

Name _____ Date _____

Answer the following essay questions. Make sure to support all of your answers and key points with facts, data, and/or examples. Tell me - Show me ... what you have learned from the Dream House Project!

1. When considering a home's square footage, does bigger mean better?

Square footage often means a higher price tag but that doesn't necessarily mean better. Square footage is also usually associated with more bedrooms and bathrooms but again, that is not always the case. To determine whether bigger means better, a potential home buyer needs to consider several factors such as how big is big enough and how big is too big. Ideally you should choose a home that is large enough to be comfortable in and one that accommodates your lifestyle but is not too big to maintain. The bigger the home, the more it will cost to heat and the more time it will take to clean. In addition, more furniture, art and accessories will be needed to fill and decorate it. Finally, the larger the home, the less cozy and warm it tends to feel. In short, a quaint 2 or 3 bedroom cottage may be a much better choice for a single person or small family than a stately mansion.

A home buyer should not look at square footage alone but consider how the square footage is distributed. A home's floor plan is much more important than size. Are there the right number of bedrooms and bathrooms to meet your needs, and if you need to consider future growth in family size, does the home allow for that? Are the rooms that you tend to spend the majority of your time in large enough? How will your furniture fit in the home? These are all important questions one needs to consider. For a married couple with three small children, an 1800 sq. ft. home with 2 additional bedrooms near the Master bedroom is probably a better a choice than a 3000 sq ft. home with just 2 formal Master suites. Likewise, a single person who prefers to be out socializing might also prefer a smaller home – perhaps even a condo or townhouse where paying a monthly home owner's due eliminates the need to keep up a yard and paint every few years. Less square footage usually means less to keep up and more time for other things.

Lot size and slope might also be more important than the home's square footage. Again a family with 3 small children might find a home with less square footage but with a large flat lot with room for a swing set and lawn area for running around on, more appealing than a huge home on a stamp-size lot with a tiny patio for a backyard.

Not only is size a factor but location. Many would consider choosing a smaller home in a location better suited for them than a larger home in a less desirable neighborhood. Local schools, crime rate, commute distance, proximity to family and friends, etc., may be much more important than more square footage.

In conclusion, bigger does not always mean better. Of course, if money isn't an issue and you can afford house keepers and gardeners, interior decorators, a huge gas and electric bill, etc. – then perhaps bigger is better – especially if you are trying to appear successful and live life like the "rich and famous."

2. Is it true that the higher the salary, the more home one can buy?

Making more money doesn't necessarily mean you can afford a more expensive home. More important than the salary you make is what you can qualify for when you apply for a home loan. When you apply for a loan several factors figure in to the amount you qualify for--debt being the most important of all. If your debt-to-income ratio is too high, you may not qualify for a loan no matter how much you make.

For example: If two brothers (with annual salaries of \$280,000 and \$20,000 respectively) just inherited \$250,000 to be used toward a down payment, it is possible that the one who only made \$20,000 a year could afford a more expensive home. Although this doesn't seem to make sense, it is true.

If the brother who made \$280,000 was divorced and had to pay alimony, child support, car payments and credit card debt equal to \$9800/a month he wouldn't qualify for a loan at all. This means he could only afford a home equal to his down payment of \$250,000. His brother, however, who only made \$20,000 a year – if he had no debt, could qualify for a loan of up to \$88,000, allowing him to purchase a home up to \$338,000. So making more doesn't necessarily mean you can buy more when it comes to real estate.

Your credit rating also figures into your home loan, primarily affecting the interest rate you qualify for. If you have high credit scores, you can get a better loan rate because the lending company views you as less risk. Also job security and assets figure into the loan process. If you have had steady employment and have built up savings or other assets, a loan institution is more likely to lend you money--again because you are less risk to them. So, one way or another, it is all about credit as opposed to income.

However, if all things were equal and the two brothers both had no debt and high credit scores, the one that made \$280,000 could obviously afford to buy a higher priced home. With no debt, he would qualify for a loan over \$1.2 million which would allow him to buy a home priced about \$1.5 million.

In conclusion, salary does affect how much home you can afford if your credit is good and your debt-to-income ratio is low. But because credit factors are more important than income when applying for a loan, higher salary doesn't necessarily mean you can afford to buy a higher priced home.

