Teacher's Guide





buying a home websites



Buying a Home is a major life milestone that requires some thoughtful planning and know-how. Students need to understand all aspects of the home-buying process - everything from mortgages and credit to financing and insurance.

For related links and resources on this lesson, visit: practicalmoneyskills.com/teens/5

overview

For many, buying a home is the single most important financial decision they will make in their lifetime.

However, the process of becoming a first-time homebuyer can be overwhelming, and requires a foundation for basic home-buying knowledge.

This lesson will provide students with information on buying a home and where and how to begin the process. After comparing the differences between renting and buying, students will be introduced to a five-step process for home buying. This framework provides an overview for the activities involved with selecting and purchasing a home.

"What type of mortgage should I select?" This common question will be covered, as well as what lenders look for when qualifying an applicant for a home loan. Next, the costs associated with finalizing a real estate purchase, or "closing costs," are discussed.

Finally, students are put on the other side of the real estate transaction—as a seller. Several suggestions are offered for selling a home.

goal

Give students a basic understanding of the process and costs involved with home buying.

lesson objectives

- Compare benefits and drawbacks of renting vs. buying a home
- Develop a knowledge of the home-buying process
- Understand steps involved in applying for a mortgage
- Understand and compare various types of mortgages
- Identify actions to take when selling a home



presentation slides

- **5-A** the home-buying process
- **5-B** qualifying for a mortgage
- **5-c** types of mortgages
- **5-D** closing costs
- **5-E** selling your home

activities

5-1 Should They Buy or Rent?

Divide students into teams of two or three people. Have students make decisions regarding the housing-decision situations on the activity sheet. As a class, discuss student answers for the situations. What differences exist among the teams? What are some reasons for those differences?

5-2 Conducting a Home Inspection

Ask students to list items that should be considered when evaluating the condition of a home for purchase. Discuss their findings. What items were noted by most students? What items were only noted by a few students?

5-3 Shopping for a Mortgage

 Using the Internet or by contacting a mortgage broker, obtain information on the costs and rates for a mortgage. Discuss the differences that may be present among different financial institutions.

5-4 Computing Mortgage Payments

Using the exercise sheet, have students compute the monthly mortgage payment for the situations on the activity sheet. As a follow-up, discuss the following: What factors affect changing mortgage rates in our economy? What are the advantages of a 15-year mortgage over a 30-year mortgage? What are the disadvantages?

5-5 Lesson Five Quiz

For more information, please refer to the Appendix.

	14-18	19-25	26-↑ ₩
activity	teenagers (14-18)	young adults (19-25)	adults (26+)
Survey/Interview	•	•	
Student Activity 5-1	•	•	
Student Activity 5-2	•	•	•
Oral Presentation	•	•	
Web Activity	•	•	•
Student Activity 5-3		•	•
Student Activity 5-4	•	•	
Field Activity	•	•	•
Lesson Five Quiz 5-5	•	•	•

Learning activities appropriate to varied target audiences for lesson five

buying a home teaching notes

comparing renting and buying

- **1.** Main advantages of renting are:
 - Ease of mobility
 - Fewer responsibilities
 - Lower initial costs
- 2. Common disadvantages of renting are:
 - Few financial benefits in the form of tax deductions
 - Restricted lifestyle, decorating, having pets, and other activities
 - Legal concerns
 - No opportunity to have value of a home
- **3.** Key benefits of buying your housing are:
 - Tax savings
 - Pride of ownership
 - Potential economic gain
- **4.** Disadvantages of buying your house may include:
 - Financial risks related to having down payment funds, obtaining a mortgage, fluctuating property values and mortgage caps
 - Limited mobility if a home is difficult to sell
 - Higher living costs due to repairs and maintenance

the home-buying process

- **Phase 1** Determine home ownership needs
- Phase 2 Locate and evaluate a home
- **Phase 3** Price the property
- **Phase 4** Obtain financing
- **Phase 5** Close the purchase transaction





survey/interview:

Have students talk to various people about the reason they rent or own a home.



