



# Home Ownership

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# Important Notice

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This report is intended to serve as a basis for further discussion with your other professional advisors. Although great effort has been taken to provide accurate numbers and explanations, the information in this report should not be relied upon for preparing tax returns or making investment decisions.

Assumed rates of return are not in any way to be taken as guaranteed projections of actual returns from any recommended investment opportunity. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney.

Investment Products are not a deposit, not FDIC insured, not insured by any federal government agency, carry no bank guarantee, and may go down in value.

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# Buying a Home

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Owning a home has long been a part of the American dream, one that many Americans have already achieved. According to recent statistics from the U. S. Census Bureau, 65.6% of all households in the United States live in owner-occupied housing.<sup>1</sup>

Although the process of buying a home is often complex and confusing, it can be simplified by dividing it into several parts:

## Renting vs. Home Ownership

There are advantages and disadvantages to both renting and buying a home:

	Advantages	Disadvantages
<b>Renting</b>	<p><b>Mobility:</b> Renter can move without worrying about selling the home or the home's market value at time of sale.</p> <p><b>Initial cost:</b> No need for large down payment.</p> <p><b>Monthly cost:</b> Monthly rent usually less than mortgage payment; in some areas rents are controlled; other opportunities may provide greater investment return.</p> <p><b>Maintenance:</b> Few or no maintenance responsibilities.</p>	<p><b>Monthly cost:</b> Rents can increase over time.</p> <p><b>Equity:</b> Renter builds no equity in home.</p> <p><b>Space:</b> Often less floor space.</p> <p><b>Personalization:</b> Less freedom to decorate the home.</p> <p><b>Taxes:</b> No deduction for rent payments.<sup>2</sup></p>
<b>Buying</b>	<p><b>Monthly cost:</b> With a fixed rate mortgage, monthly payments remain level; with a variable rate mortgage, monthly payments can fluctuate.</p> <p><b>Equity:</b> Homeowner can build substantial equity over time.</p> <p><b>Space:</b> Typically larger floor space than with a rented home.</p> <p><b>Personalization:</b> Can usually decorate to make home reflect owner's tastes.</p> <p><b>Taxes:</b> Interest and property taxes may be deductible.<sup>2</sup></p>	<p><b>Mobility:</b> Ownership limits ability to move; homeowner must be concerned with selling the home as well as the home's market value at time of sale.</p> <p><b>Initial cost:</b> Substantial cash usually needed for down payment and closing costs.</p> <p><b>Monthly cost:</b> Monthly mortgage payment typically higher than monthly rent; other opportunities may provide greater investment return.</p> <p><b>Maintenance:</b> Homeowner is usually responsible for all maintenance and repairs.</p>

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<sup>1</sup> Source: United States Census Bureau press release, "Quarterly Residential Vacancies and Homeownership, Third Quarter 2024." October 29, 2024.

<sup>2</sup> Based on federal income tax law; state or local income tax law may vary.

## Financing a Home

- **Qualifying for a mortgage:** Most homebuyers purchase their home by taking out a loan known as a “mortgage.” Although the actual standards will vary from one lender to another, the following factors are frequently considered in evaluating a mortgage application:
  - **Credit score:** What is the prospective borrower’s credit score? It’s a numerical value measuring how well (or how poorly) a loan applicant has dealt with debt in the past.
  - **Down payment:** How much of a down payment is the prospective borrower able to make? 10%? 20%? 30%? None?
  - **Loan purpose:** Is the home being purchased as an investment or as a place where the borrower will actually live?
- **How big a monthly payment?** In considering a loan application, a lender may also apply certain financial “tests.” One such test limits the monthly housing payment, plus the monthly payments for any other debt, to no more than 36% of a consumer’s gross monthly income. For example, if a consumer has gross monthly income of \$4,000, the monthly housing payment plus any other debt repayment should not exceed \$1,440 ( $\$4,000 \times .36$ ).