3. Explain the phrase: It's all about...location, location, location

Location, Location, Location simply means that where a home is located has a huge effect on its price value. If you were to take the same house and locate it in a variety of neighborhoods the price could vary by as much as a million dollars. For example: In Los Gatos, California (a trendy neighborhood near Silicon Valley where the cost of living is extremely high) a 37 year old 2 bedroom, 2 bath with carport sells for \$1,200,000.00 while a similar house goes for only \$115,000.00 in Fargo, North Dakota and \$128,000.00 in Colorado Springs, Colorado. If prime location is really important to a buyer they most likely will have to compromise on the size of the home and lot and possibly style, floor plan, and condition of the home in order to have it located in a desirable zip code. However, if they are willing to consider a neighboring city they are likely to buy a lot more home for their dollar. Real estate agents will tell you that it all about location, location, location when a home seems ridiculously over priced. However, in most cases if you do buy in the high priced neighborhood, you usually will make money when you go to sell it.

Homes for sale in very desirable neighborhoods usually have multiple offers resulting in bidding wars and the seller often times makes a huge profit. Thus, a small fixer-upper in a great neighborhood is often a much better investment than a beautiful new estate-like home in a less desirable neighborhood which will often sit on the market for months and months without a single offer and many times end up selling for well under asking price.

4. Explain the phrase: One man's cave is another man's castle

The phrase "One man's cave is another man's castle" simply means that we all have different needs and wants, especially when it comes to our home. To some, simply having four walls and a roof over head might be a dream come true while to someone else nothing less than a 7,000 square foot villa would do!

Many factors lead to a person's home choice: Job location, lifestyle, age, marital status, and dependents are just a few of them. A young single might prefer a 750 sq. ft. condo or loft in a popular urban area as opposed to a single family home in the suburbs. If "To see and be seen," is this person's mantra and night life and hanging out in the hot spots is their way of life, then living in a trendy loft in a big city is likely to be this person's castle.

This same urban loft however is likely to seem more like a cave to a family of six. A spacious 4 bedroom single family home in the suburbs might be closer to their castle.

A bright, warm, cozy traditional English Tudor style cottage might also be another family's castle while a cave to the family looking for a sprawling sleek and contemporary home.

In conclusion, homes come in all different shapes, styles, and sizes. The good news is that with all of this variety a home buyer is likely to find one that fits their needs and wants. However, the real question is... will they be able to afford their castle or just a cave?

5. How can I maximize my purchasing power?

There are a number of things I can do to maximize my purchasing power, such as establish and maintain good credit, keep a low debt to credit ratio on cards each month, develop an employment history that shows stability and consistency, and keep liabilities to a minimum.

I learned that it is crucial to establish credit even if I have enough cash to pay for the things I want to purchase. Without a credit history, it is basically impossible to get a large loan from a lending institution. I also learned that in order to have a high credit score, it is important to not max out your credit cards. Even if I make timely payments each month on my cards and pay more than the minimum required, if my cards are near their maximum limits my debt to credit ratio can cause my credit score to drop. Without a high credit score it is difficult to get a large loan from a lending institution.

Although high credit scores are very important if I wish to maximize my buying power, if I don't have a solid employment history, getting a loan can be difficult. Lending institutions want to know that you are stable, will be receiving regular pay checks and won't be skipping out on them on a whim or defaulting on a loan because you are unemployed.

Finally, keeping liabilities to a minimum is also crucial in order to maximizing my buying potential. If I have alimony, child support, or other court mandated monies deducted from my wages, I am less likely to be able to purchase every thing I would like to. Having liabilities, takes away from what I can afford or save as assets.

Planning for the future by establishing credit early can help me maximize my purchasing power later. Likewise, asking myself important questions before making decisions such as: Will this purchase hurt my credit score by making my debt to credit ration too high?, Should I take the new job since it will be my third employment move in a year?, Will this marriage last or will I be strapped with alimony payments in 2 years?, can save me from pitfalls that may hurt my ability to buy things later and in the long run can maximize my buying potential.

6. How are our lives affected by the choices we make?

Life is full of choices- choices that have the potential to impact our lives in ways we may not, or could not have imagined. Some choices impact us positively, while yet others, produce negative effects that can linger for years or even a life time. Decisions we make when we are young, such as whether or not to go to college or how to manage finances could help or hurt us down the road when we are in the market to purchase a home.

If we have not established good credit, held a steady job, or have too many liabilities we may not be able to get a loan when we are in the market to purchase a home. However, if we have made wise decisions and are financially stable with a high FICO score, assets, and a solid employment history, we are much more likely to be eligible to purchase a property. Likewise, when we do purchase that first home, if we select one well within our means, we are more likely to be able to afford to do other things instead of being tied to our mortgage payment.

It is crucial to consider the potential affects our decisions may have down the road if we are to realize our dreams over the long run. After learning that salary isn't everything and how difficult it can be to actually purchase a home, I have learned that planning for my financial future is essential. Establishing credit is important but I must never over extend myself if I want to have that dream home some day!