

SCENARIO: 1998 Real Estate Project

PERSONAL DATA

In June 1998 Mr. Oscar Klient, a bachelor, has just received another rent increase notice, bringing his monthly rent from \$850 to \$1000 per month. He contacts a licensed real estate salesperson working for a broker, Broker Realty, Inc. (BRI) about the possibility of purchasing a home. He states that if he can afford to buy a home, he will not only be building up savings (equity) for his future, but maybe even be able to reduce his income taxes (See Tax Rate Schedules).

Oscar has ASSETS as are shown on his FNMA 1003 Loan Application (Uniform Residential Loan Application—URLA). He has received \$10,000 as a gift from the estate of his grandfather and has \$6,500 in McDonnell Douglas stocks that he received as an inheritance from his grandparents (Grandpa had worked at Douglas for 30 years before retiring).

His EXPENSES are found on his FNMA 1003 Loan Application. He is completing his Bachelor's degree at El Camino State College in Fire Science, but no positions seem to be available on the local fire departments. He is now taking additional courses in management and supervision at the local community college. He has completed 15 years of school. He pays monthly federal income taxes, social security, and California state income taxes. He makes monthly payroll contributions to charity of \$50, savings of \$500, and \$600 into his investment fund.

PURCHASE CONDO DATA

Oscar Klient meets on June 20 with his real estate agent, who arranges a pre-qualification. He starts looking at property with his agent over the 4th of July weekend. The agent finds Oscar a townhouse style condominium at 14717 Burin, Unit #300 in Lawndale, California 90260. The condo is listed for \$82,500 with Cerritos Realty. On July 15, Oscar made an initial offer for \$78,500 with the seller to pay the buyer's 1% loan origination fee. Oscar's initial deposit on the offer to purchase is 1% of the price, payable to escrow. The buyer and the seller finally agreed upon a price of \$80,000 on July 17 with a sixty (60) day escrow with each party paying their own closing costs. The condo has central air heating and cooling. The landscaping is excellent with a private downstairs patio area, and the interior is in good condition. Condo dues are \$125 per month and include the water, trash, sewer, gardener and pool service and a blanket building hazard insurance policy. Other units in the same condo complex of the same size are paying about \$200 per month for utilities, according to the FHA chart for area utility expenses. He puts cash into escrow to cover the down payment and his closing costs.

His HUD/RESPA costs include the FHA loan origination fee of 1 point.

The monthly loan payment is rounded up to the nearest \$10 and the loan amount is rounded down to the next \$50. The FHA housing expense to income ratio is 29% and 41%. The new lender's file number is #001-98 at South Bay Mortgage Co.

Escrow is opened on July 18 with City Escrow Co. escrow No. 071885DT. The appraisal, credit and employment bank verifications are all ordered on July 20, the preliminary title and beneficiary demands are ordered on July 25. The loan is funded on September 13. Escrow closes on September 15, 1985 and the title company Order No. is 336908-7. The loan payment will be due on the first day of the month and FHA requires an impound account. The buyer has obtained contents insurance for \$300 per year.