



All This And A White Picket Fence

Serena and Larry met each other at college and got married after graduation. Larry is a freelance artist. Serena is working as a computer programmer for a company and earns \$50,000 a year after taxes. Larry's income ranges between \$30,000 and \$60,000 after taxes. Serena works in Nashua, NH and Larry works from home and occasionally travels throughout New England. They have \$20,000 in savings. They feel that their job situation is permanent and they are likely to stay in the Nashua area for many years to come.

They are currently renting a two bedroom apartment in Nashua. The monthly rent for the apartment is \$1200 and the rent includes heating cost and parking fees. They have to pay for the electricity, water, and other utility expenses. Serena is curious to find out if they should continue living in this apartment or if they should buy a house. When she mentioned this idea to Larry, they decided to explore the possibility. Larry suspects it is too early to make such a move, and would rather wait until their car loan is paid off. Serena thinks the housing market is heating up and thinks that waiting two years will cost them at least \$20,000 as the housing prices rise.

Can you help Serena and Larry to make an informed decision regarding whether they should continue to rent or buy a house? You will need the information covered in this module, as well as various online calculators or spreadsheets to help you understand their options. This module, as well as the modules on car purchase and investing, includes spreadsheets that may prove useful.

1. Based on their estimated incomes, what would be a reasonable price range of houses for them to consider? In addition to a credit card balance of \$2000, the couple also has a car loan of about \$400 per month and student loans totaling about \$500 per month. What will a mortgage lender allow them for a monthly mortgage payment?

2. How much cash will they have to have on hand? List all the expenses related to buying a house.

Some things to consider are:

- i. Down payment
- ii. Private Mortgage Insurance (PMI)
- iii. Closing Costs- talk to a real estate agent
- iv. Home inspection
- v. Real estate agent fees

Which of these expenses will the couple need to cover, and approximately how much will they cost?

3. Look at the multiple listings for the Nashua area. Compare houses in the price range for the couple and choose three for them to consider. What are the pros and cons of each

of these choices? Which is the best one? Justify your choice. Use this one in order to do the estimates below.

4. What is the current interest rate on a 15-year fixed-rate mortgage for the house you chose? (Compare three different choices: a local bank, a national bank, and a mortgage company.) Calculate the monthly payment for the best 15-year fixed-rate mortgage that you found above.
5. How much interest will they end up paying if they choose a 15 year mortgage with a
 - i. 20% down payment
 - ii. 10% down payment
6. Suppose that the house appreciates at 4% per year. What will be the value of the house after 15 years? How much money will accumulate if they continue to rent for \$1200 and invest the rest of their estimated monthly mortgage amount with an average return rate of 4% for 15 years. What if their investment earns 6%, which is more likely? Note that the rent prices will increase over the years, approximately in proportion to the cost of living.
7. Reconsider the questions above if they chose a 30 year fixed-rate mortgage.
8. What should they budget for heating costs, which are currently covered by their rent?

Based on your understanding of these issues and any other relevant considerations, what is Serena and Larry's best strategy at this point, and why? Can they afford the house you chose for them? Would they be better off waiting? Present several options with the relevant calculations to help the couple make an informed decision.