

CREATIVE FINANCING--EXERCISE A

Show all work. Attach additional work sheet, if necessary.

PTS.

1. Larry and Julie find a home in a new subdivision that's priced at \$162,000. A lender quotes them an interest rate of 12% for a 30 year \$130,000 loan. But since the market is sluggish, the builder offers the couple a 1% permanent buydown from that interest rate. Approximately how much will the builder have to pay for that 1% buydown?
- \$ _____ (1)
2. Now assume that Larry and Julie's builder is willing to offer them a three-year temporary level buydown of 2%. On the 12% loan, the couples monthly payment without any buydown period would be about \$1,338. Their payments during the three-year buydown period would be as if they had a 10% loan: \$1,141 per month. How much will this temporary level 2% buydown cost the builder?
- \$ _____ (1)
3. Suppose Larry and Julie are the kind of people who like to stay put. They plan to stay in their house for 40 years. With a permanent 1% buydown, their monthly payments would be \$1,238. With a three-year 2% buydown, their monthly payments would be \$1,141 during the first three years, then \$1,338 thereafter. Which would they choose, a permanent buydown at 1% **or** the temporary 2% buydown?(Circle One) (1)
Approximately how much money would they save? \$ _____ (1)
4. As you've seen, if Larry and Julie got their \$130,000 loan at 12%, their monthly payments would be \$1,338. A permanent 1% buydown (making the effective interest rate 11%), would lower their monthly payments to \$1,238.
- If Larry and Julie simply borrowed less money, their monthly payments would be just about the same amount lower. If the borrowed \$120,000 (instead of \$130,000_ at 12% interest--without a buydown--their monthly payments would be \$1,234.
- Larry and Julie would only need to borrow \$120,000 if the builder were willing to reduce the price of the home from \$162,500 to \$150,000. (Their loan to value ration would still be 80%.)
- Which of these alternatives makes more sense from the builder's point of view, the permanent 1% buydown **or** the price reduction? How much is the savings for the builder? (Circle One) (1)
\$ _____ (1)

5. Assume that Larry and Julie were interested in a more expensive home in the subdivision. They were going to have to borrow \$150,000 for that home at 12%. The builder offered them a three-year graduated temporary buydown of 3% the first year, 2% the second year, and 1% the last year of the buydown.

The monthly payments at 12% would be \$1,543. Payments at 9% (in the first year) would be \$1,207. In the second year (10%), they'd be \$1,316. And in the third year (11%), they would be \$1,428. What would be the total cost to the builder of the temporary graduated payment buydowns? Complete the chart below:

Their savings:

1st year at 9% is \$_____ monthly and \$_____ for the year;

2nd year at 10% is \$_____ monthly and \$_____ for the year;

3rd year at 11% is \$_____ monthly and \$_____ for the year

\$_____ (7)

For the 3 years

6. If Larry and Julie buy the house that costs \$162,000, they'll have to finance \$130,000. What is the maximum buydown that they will be allowed by their lender?

\$_____ (1)

CREATIVE FINANCING--EXERCISE B

Show all work. Attach additional work sheet, if necessary.

PTS.

1. What disadvantages does a seller financing plan have for the seller?

_____ (4)

2. What does the real estate agent need to be sure to do when parties are considering seller financing?

_____ (1)

3. Suppose Larry and Julie decide to purchase an older home. It's selling for \$140,000. They have good credit and \$20,000 for a downpayment, and the seller has an FHA loan with a balance of \$80,000. Larry and Julie will be able to assume that loan upon payment of a small assumption fee.

Larry and Julie don't want the delays and expenses associated with institutional financing. The seller doesn't want to have to pay taxes on a big gain right now. But he'll be retiring in four years, so he will want the cash then.

How could the rest of the price be financed by the seller?

_____ (1)

4. Suppose the couple is in the early years of running their own business. Their income is quite a bit lower right now than they expect it will be in four years when the balloon payment on the seller second will come due. What option can they suggest to the seller to lower their payments on the second mortgage for the next four years?

_____ (1)

CREATIVE FINANCING--EXERCISE C

Show all work. Attach additional work sheet, if necessary.

PTS.

1. What is the primary difference between a land contract and a mortgage?

(1)

2. How is a wraparound different from an assumption and takeback of a second mortgage?

(1)

3. A beautifully maintained older home is selling for \$180,000. The buyer has \$20,000 for a downpayment. The seller has an underlying mortgage balance of \$60,000 at 8% interest. The monthly payments on the seller's mortgage are \$550 including taxes and insurance.

After the buyer gives the seller the \$20,000 downpayment, the seller takes back a 30-year mortgage for the \$160,000 balance at 11%. The monthly payments to the seller for that loan will be \$1,524 plus \$150 for taxes and hazard insurance, or \$1,674.

What is the monthly profit for the seller? \$ _____ (1)

Yearly profit? \$ _____ (1)

How much credit is he extending to the buyer? \$ _____ (1)

And what annual percentage return does this arrangement represent for the seller?

_____. ____%

4. Suppose a house is listed for sale for \$135,000. The market is very slow, and, although the market is expected to begin moving upward, winter is coming. The seller has had the house on the market for eight months, and is anxious to retire to Arizona. When a buyer comes along who is having trouble coming up with a 10% downpayment, the seller offers a one-year lease/option.

The buyer pays the seller \$1,500 for the option to purchase the house for \$135,000. She also agrees to rent the house for one year, paying \$950 a month.

After paying the seller for the option, the buyer has \$6,500 left in her savings account. In a year, she'll need \$13,500 for the downpayment, plus \$4,000 for closing costs--a total of \$17,500.

The lease/option agreement specifies that \$425 of each monthly rent payment will be applied to the downpayment. The \$1,500 option money will not be applied to the downpayment, however.

Name _____

How much will the buyer have to save during the year in order to purchase the house at the end of the lease/option?

\$ _____ (1)