Given a specified monthly payment limit, the next step is to determine what size mortgage that monthly payment will allow. The answer to this depends on the number of years to repay the loan and the annual interest rate. The table below illustrates the approximate total monthly payments<sup>1</sup> under varying term and interest rate assumptions.

Loan Amount	4.5 % Annual Interest Monthly Payment		5.5 % Annual Interest Monthly Payment		6.5 % Annual Interest Monthly Payment	
	15 Years	30 Years	15 Years	30 Years	15 Years	30 Years
\$100,000	\$877.49	\$619.19	\$929.58	\$680.29	\$983.61	\$744.57
\$200,000	\$1,754.99	\$1,238.37	\$1,859.17	\$1,360.58	\$1,967.21	\$1,489.14
\$300,000	\$2,632.48	\$1,857.56	\$2,788.75	\$2,040.87	\$2,950.82	\$2,233.70
\$400,000	\$3,509.97	\$2,476.74	\$3,718.33	\$2,721.16	\$3,934.43	\$2,978.27
\$500,000	\$4,387.47	\$3,095.93	\$4,647.92	\$3,401.45	\$4,918.04	\$3,722.84

<sup>1</sup> Payment includes principal, interest, and estimated taxes and insurance. Property taxes and insurance are estimated at 1.35% of the loan amount.

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## Buying a Home

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- **Down payment and closing costs:** Lenders frequently require a homebuyer to pay a certain portion of the home price in cash. Depending on the lender, this down payment usually ranges from 5% to 20% of the purchase price. With down payments of less than 20%, the lender may require the borrower to apply for private mortgage insurance, which protects the lender in case the buyer defaults. Under some government programs, a buyer may be allowed to purchase a home with no down payment. A buyer will also be required to pay certain “closing costs”, fees and charges associated with processing the sale. Closing costs can be 3% to 6% of the purchase price.
- **Tax deductibility of interest and property taxes:** A homebuyer will also want to consider the “after-tax” cost of home ownership. Taxpayers who meet certain requirements may be able to deduct mortgage interest and property taxes from taxable income. For example, assuming a taxpayer pays \$10,000 in deductible mortgage interest and property taxes during a year, and is in a 24% marginal tax bracket, the after-tax cost of these expenses is \$7,600 ( $\$10,000 \times .24 = \$2,400$ ;  $\$10,000 - \$2,400 = \$7,600$ ).<sup>1</sup>

## Finding a Home

What type of home? There are three basic forms of home ownership:

	Property Owned	Sell or Rent	Maintenance	Owner Payments	Other Issues
<b>Single-Family Home</b>	The structure and the land	Owner can decide to rent or sell home.	Owner responsible for all repairs and maintenance.	Mortgage, insurance, and real estate taxes. Loan secured by home.	Greater freedom to personalize the home. Generally more responsibility.

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<sup>1</sup> Under the Tax Cuts and Jobs Act of 2017 (TCJA), for 2018 – 2025, a taxpayer’s deduction for property and state and local income or sales taxes, is limited to \$10,000 per year (\$5,000 MFS). Further, a deduction is allowed only for interest paid on “acquisition debt” (debt used to acquire or substantially improve a home), on a first and second home, of up to \$750,000 (\$375,000 MFS). TCJA also significantly expanded the standard deduction amounts available to individuals. Many taxpayers will find it more advantageous to use the expanded standard deduction, rather than claiming an itemized deduction for mortgage interest and property taxes.

