

Housing

- **What do you know about Missouri landlord-tenant law?**
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What do you know about Missouri landlord-tenant law?

Missourians do not always know everything they should about laws to protect the rights of landlords and tenants. Unfortunately, some landlords do know the law and take advantage of renters who do not. Landlord-tenant law is specific to each state. Here is a quick quiz to help you learn about Missouri law.

1. Which of the following actions can get a tenant evicted?

- a. Damage to the property
- b. Failure to pay rent
- c. Violation of the terms of the lease
- d. Allowing drug-related criminal activity on the property
- e. All of the above

The answer is e. All of the above!

2. You return to your apartment one day and find all of your belongings outside and new locks on the door. Your landlord says she had the right to evict you for failing to pay rent.

- a. True
- b. False

The answer is b. False!

Not paying rent can get you evicted, but a landlord must get a court order first. For a legal eviction, you must get a written notice from the landlord that an eviction lawsuit has been filed, and you get a chance to tell the court your side of the story before they issue an order.

3. You ask the landlord to make a repair to your apartment. She doesn't do it, so you can legally quit paying rent.

- a. True
- b. False

The answer is b. False!

Landlords must make needed repairs, but not paying rent can get you evicted. In some cases a tenant may make repairs and deduct the cost from the rent, but only if certain conditions are true. Go to the Missouri attorney general's Web site at ago.mo.gov/Consumer-Protection.htm or call the toll-free consumer protection hot line at 800-392-8222 to find out what your rights are.

4. You pay your rent late, so your landlord decides to turn off your electricity and water until you pay rent. The landlord is legally allowed to turn off utilities to punish late rent payments.

- a. True
- b. False

The answer is b. False!

The landlord cannot get your utilities turned off unless it is for health and safety reasons.

5. You have given your landlord proper notice that you will not renew your lease. You wake up in the middle of the night to find your landlord inspecting the apartment for damages. The landlord tells you he can inspect for damages any time during the last month of the lease.

- a. True
- b. False

The answer is b. False!

The landlord must notify you of the time and date he plans to inspect the dwelling. You have the right to be present at the inspection, which you should do if possible, and the inspection must be at a reasonable time.

6. Your landlord catches you selling illegal drugs from your apartment. You receive a written court order from the local county court ordering you to immediately vacate the

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apartment. You argue that you are entitled to more notice.

- a. True
- b. False

The answer is b. False!

The landlord can evict you right away. By law, county courts can order the quick eviction of tenants involved in drug-related criminal activity or violence, even when they do not get arrested. Prior written notice is not required.

7. If you get evicted, the eviction will probably show up on your credit report in the future.

- a. True
- b. False

The answer is a. True!

An eviction is a legal proceeding and may show on your credit report. That's why landlords usually check your credit report before renting to you. If you get evicted, it may be difficult to get into rental property in the future.

8. Your landlord keeps all of your security deposit to cover damage that you can prove was from normal use. You may sue to recover up to double the amount that was withheld.

- a. True
- b. False

The answer is a. True!

You have the right to sue to get twice the amount they kept.

Learn more about Missouri's landlord-tenant laws from a free booklet you can order from the Missouri attorney general's Web site at ago.mo.gov/publications/landlordtenant.htm.

Or, take an additional set of quiz questions online at ago.mo.gov/cgi-bin/ConsumerCorner/quizzes/Landlord-Tenant-Law.cgi.

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Adapted from "You're out! Missouri's landlord tenant laws" by Cynthia E. Crawford, Ph.D. and Carole Bozworth, Ph.D., specialists, MU Family Financial Education Extension

Renting or buying your home



By Brenda Procter, M.S., state specialist and instructor, MU Personal Financial Planning Extension

Deciding whether to rent or buy a home is the most important financial choice many of us ever make. Buying a home is a big deal and house payments take a big chunk of the family budget.

In the 1970s, house payments took about one-fourth of a family's take-home pay. Today they take a much bigger piece — about one-third or sometimes even more.

Owning a home has some advantages over renting:

- Mortgage payments are like forced savings — they make your house an investment, not just a place to live.
- You may have a better quality of life if you buy instead of rent.
- You can do anything you want to improve or change the house to suit your needs.
- You may have more privacy if you own your home.
- You'll have no landlord to let in and may not have neighbors who make noise or bother you.
- Upfront (closing) costs and the mortgage interest you pay are tax-deductible.