student activity 5-1





student activity 5-2

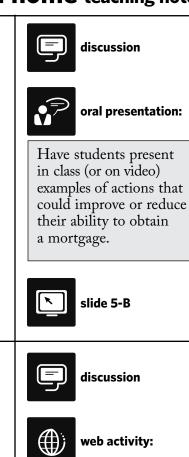


buying a home teaching notes

applying for a mortgage

types of mortgages

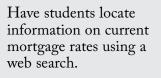
- Determine an estimated value of the house
- Obtain funds for a down payment
- Reduce debts or improve your credit score, if necessary
- Compare fees, services, and mortgage rates for different lenders
- Prepare the mortgage application



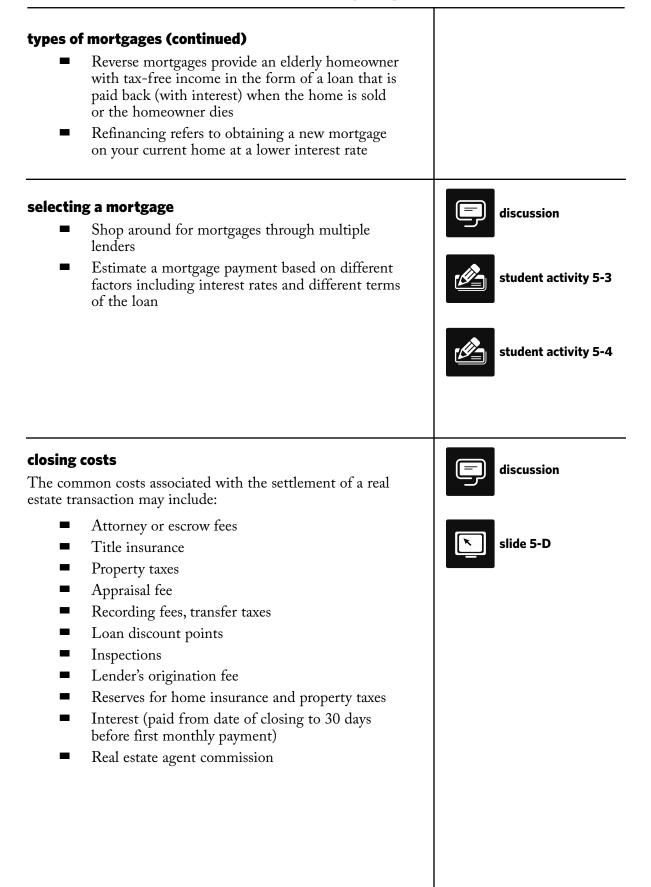
 interest rate
 Government-guaranteed financing programs include loans from the Federal Housing Authority

A conventional mortgage has equal payments, typically over 15, 30, or 40 years based on a fixed

- (FHA) and the Veterans Administration (VA)
 A balloon mortgage has fixed monthly payments and a very large final payment, usually after three, five, or seven years
- The adjustable rate mortgage (ARM), also referred to as a flexible rate mortgage or a variable rate mortgage, has an interest rate that increases or decreases during the life of the loan based on changes in market interest rates
- A graduated payment mortgage has payments rising to different levels during the term of the loan
- A growing equity mortgage has increases in payments for the loan to be paid off more quickly
- A buy down is an interest rate subsidy from a real estate developer that reduces the mortgage payments during the first few years of the loan
- A shared appreciation mortgage (SAM) is an arrangement in which the borrower agrees to share the increased value of the home with the lender when the home is sold
- An interest-only mortgage consists of interest-only payments for a specified period, usually five to ten years





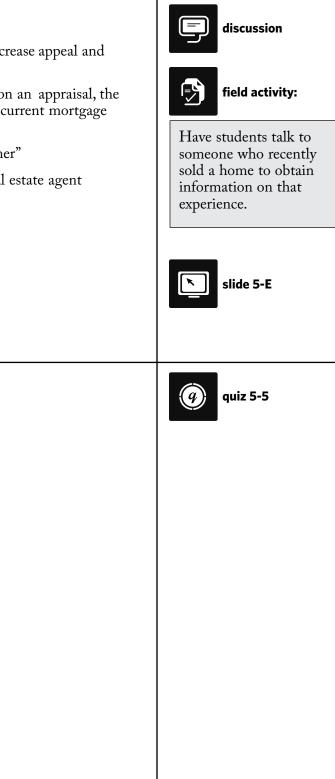


buying a home teaching notes

selling your home

lesson five quiz

- **1.** Prepare your home for selling to increase appeal and market value
- 2. Determine the selling price, based on an appraisal, the location, features, age of the home, current mortgage rates, and market demand
- **3.** Decide if you will do a "sale by owner"
- **4.** Consider using the services of a real estate agent





directions

For each of the following situations, circle **RENT**, **BUY**, or **DEPENDS** to indicate your opinion related to this person's housing decision. Also, give reasons for your response.