## Buying a Home

	Property Owned	Sell or Rent	Maintenance	Owner Payments	Other Issues
<b>Condo</b>	Individual living space. Homeowner's association owns building, land and common areas.	Owner can decide to sell. Restrictions on renting will vary.	Homeowner's association pays for most building maintenance and repair.	Mortgage, insurance, and taxes on individual unit; monthly fee to homeowner's association; mortgage secured by individual unit	Can be more restrictive with regard to issues such as children, pets, outside decoration. Fewer maintenance concerns. May have extra amenities such as swimming pools and tennis courts. Owners may be responsible for additional expenses or charges.
<b>Co-op</b>	Shares in a corporation which owns building. Individual lease with corporation grants exclusive right to use apartment.	Owner can decide to sell. New buyer subject to approval by co-op board. May have restrictions on renting.	Co-op pays for most building maintenance and repair.	Monthly payments to co-op cover insurance, taxes, mortgage on building and operating costs. Loan payments to repay purchase of shares in co-op. Loan secured by shares in co-op.	Can be more restrictive on issues such as children and pets. Fewer maintenance concerns. May have extra amenities (pools, tennis courts, etc.). Owners may be responsible for additional expenses or charges.

### Other Factors to Consider

- **Neighborhood:** Real estate agents will often refer to this as “location.” In general, the relative attractiveness of an area will usually be reflected in the level of prices in the neighborhood. Personal issues such as good schools, easy access to public transportation, or proximity to features such as shopping, recreation, or work, are important factors in determining what is a “good” location.
- **Home features and characteristics:** Specific home features such as a minimum square footage, number of bedrooms or bathrooms, or a swimming pool. Many shoppers will list the most attractive features in priority order, in case an offered home lacks some of the desirable features. Keeping in mind that the home will one day be sold, many individuals look for features that are attractive and useful both to themselves and to others.

### Searching for a Home

- **Real estate agents:** Real estate agents can be quite helpful in locating a home, particularly those who have access to a computerized multiple listings service. A good agent will have extensive real estate experience, as well as detailed knowledge of a specific area or neighborhood.
- **New home developments:** New homes tend to be more expensive than existing homes. New homes also tend to have fewer problems, and often have builder warranties.
- **Classified ads:** Classified ads in newspapers (both in print and online) can be useful sources of information. Such ads can provide a sense of general price levels. They can also provide leads to homes which are being sold directly by their owners, and not through an agent.

# Types of Mortgages

Type	Description	Comments
<b>Fixed-rate mortgage</b>	Fixed interest rate. Borrower makes equal monthly payments of principal and interest until debt is fully paid. Loans can range from 10 - 40 years.	Offers payment stability. Interest rates may be higher than other types of financing. New fixed-rate loans are rarely assumable by later owners.
<b>Home equity loan</b>	A mortgage loan secured by the owner's "equity" (market value of home, less any existing mortgage debt) in the home. The loan may be a lump-sum amount or a line of credit (HELOC). Typically have a shorter term, five to 15 years.	Interest rates are frequently lower than those for traditional second mortgages, and can be either fixed or variable. Many home equity loans are interest-only, with a balloon payment due at the end of the loan term. Bank can freeze the loan.
<b>Adjustable-rate mortgage (ARM)</b>	Interest rate can vary over the life of the loan, resulting in changes in the monthly payments, loan term, and/or principal balance due. Interest rate is based on an "index," such as the prime rate, with interest rate adjustments being made at specified time intervals.	Starting interest rate is typically slightly below market (a "teaser" rate), but payments can increase sharply if index increases. Some loans have interest rate caps that prevent wide fluctuations in payments, but may result in negative amortization.
<b>Renegotiable rate mortgage (rollover)</b>	Interest rate and monthly payments are constant for several years; possible change thereafter. Long-term mortgage.	Less frequent changes in interest rate offer some payment stability.
<b>Balloon mortgage</b>	Monthly payments based on fixed interest rate; usually short-term; payments may cover interest only with principal due in full at term end.	Offers low monthly payments but possibly no equity until loan is fully paid. When due, loan must be paid off or refinanced. Refinancing poses high risk if rates climb.
<b>Graduated payment mortgage</b>	Monthly payments start low and rise gradually (usually over five to 10 years), then level off for duration of loan term. If the loan has an adjustable interest rate, additional payment changes are possible if the underlying index changes.	Generally easier to qualify for. Buyer's income must be able to keep pace with scheduled payment increases. With an adjustable rate mortgage, payment increases beyond the scheduled graduated payments may result in negative amortization.
<b>Shared appreciation mortgage</b>	Below-market interest rate and lower monthly payments, in exchange for a share of profits when property is sold or on a specified date. Many variations.	If home appreciates greatly, total cost of loan jumps. If home fails to appreciate, projected increase in value may still be due, requiring refinancing at possibly higher rates.

