home?
- Do you have a list of satisfied customers, a list of personal references? Get phone numbers and call them. Make sure what you are told is true.

Chris Neri, Assistant Commissioner
California Department of Real Estate

What are the most common mistakes people make when they go to buy a home?

- Not hiring real estate professionals
- Not getting pre-qualified, pre-approved
- Overbuying
- Rushing into buying

**Dan Sandri, Chief Auditor,
California Department of Real Estate**

What sorts of things should consumers consider when deciding on a home loan?

- What payment amount does your budget allowed?
- Which fits better? A 30-year or 15-year loan?
- Adjustable rate or fixed rate?
- What are the point & fee charged?
- What is the interest rate?
- Are there special programs available to you?