1: Marla, age 22, plans to work full time while completing her college degree in a nearby city.



BUY



2: Bill, age 44, travels out of town frequently for his sales job. His company may transfer him to another sales territory within a year or two.



- DEPENDS
- **3:** Craig, age 32, recently completed his master's degree in business while working at the same company for the past six years. He has also been able to save nearly \$8,000 over this time period.







4: Jess, age 19, has just taken her first job as a sales representative trainee for a computer software company.



BUY

BUY



5: Barb and Frank, ages 54 and 57, are planning to retire within the next few years.

RENT





Using the following mortgage payment factors, calculate the monthly mortgage payment for the following situations.

mortgage payment factors

(principal and interest factors per \$1,000 of loan amount)

Term Rate	30 Years	25 Years	20 Years	15 Years
6.0%	\$6.00	\$6.44	\$7.16	\$8.43
6.5	6.32	6.67	7.45	8.71
7.0	6.65	7.06	7.75	8.98
7.5	6.99	7.39	8.06	9.27
8.0	7.34	7.72	8.36	9.56
8.5	7.69	8.05	8.68	9.85
9.0	8.05	8.39	9.00	10.14
9.5	8.41	8.74	9.32	10.44
10.0	8.78	9.09	9.65	10.75
10.5	9.15	9.44	9.98	11.05
11.0	9.52	9.80	10.32	11.37
11.5	9.90	10.16	10.66	11.68
12.0	10.29	10.53	11.01	12.00
12.5	10.67	10.90	11.36	12.33
13.0	11.06	11.28	11.72	12.65
13.5	11.45	11.66	12.07	12.98
14.0	11.85	12.04	12.44	13.32
14.5	12.25	12.42	12.80	13.66
15.0	12.64	12.81	13.17	14.00

Example: A 30-year mortgage at 9 percent for \$80,000. Calculations: \$8.05 from table times 80 (for \$80,000) equals \$644

1. A 15-year mortgage at 8.5 percent for \$75,000.	\$9.85 x 75 = \$738.75		
2. A 30-year mortgage at 8 percent for \$95,000.	$$7.34 \times 95 = 697.30		
3. A 20-year mortgage at 7 percent for \$155,000.	$$7.75 \times 155 = $1,201.25$		
4. A 30-year mortgage at 7.5 percent for \$60,000.	\$6.99 x 60 = \$419.40		



true-false

- **1.** \underline{t} A main advantage of buying is pride of ownership.
- **2.** f Buying a home will usually have fewer costs than renting.
- **3.** \underline{t} The home-buying process ends with closing the purchase transaction.
- **4.** \underline{t} A larger down payment will reduce the amount of the mortgage needed.
- **5.** f Conventional mortgages usually have a rate that changes as market interest rates change.

multiple choice

- 6. <u>B</u> A common disadvantage of buying a home is:
 - **A.** few financial benefits
 - **B.** limited mobility
 - **C.** restrictions on decorating and having pets
 - **D.** conditions in the lease
- **7.** <u>C</u> The home-buying process starts with:
 - **A.** locating and evaluating a home
 - **B.** pricing the property
 - **C.** determining homeownership needs
 - **D.** obtaining an appraisal of the property
- 8. B The amount of a mortgage a person can afford is affected by:
 A. the location of the house
 B. her or his income
 C. the cost of insurance
 D. his or her age
 9. D A mortgage has a very large final payment.
 A. conventional
 B. graduated-payment
 C. shared-appreciation
 - **D.** balloon
- **10.** \underline{B} The charges for settling a real estate transaction are also called _____ costs.
 - A. mortgage
 - **B.** closing
 - **C.** possession
 - **D.** selling

case application

Roberto and Shelly have been able to save \$7,000 for a down payment on a house. Roberto would like to buy a large home that is a long drive from their jobs. Shelly would like a small townhouse near their work. What factors should they consider when buying a home? They should start with how much they are able to afford. Next, they should consider the location where they would like to live. In addition, they should investigate various sources and types of mortgages.