## Types of Mortgages

Type	Description	Comments
<b>Assumable mortgage</b>	Buyer takes over seller's original, below-market rate mortgage.	Lowers monthly payments. May be prohibited if "due on sale" clause is in original mortgage. Not permitted on most new fixed-rate mortgages.
<b>Seller take-back</b>	Seller provides all or part of financing with a first or second mortgage.	May offer a below-market interest rate; may have a balloon payment requiring full payment in a few years or refinancing at market rates, which could sharply increase debt.
<b>Wraparound</b>	Seller keeps original low rate mortgage. Buyer makes payments to seller, who forwards a portion to the lender holding original mortgage. Offers lower effective interest rate on total transaction.	Lender may call in old mortgage and require higher rate. If buyer defaults, seller must take legal action to collect debt.
<b>Growing-equity mortgage (rapid payoff mortgage)</b>	Fixed interest rate but monthly payments may vary according to agreed-upon schedule or index.	Permits rapid payoff of debt because payment increases reduce principal. Buyer's income must be able to keep up with payment increases.
<b>Land contract</b>	Seller retains original mortgage. No transfer of title until loan is fully paid. Equal monthly payments based on below-market interest rate with unpaid principal due at loan end.	May offer no equity until loan is fully paid. Buyer has few protections if conflict arises during loan.
<b>Buy-down</b>	Developer (or another party) provides an interest subsidy which lowers monthly payments during the first few years of the loan. May have a fixed or adjustable interest rate.	Offers a break from higher payments during early years. Enables buyer with lower income to qualify. With adjustable rate mortgage, payments may jump substantially at end of subsidy. Developer may increase selling price to recover loan costs.
<b>Rent with option</b>	Renter pays "option fee" for right to purchase property at specified time and agreed upon price. Rent may or may not be applied to sales price.	Enables renter to buy time to obtain down payment and decide whether to purchase. Locks in price during inflationary times. Failure to take option means loss of option fee and rental payments.

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## Types of Mortgages

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Type	Description	Comments
<b>Reverse mortgage</b>	Loan can be a lump-sum or monthly payments to borrower using property as collateral. Generally, borrower must be at least age 62 and live in the home.	No payments are required as long as borrower lives in the home. The outstanding loan balance is due when the last borrower sells the home, permanently leaves, or dies. Borrower can never owe more than the value of the home at the time loan is repaid.
<b>Interest-only mortgage</b>	Borrower pays only the interest due (no repayment of principal) either for an introductory period or for the life of the loan. At the end of the loan term, the loan must either be refinanced or completely paid off.	Interest-only payments generally allow the homeowner to qualify for a larger loan amount. With little or no equity, a homeowner with an interest-only loan faces higher risk if real estate values decline.
<b>Reverse mortgage line of credit (HECM)</b>	Line of credit grows in borrowing power as homeowner ages. No monthly payments are due but voluntary payments result in revolving line of credit.	Bank cannot cancel, freeze, or reduce. Loan is non-recourse meaning neither the borrower nor their heirs can ever be responsible for more than what the home brings at sale.

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# The Bi-Weekly Mortgage

By paying one-half of the typical monthly mortgage payment every two weeks rather than one full payment every month, a 30-year mortgage can be paid off in approximately 20 years. The 26 bi-weekly payments are the same as 13 monthly payments during the year; in other words, one “extra monthly payment.”

