Home Sweet Home: Purchasing a Place

LESSON 16: TEACHERS GUIDE

Ask teens to describe their dream homes, and many will rattle off the features of the latest celebrity mansion they've seen on TV: 10 bedrooms, hot tub, pool, game room, gym, home theatre. It's easy to get caught up in glamorous amenities and overlook the realities of purchasing a home. This lesson will help students understand the components of a mortgage, how to compare mortgage options and how to become savvy borrowers.

Topic: Buying a Home

Time Required: 65 minutes

SUPPLIES:

- Notebooks
- Computers or tablets
- Internet access
- Student activity sheets (3)

PREPARATION:

- Copy all 3 student activity sheets

STUDENT ACTIVITY SHEETS:

Loans, Loans, Loans
In this activity, students will explore complex terms associated with home-ownership and mortgages.

Home Sweet Mortgage
Students search for their dream homes and calculate mortgage costs.

Buy It or Pass?
This activity challenges students to decide whether or not they would take on a mortgage in various realistic situations.

LEARNING OBJECTIVES:

Students will...

- Explain the basic concept of credit
- Explore and understand the components of a mortgage
- Compare mortgage loans and mortgage lenders

STANDARDS:

Jump$tart Standards:

- Credit Standard 1

National Economics Standards:

- Standard 7: Markets and Prices

Common Core ELA Anchor Standards:

- Writing: Research to Build and Present Knowledge
- Speaking and Listening: Comprehension and Collaboration
- Speaking and Listening: Presentation of Knowledge and Ideas
- Language: Vocabulary Acquisition and Use

Common Core Math Standards:

- Number and Quantity: Quantities
- Modeling

Essential Question | ***"What do I need to know about buying a house?"***

Investigate: Borrowing Cash

[Time Required: 25 minutes]

1. Begin by asking students if they have ever loaned something to a friend like money, a laptop or music. Ask students how they could be sure their friend would return the item or repay the money. What factors did students consider when loaning something to a friend?
2. Distribute the activity sheet ***Loans, Loans, Loans*** and have students form groups of four to five. Explain that they will review a scenario and decide who would be the best "borrower" and why. Give students ten minutes to complete the activity in groups and then invite volunteers to share their responses with the class.
3. Next, ask the class which "borrower" Shaun should lend money to and why. Engage students in a discussion about why one "borrower" is a better **investment** than the other. Using the answer key as a guide, explain why Rachel is a better choice as a borrower than Hayden (she has collateral and a down payment, so she will need to borrow less than Hayden would). During the discussion, write the terms and concepts from the answer key on the board: **collateral, loans, credit, investment, down payment and securitized loan**. Help students understand the definitions and how each term applies to the activity sheet.
4. Explain to students that asking for money to buy a house is not a gift but a **mortgage**. A mortgage is a type of loan borrowed from a bank or credit union and paid back within a certain timeframe.
5. Help students understand that in the activity scenario, Rachel has good **credit**, **collateral** and the ability to make a **down payment**—all of which make her a better candidate for a **mortgage** than Hayden.
6. Explain that we make mortgage payments every month, but it can take many years to pay off the entire amount—often 30 years. When taking out a mortgage, banks also charge **interest** on the money borrowed, and a **down payment** is required to secure a loan, most commonly set at 20%.
7. Ask students why they think they would need a down payment. Explain that when buying a house, paying anything less than 20% up front means you are a high-risk borrower and will have to pay insurance to protect the bank's money. Help students understand this is the same concept presented by Rachel, who contributed $20 of the $100 total (or 20%) up front.

TEACHER'S TIP

What is the Essential Question?
The Essential Question is designed to "hook" the learner, promote inquiry and engagement with the lesson, and allow students to exercise problem-solving abilities. It addresses a larger concept, does not have a right or wrong answer, and requires higher order thinking skills.

Student Preparation: Dream Homes

[Time Required: 20 minutes]

8. Ask students to write in their notebooks for five minutes about what their dream house looks like, taking into consideration location, size, color and neighborhood. Tell students they will now get a chance to search for their dream home in real life.
9. Distribute the activity sheet ***Home Sweet Mortgage*** and give students ten minutes to research their dream homes online.
10. Invite volunteers to share and discuss what attributes makes someone a "savvy" borrower. What did students consider when choosing their mortgages? (e.g., interest rate, terms, down payment, etc.)
11. Next, ask students how credit can affect a person's ability to get a mortgage and why. What makes someone a good borrower?
12. Explain to students that "creditworthiness" is considered when applying for a mortgage. An especially important warning sign for mortgage lenders is a **foreclosure**. Help students understand that a foreclosure is when someone stops making payments on a mortgage and the lender forces the sale of the home to recoup the borrowed money. Explain that people can go into foreclosure for a variety of reasons, including job loss, medical conditions that limit employment, snowballing debt, divorce, etc.
13. Mention to students that even if buying a home seems far off in the future, "creditworthiness" will also impact their ability to rent an apartment. This is one reason it is so important to build and maintain good credit.