In spite of the advantages of owning a home, renting can often be a better option. Young people can't always afford the down payment and closing costs or they don't make enough money to qualify for a loan. There may be other reasons to rent instead of buy a home.

These are some potential disadvantages of buying a home:

- If you know you'll be moving within a few years, renting probably makes more sense than buying a home. Why? You must pay lots of up-front costs, also known as closing fees, when you buy a house.
Closing fees cover things like a credit report, an appraisal of the property, property inspections, recording fees, loan fees, mortgage insurance, title insurance, homeowners insurance, legal fees, prorated taxes and termite inspections. They can be 1 to 4 percent of a home's price.
- When you sell the home, you'll pay more closing costs and a realtor's commission (6 percent or more). If you'll be staying in the home for many years, these costs won't matter much if the house goes up in value. If you don't

know how long you'll stay or if it will only be a few years, consider renting instead.

- If you can rent a place you like that is below market value, you could rent and invest the savings somewhere else. Why? You might be able to make a higher return if you put your money in another investment, like an employer-sponsored 401(k) plan (employers sometimes match your contribution) or you could save that money to buy a better house later.
- You might not get a tax break if you buy a home. Why? Even if you can deduct all the interest, you may pay less in taxes if you don't itemize. When homeowners do not itemize, they can take a standard deduction, which is a fixed amount allowed for each taxpayer. For 2008 taxes, the standard deduction is between \$5,450 and \$10,900, depending on your marital and filing status. The amount of taxes you save from deducting mortgage interest has to be more than the standard deduction for you to save on your tax bill from home ownership.
- If you have just moved to a new area, you may want to rent until

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you have time to get to know the community. Why? If you rent for awhile, you have time to compare different neighborhoods, watch traffic flow, and ask around to find good realtors and lenders.

The decision to buy a home is a huge commitment and taking your time may help you avoid costly mistakes. Weigh the advantages against the disadvantages, think

about the trade-offs and make your own decision.

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Finding the right home mortgage

By Brenda Procter, state specialist and instructor, MU Personal Financial Planning Extension



Most of us cannot pay for a house all at once. We need a mortgage loan from a bank, savings and loan, credit union, or home mortgage lender. Before shopping for a mortgage, ask yourself, “How much house can I afford?” The amount you can afford to spend on housing depends on many things. As a general rule, a lender says that you can afford a house that costs two and a half times your annual income.

Some lenders use debt ratios to determine how much house you can afford. They commonly will allow a borrower to spend 30 to 35 percent of your monthly gross income on total monthly debt payments. That means the more you already owe on nonhousing debts, the less house you can afford.

Avoid the temptation to push your monthly payment to more than 35 percent of your gross monthly income. If you can, keep it lower. You want to be able to make your monthly mortgage payment for years to come. General rules are only guidelines and they provide a ballpark idea of where to start.

You can choose from many different types of mortgages, including fixed rate, adjustable (or variable) rate, balloon, graduated payment, shared equity, growing equity and reverse annuity. Learning

a few basics will help you make sense of the options available.

Fixed

A fixed rate mortgage has an interest rate that never changes throughout the life of the mortgage contract.

Its interest rate is almost always a little higher than an adjustable rate, but you have a constant, predictable payment for the life of the loan.

Adjustable or variable

An adjustable rate mortgage (ARM) or variable rate mortgage has an interest rate that rises and falls as the money market changes. The first-year interest rate is lower on an ARM than on a fixed mortgage. An ARM’s rate is usually figured by adding a certain percentage to an index specified in the mortgage. Common indices are the short-term Treasury securities rate, the Federal Reserve district cost of funds, the national average contract rate and the prime rate as it appears in the Wall Street Journal.

The interest rate on your loan usually gets recalculated each year as the index on your loan plus an agreed-upon additional amount — often another 3 percentage points. For example, if your index is defined

as the prime rate and the prime is at 3 percent, then your ARM’s interest rate would be 6 percent. If the prime rate goes up to 5 percent, then your interest rate will go up to 8 percent. If the prime rate goes down to 2 percent, your interest rate would be 5 percent.

