**Task 4 Worksheet**

**Name:**

**BUYING A HOUSE**

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Image: renjith krishnan / FreeDigitalPhotos.net

Here you need to find a house that was the same or very similar to the house that you rent for the BEST overall comparison.

To HELP you get a good idea of what you borrow from a bank, that is reasonable and within your capacity to repay, go to a bank calculator (see the [Resources](http://rentorbuybudget.weebly.com/resources.html) page) and put in your YEARLY INCOME from your desired job. The bank calculator will then generally give you an amount that you can afford to borrow and your repayment figure.

This means that the bank will also loan you the money but with some stipulations, such as 20% of the house amount as a deposit from your savings etc. They will generally loan you 80% of the cost of a house. This could vary to 100% depending on the economic conditions at the time, interest rates etc.

All the above is dependent on the interest rate. The higher the interest rate, the higher the deposit a bank will want you to have and the **lower** the amount that you can borrow as high interest rates will mean higher repayments.

Interest Rate (as percentage pa) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Your combined salary with spouse/partner $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

AMOUNT that you can BORROW. $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

*Picture of house within your loan amount.*

**LOAN DETAILS**

1. Loan amount $ \_\_\_\_\_\_\_\_\_\_\_

2. Interest rate $ \_\_\_\_\_\_\_\_\_\_\_

3. Length of loan in years \_\_\_\_\_ years

4. Loan repayment per MONTH $ \_\_\_\_\_\_\_\_\_\_\_

TOTAL AMOUNT REPAID = loan repayment x 12 x length of loan.

*Example: If I borrowed $400,000 at 7% pa interest with repayments of $2450 per month for 30 years then the total amount I would repay is as follows:*

*TOTAL = $2450* x 12 x 30

 = $ 882,000

While this amount seems an enormous amount to repay the bank, remember that:

1. Compare this with the rental amount for life.

2. You have an asset worth at least $400,000

3. The house is yours forever and no more repayments after 30 years, where with renting you are still paying rent for another 40 years (difference between 30 year loan and living for 70 years.)

**TOTAL** AMOUNT REPAID $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Value** of your house $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Difference** (actually amount paid to own a house) and remember that you have a house worth a lot of money even though you have paid off a huge amount. $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**COMPARE** this with the amount that you would pay to rent all your life. **Comment**:

**BUT** IS IT REALLY THIS SIMPLE??

Are there other costs in owning a house that a renter does not have to worry about? The simple answer is YES there are other costs and we will look at these now so we can get the total picture of house ownership.

**COUNCIL RATES** are something that every house owner has to pay. Firstly discuss or find out:

1. What are council rates?

2. Who collects them?

3. What do they do with the council rates that are paid?

4. Why are they needed?

5. **HOW MUCH are they per annum?**

Council rates x 70 will add another true cost to home ownership.

  **$ \_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**HOUSE INSURANCE** is an insurance that a home owner would usually have to insure against the loss of the house in a bush fire, normal fire, flood, earthquake or anything else that could destroy a house. A speeding car that left the road, violent hail storm, shower flooding and destroying carpet etc would all be covered under a house and contents policy.

House insurance and contents policy are different. Find out the difference.

Find out the cost of a house and contents insurance policy for a house valued at your choice of house.

POLICY x 70 years adds still another cost.

 **$ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**List of Resources Used**