This extra monthly payment, along with the more frequent application of the payments against the loan balance, greatly speeds up the payoff of the loan. Also, since the “extra monthly payment” is spread evenly throughout the year, it generally does not adversely affect the family budget.

Payments on the bi-weekly mortgage are generally made by automatic withdrawal from the homeowner’s checking account every two weeks.

## Payments on Various Size Loans and Total Interest Saved<sup>1</sup>

Interest Rate / Term in Months <sup>2</sup>	\$100,000		\$150,000		\$200,000	
	Bi-Weekly Payment Amount	Total Interest Savings	Bi-Weekly Payment Amount	Total Interest Savings	Bi-Weekly Payment Amount	Total Interest Savings
4.5% / 308	\$253	\$14,019	\$380	\$21,028	\$507	\$28,037
5.0% / 303	\$268	\$17,164	\$403	\$25,750	\$537	\$34,328
5.5% / 299	\$284	\$20,755	\$426	\$31,128	\$568	\$41,503
6.0% / 294	\$300	\$24,808	\$450	\$37,221	\$600	\$49,624
6.5% / 290	\$316	\$29,369	\$474	\$44,061	\$632	\$58,746
7.0% / 285	\$333	\$34,464	\$499	\$51,700	\$665	\$68,927
7.5% / 280	\$350	\$40,096	\$524	\$60,149	\$699	\$80,203
8.0% / 274	\$367	\$46,301	\$550	\$69,452	\$734	\$92,602
8.5% / 269	\$384	\$53,079	\$577	\$79,600	\$769	\$106,144

<sup>1</sup> The interest savings shown illustrate the difference between the interest paid on a 30-year fixed-rate mortgage making monthly payments vs. bi-weekly payments. All figures are approximate.

<sup>2</sup> The number of months required to fully pay off the loan on a bi-weekly payment schedule.

## The Bi-Weekly Mortgage

### Payments on Various Size Loans and Total Interest Saved<sup>1</sup>

Interest Rate / Term in Months <sup>2</sup>	\$250,000		\$300,000		\$350,000	
	Bi-Weekly Payment Amount	Total Interest Savings	Bi-Weekly Payment Amount	Total Interest Savings	Bi-Weekly Payment Amount	Total Interest Savings
4.5% / 308	\$633	\$35,045	\$760	\$42,050	\$887	\$49,058
5.0% / 303	\$671	\$42,907	\$805	\$51,492	\$939	\$60,073
5.5% / 299	\$710	\$51,883	\$852	\$62,259	\$994	\$72,632
6.0% / 294	\$749	\$62,029	\$899	\$74,440	\$1,049	\$86,837
6.5% / 290	\$790	\$73,431	\$948	\$88,123	\$1,106	\$102,808
7.0% / 285	\$832	\$86,155	\$998	\$103,391	\$1,164	\$120,619
7.5% / 280	\$874	\$100,246	\$1,049	\$120,299	\$1,224	\$140,352
8.0% / 274	\$917	\$115,753	\$1,101	\$138,904	\$1,284	\$162,042
8.5% / 269	\$961	\$132,679	\$1,153	\$159,210	\$1,346	\$185,743

<sup>1</sup> The interest savings shown illustrate the difference between the interest paid on a 30-year fixed-rate mortgage making monthly payments vs. bi-weekly payments. All figures are approximate.

<sup>2</sup> The number of months required to fully pay off the loan on a bi-weekly payment schedule.

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# When to Refinance Your Home

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There are a number of situations in which refinancing a home mortgage makes sense. For example, you may have purchased a home years ago when interest rates were much higher and now want to take advantage of a decline in mortgage rates. In addition, a homeowner with a volatile variable rate mortgage may want to switch to more predictable fixed-rate loan. You may even want to shorten the term of your loan.

## Is Refinancing Worth the Trouble?

Refinancing can be very beneficial, but it is not always the smart thing to do; the costs associated with refinancing must be balanced against any potential savings.