TEACHER'S TIPS

Link to Lessons 3 & 6:
Remind students the power credit holds over borrowing capabilities by reviewing concepts from **Lesson 3** and **Lesson 6**.

Extension Idea:
To help students understand current mortgage terms and foreclosure repercussions, ask them to read the articles *US Housing Crisis Is Now Worse Than Great Depression* at cnbc.com/id/43395857 and *Mortgage Rescue: Credit Score Killer* at money.cnn.com/2009/12/28/news/economy/loan_modifications_credit_history/. Then, discuss as a class the significance of the housing collapse of 2008, how creditworthiness is now a vital component in obtaining a mortgage and the consequences of foreclosure.

Challenge: Buy It or Pass?

[Time Required: 15 minutes]

14. Ask students to form groups of three to four and distribute the activity sheet ***Buy It or Pass?***
15. Tell students they will have ten minutes to complete the activity and that they should be ready to explain why they made each decision.
16. Invite groups to share their responses, and discuss why some mortgages are better choices than others. Ask students what they've learned about buying a home, and whether they have a different view now than they did at the beginning of class.
17. Finally, ask students to consider how owning a home can contribute to financial security or wealth accumulation. For example, if the value of a home increases or decreases over time from the original purchase price, this can influence whether money was made or lost on the investment. What are the costs and benefits of owning a home?

Reflection

[Time Required: 5 minutes]

Ask students to write in their notebooks about what they can do to make their dream homes a reality (e.g., pay bills on time to build credit, save for a down payment).

TEACHER'S TIP

What is Reflection?
The Reflection part of the class gives students the opportunity to reflect on the bigger-picture meaning of the exercise, and to assimilate and personalize some of the concepts and ideas learned about in the class.

Loans, Loans, Loans

LESSON 16: ANSWER KEY 1

Rachel is the better choice to lend money to because she has **collateral** (e.g., the car and tablet), meaning that if she can't pay back the money, the **investment** of the "lender" is secured because these items are worth equal to or more than the value lent. This is also called a **securitized loan**. The "lender" is in a secure agreement with the "borrower" because there is the guarantee the lender will get his or her money back through the object used as **collateral**. Rachel also provides a **down payment** for the purchase, decreasing the amount she has to borrow from Shaun. This means she will have less money to pay off and, therefore, is less of a risk.

Shaun should not lend money to Hayden because he has poor credit. In addition, Hayden has no cash for a down payment or collateral, making him a high-risk investment.

Definitions

Collateral: Security given for the payment of a loan.

Investment: Investment of money to gain profitable returns.

Securitized Loan: A secure loan that is protected by security, or collateral, to ensure loan repayment.

Down Payment: The amount of money paid upfront at the time of purchase.

Credit: An agreement by which a borrower receives something of value now and agrees to pay the lender at a later date.

Home Sweet Mortgage

LESSON 16: ANSWER KEY 2

The home is $275,000. Since you will be putting 20% or $55,000 down, the loan amount will be $220,000. Students should use that number for their calculations.

A. 15-year mortgage term with a 3% interest rate
   Total Amount Paid Over Loan Term: $273,470.40
   Minimum Monthly Payment: $1,519.28

B. 20-year mortgage term with a 6% interest rate
   Total Amount Paid Over Loan Term: $378,276.00
   Minimum Monthly Payment: $1,576.15

C. 30-year mortgage term with a 5% interest rate
   Total Amount Paid Over Loan Term: $425, 162.73
   Minimum Monthly Payment: $1,181.01

Which mortgage would you choose and why?

Mortgage A is the best deal since the purchase price would be lowest. However, this option has a high monthly payment as well. Before selecting an option, students would need to consider their budgets and how much they could afford to pay toward their mortgage monthly.

Buy It or Pass?

LESSON 16: ANSWER KEY 3

Scenario 1: Pass

The repairs are expensive, and unless you are willing to change your lifestyle, paying $1,031 a month for a mortgage is out of your price range.

Scenario 2: Pass

Without putting down 20%, you will have to pay extra costs in Private Mortgage Insurance (PMI). Since you might be losing your job in the near future, you don't want to be stuck with a mortgage you can't afford.

Scenario 3: Buy It

You are in a position of financial security, with good credit and a high-paying job. The total mortgage is high, but the interest rate is low, making it easier to pay off the loan without straining your day-to-day budget.