Some lenders offer artificially low teaser rates the first year on an ARM that is less than the usual 3 percentage points above the index your loan is based on in the above example. But watch out — your payments can rise substantially after the first year and in future years.

If you are certain that your index rate will fall during the first few years of your loan, an ARM will cost you less because the interest rate can fall along with it. If rates rise, a maximum cap on the ARM’s interest rate can protect you. Annual caps are often about 2 percent, which means that no matter what happens to your index rate, the lender can’t raise your mortgage interest rate more than 2 percentage points in that year.

If possible, also get a lifetime cap — commonly about 5 percent. This means that your rate could never rise more than 5 percentage points during the life of the loan. The lifetime cap limits how high your rate can go with an ARM.

Balloon

A balloon mortgage is like a standard mortgage but with one big difference. There is a due date that is three, five, seven or 10 years out when you will have to pay off the entire balance of your loan. At the due date, you can either refinance the balloon mortgage or pay it off in cash.

Balloon mortgages may not be a good idea for everyone, but they can be a good option for those who plan to sell their home before the balloon due date comes up. Why? Balloon mortgage rates may be lower than the same loan without the balloon. Just be sure your house will sell before the balloon comes due.

Graduated payment

A graduated payment mortgage can be dangerous, particularly for young people. With a graduated payment loan, you do not pay all the interest that you owe each month. The unpaid part of the interest gets added to the unpaid balance of your loan.

You are not paying off any principal — just building up more debt. A graduated payment mortgage can lead to negative amortization, which means that your loan amount is actually going up as you make payments, not down. Typically, negative amortization is limited to 125 percent of the original mortgage balance.

Growing equity

A growing equity mortgage is similar to the graduated payment mortgage, except for one thing — no negative amortization is allowed, reducing the principal at a faster rate.

Shared equity

A shared equity mortgage is one that gives the lender title to a portion of the property. For example, if a home costs \$100,000, you can buy it for \$80,000 if you let the lender buy \$20,000 worth. Then if the home appreciates in value, the lender gets the same percentage share (20 percent in this example) of what it sells for. The borrower typically pays all costs of insurance, property taxes and maintenance but gives up a share of the increase in the house's value when it sells.

Whatever mortgage you are considering, lenders look at several things when they consider your loan application. They will want you to have a good credit record. They will get a copy of your credit report to check your record. If you have a habit of making late payments or have failed to repay past loans, you will have a very difficult time finding a lender who will approve your loan.

Your ability to come up with cash upfront for a down payment and closing costs also will be considered by a lender. You will probably have to come up with a minimum of 3 percent of the home's value (with 20 percent you can avoid private mortgage insurance). You will also have to come up with various closing costs of 1 to 4 percent of the home's price. Some lenders will want you to have two to three months of payments in reserve. Many lenders let you use a gift from relatives or friends as upfront cash, but they will want written proof that it was not a loan.

A lender will want to see a history of stable employment. Your lender will also consider your

income and debt load. If a lender does not consider your income and debt load, you should consider it yourself and check with other lenders. Remember, the general rule says that you can afford a house that costs two and a half times your annual income or that requires a monthly payment small enough that you only spend 30 to 35 percent of your monthly gross income on total monthly debt payments. You may want a bigger monthly cushion, so do not let lenders push you into paying more than you want to pay.

There are sources of help if you have trouble qualifying for a home mortgage. The Missouri Housing Development Commission's mission is to provide quality, safe, affordable housing for low- to moderate-income citizens of Missouri. Their Web site, mhdc.org, provides a wealth of information about special loan and down payment assistance programs for low- to moderate-income buyers, even those without a perfect credit history.

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How do I buy a home?

By Brenda Procter, M.S., state specialist and instructor, MU Personal Financial Planning Extension



There are so many details in buying a house that it is easy to get confused. Always ask your realtor or attorney to explain anything you do not fully understand. In general, these are the steps you will take when you buy a house.

- Carefully and thoughtfully examine your monthly budget. Decide how much you can afford in principal, interest, taxes, insurance and maintenance. Remember, you probably want to avoid paying more for the house than two and a half times your annual salary and keep your monthly debt payments to 35 percent or less of your gross monthly income. Depending on your comfort level with debt, you may want to buy a house worth less than the general rules indicate.
- After you decide how much you can spend, go house hunting. This is the fun part. Remember that realtors usually represent

the seller of a home, even if they do spend time with you as a buyer. You may be able to arrange for a buyer's agent, who is only responsible to you. Be careful because realtors get a commission no matter who they represent.

