Buying a House:

For this exercise, I would like you to do a short exploration into the possibility of purchasing your first home. The purpose of the exercise is to give you a feel for some of the major financial components in a home purchase, thereby helping to enliven course discussions of broader social patterns.

To give you a sense of the income of most Americans, look here: [http://nces.ed.gov/fastfacts/display.asp?id=77](http://nces.ed.gov/fastfacts/display.asp?id=77)

To buy a house, you should presume that you need to have a 20% down payment for the house. You cannot buy a house until you have saved (or have been given) 20% of the purchase price. [In other words, you cannot borrow the down payment.] You will also need a bit more for the cost of the loan application, loan costs, inspection costs, and closing costs; you should plan on another $5,000.

**I will assign each of you an income, a savings rate, and an interest rate for your loan.**

If your birthday is October through December your salary is $130,000; if your birthday is July to September through it is $70,000; if your birthday is April through June it is $45,000, and if your birthday is January through March then it is $25,000.

If your income is over $70,000 then your savings rate will be 10% of your salary for three years. Otherwise, the savings rate is whatever you think is realistic for you given your debts, cost of living, and income. If your birthday is in January through March, then your parents have opened up a “Roth IRA” for you which will give you $10,000 more dollars for your down payment on your first home.
The interest rate will be 5.00%.
If you are fortunate enough to have a birthday in October through December, then you may presume that your parents will be able to loan you three-quarters of the down payment for a home.

You will decide your marital status. (Your spouse, however, may not have an income that is higher than you do). You choose a price range, a house, and a neighborhood. You need to have enough money not only for the mortgage, but for additional bank fees for the loan application ($400), a fee for giving you a loan, a fee to search city records to make sure that there are not any liens again the property (i.e., a title search), and other “closing costs.” You can estimate this as about 6% of the cost of your loan. [By the way, there are differences in loans. If you take a 15 year loan then you mortgage will be higher but you will pay less in interest rates over the course of the loan. The 30 year loan is standard.] Interest rates are “fixed” which means that they stay the same over the course of the loan or “adjustable” which means that they start low and then can go significantly higher.
(You can go to [www.hud.gov](http://www.hud.gov) for more information or also do a search using the word “mortgage” or “home buying” and check one of hundreds of sites on the web. Many of these take you through the steps.)

You may look for houses on line. Please find a sample house in a real neighborhood and price range. It may be anywhere in the country. You should decide on what kind of house you can afford. List the address of the house you would like to buy along with the cost of the house and a brief description of it (i.e., number of bedrooms, bathrooms, and square footage).

If you can’t afford a house, choose the house you would like to buy and simply figure out how old you will be before you can buy it.

Fill out the information below.

Then, I want you to write a paragraph where you tell me the many ways in which the system of home buyership gives *compounding advantages* for those born into wealthy homes. In other words, if you were in the most advantaged group, what advantages did you have at many stages of the process which you didn’t have if you were in another group?

Exercise: Buy a home exercise

Name: _____________________

Spouse? (no/yes: if yes then state the name) __________________________

Your occupation: _________________ Spouse’s occupation: _________________

Salary: _________________ Spouse’s salary _________________

Savings over three years: _________________

Are you able to buy a house? How old will you be when you buy it

________________________________________

Address and Neighborhood: _______________________________________

Type of home (size etc) __________________________

________________________________________

Home purchase price: __________________________

Your down payment amount: __________________________

Source of the down payment? __________________________
Please attach a one-paragraph reflection:
What is the impact of social class origins on home ownership? Highlight the different advantages as well as the areas in which social class did not make a difference. One-half of your points are assigned on this paragraph.