Generally, refinancing a fixed-mortgage makes sense when the interest rate on the current mortgage is at least 2 percentage points higher than the prevailing market rate. In some instances, however, following this “rule” may cost the homeowner a lot of money as a very small percentage point spread may justify refinancing if other factors are present.

## Other Factors Which Must Be Considered

There are a number of factors which must be considered in this “cost vs. benefits” calculation, including:

- **Closing costs:** Possible pre-payment penalties on the old loan, points and fees on the new loan, and attorney fees generally will total 3% to 4% of the loan amount and must generally be paid when the new loan closes. The borrower must consider the loss of earning power of these funds in future income projections.
- **Projected length of ownership:** The closing costs can be spread over the period of the loan; therefore, the longer the projected period of ownership, the smaller the spread between the old and new mortgages can be.
- **Loans in excess of certain limits<sup>1</sup> – Tax Cuts and Jobs Act of 2017 (TCJA):** For 2018 – 2025, mortgage interest on “acquisition” debt on a first and second residence, on total loan amounts of up to \$750,000 (\$375,000 MFS) is generally deductible; interest on debt in excess of these limits is not deductible. Acquisition debt refers to debt incurred to buy, construct, or substantially improve a qualified residence, and which is secured by a qualified home. This dollar limitation applies to debt incurred *after* December 15, 2017.

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<sup>1</sup> The discussion here concerns federal income tax law; state or local law may vary.

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## When to Refinance Your Home

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- **Loans in excess of certain limits – before 2018 and after 2025:** Prior to the TCJA, a taxpayer could generally deduct the interest paid on total acquisition debt on two homes of up to \$1,000,000 (\$500,000 MFS). Additionally, interest on up to \$100,000 (\$50,000 MFS) of “home equity” debt could also be deducted. Home equity debt is debt which does not qualify as acquisition debt, but which is secured by a qualified home. Under the TCJA, deductibility of interest on up to \$1,000,000 of acquisition debt and up to \$100,000 of home equity debt is scheduled to return for 2026 and later years.

### The New Mortgage - Variable Rate vs. Fixed Rate

VARIABLE RATE	FIXED RATE
<ul style="list-style-type: none"><li>• Initially lower interest rate than with a fixed rate loan, but will increase if interest rates go up or decrease if interest rates go down.</li><li>• Most variable rate mortgages have a limit or a cap on annual rate increases and on lifetime increases.<sup>1</sup></li><li>• Usually preferred for short-term ownership of home; e.g., 2 - 3 yrs.</li></ul>	<ul style="list-style-type: none"><li>• Rate does not change if interest rates go up or down.</li><li>• Best for owners with a fixed income or those who plan to stay in their home for several years.</li><li>• Rates and monthly payments are higher than with a variable loan, at least in the early years.</li><li>• Fixed rate loans may not be assumable.</li></ul>

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<sup>1</sup> Be certain that an annual cap is part of the loan, and carefully examine the index to which the rate is tied.

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## When to Refinance Your Home

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### How Many Months Will It Take to Break Even?

The real cost of refinancing is the closing costs. Determine how many months it will take to make up these costs from the savings under the new loan.

$$\frac{\$}{\text{Old Payment}} - \frac{\$}{\text{New Lower Payment}} = \frac{\$}{\text{Monthly Savings}}$$

$$\frac{\$}{\text{Closing Costs}} \div \frac{\$}{\text{Monthly Savings}} = \frac{\text{Number of Months to Break Even}}{\text{to Break Even}}$$

Refinancing an old home loan could mean lower monthly payments and perhaps changing from a variable rate mortgage to a fixed rate mortgage. However, if the projected time in the house is short, the closing costs may consume any potential savings.

As an additional alternative, if one plans to sell in a year or two, a variable rate mortgage with an initially lower rate may be advantageous.