- Select the home you want and can afford to buy. Using a realtor or attorney, contact the seller of the home.
- Give the seller a written offer of the purchase price. It is probably obvious, but never make an offer on a house that you aren't positive you want to buy. In the contract, consider including:
 - o Details about both the move-in and closing dates.
 - o A rental agreement in case the seller needs to stay in the home past the closing date (typically a triple-net lease, which requires the seller to pay property taxes, utilities,

repairs and fire insurance until they leave).

- o A clause that makes the sale contingent on your ability to find a loan with terms (interest rate, length of the loan, amount of the loan) that are acceptable to you.
- o A list of what sells with the house (e.g., window treatments or drapes, specific appliances).
- o Specifics about who has to pay if your structural inspection reveals that there are problems with the house (e.g., basement leaks, sagging roof, water damage, etc.) or mechanical equipment (e.g., furnace, water heater, appliances).
- If the seller does not accept your first offer and makes a counter offer with a higher price, you can either accept it or come back with another offer. This process can be repeated several times before you and the seller can

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agree on the price and terms of sale. If you cannot agree, the sale does not go through.

- You and the seller sign the agreed-upon contract and you make an earnest money deposit to show that you are serious about the offer. Earnest money sits in an escrow account and goes toward the purchase price at closing. You may lose your earnest money if you back out

of the deal for reasons the contract does not specifically allow.

Go mortgage shopping if you haven't already. Many buyers shop for the loan before they make an offer. By getting prequalified or preapproved by a lender, you can shorten the time it takes to close the deal on the purchase. You also may look more appealing as a potential buyer if the seller has more than one offer on the house and yours is the only one with loan approval.

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Homeowners and renters insurance



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Homeowners

What does homeowners insurance cover? How much do you need? Homeowners insurance, sometimes called property insurance, provides three basic types of coverage:

1. The cost of rebuilding or repairing your home and the structures around it (e.g., detached garage, greenhouse).
2. The cost of replacing or reimbursing the value of personal property you own.
3. Injury to others or damage to their property caused by you, whether at home or away from home.

There are three kinds of property insurance coverage under homeowners policies (HO-1, HO-2 and HO-3), and the higher the number, the more protection they provide.

- Homeowners policies also provide coverage for personal liability and medical payments to others if you cause bodily injury or property loss to them through

your own negligence, or if their injury or loss takes place on your property. Policies also may provide coverage for loss of use, which pays living expenses for similar housing while your home is being rebuilt or until you can find a suitable replacement home.

- Special policies are provided for condominiums (HO-6 is the same as HO-2, but it has a special provision to allow for the undivided common interest in the condominium association) and market value insurance (HO-8, which provides coverage for homes with a value less than their replacement cost-coverage, is similar to HO-1).
- There is a co-insurance feature in most property insurance policies that requires you to have 80 percent (usually) of the replacement cost of your home insured to get full payment of replacement cost. You do not get a full settlement until the home is actually replaced. Some policies offer, at a greater cost, guaranteed replacement costs. Be sure you know which type you have.

Renters

Almost every homeowner has homeowners insurance, because the mortgage lender requires it. Many renters do not think about insurance on their personal property or liability insurance. Some renters have assumed that the landlord's insurance would cover their property loss in case of a fire or other disaster, but they learned the hard way that it doesn't. Typically, the landlord or property owner only carries insurance on the rental unit itself.

Most renters need coverage on their possessions in case they are destroyed by fire or other disasters, or liability coverage in case the renters' actions cause bodily harm or property loss for someone else.

Renters insurance (HO-4) policies give a wide range of coverage for both personal property and liability. A renters policy insures the contents inside the building — typically providing personal property protection for the same risks and perils as an HO-2 homeowners dwelling policy — but it excludes coverage for the dwelling and also

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personal property coverage for damage caused by glass breakage.

Renters insurance is usually quite affordable, so consider it if you have no way to cover your own losses or liability.

For informational brochures on a variety of insurance topics, go online to insurance.mo.gov/.

For more information on home insurance, visit insurance.mo.gov/consumer/home/.

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