



# for Grades 9-12



## HOMEOWNERSHIP & RENTING – EDUCATOR GUIDE



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# LESSON OVERVIEW

Living on your own for the first time brings up challenges teens and young adults have never considered before. From managing expectations, to weighing the costs and benefits of renting versus owning, students explore how to find their ideal crash pad in this lesson. Students will explore the costs of **renting** and **buying**, as well as understanding **mortgages**. Students will also consider the costs and benefits within the context of their short-, medium-, and long-term goals of renting versus buying a home.

**TOPIC:** Homeownership and Renting

**SUBJECT CONNECTIONS:** Math, English  
Language Arts

**TIME REQUIRED:** 60 minutes (*excluding  
Extended Exploration activities*)

## LEARNING OBJECTIVES:

*Students will be able to...*

- Explain the responsibilities and expenses of renting versus owning
- Analyze renting versus homeownership
- Evaluate sound financial decision making for renting and owning property
- Discuss costs related to homeownership
- Discuss how homeownership can create wealth
- Understand the mortgage approval process

## SUPPLIES:

- Projector (for teacher presentation slides)
- Access to the Internet (**optional**)

## PREPARATION:

- Make copies of student handouts
- Set up projector with presentation slides

Answer Key .....	10
Glossary with key vocabulary .....	18

## STUDENT HANDOUTS:

(*found in Student Guide*)

- **Renter's Review**
- **Buyer's Review**
- **Housing Needs**

## TEACHER PRESENTATION SLIDES:

- **Pros & Cons of Renting**
- **Pros & Cons of Buying**
- **Renting Costs**
- **Buying Costs**
- **Housing Challenge (3)**

## ESSENTIAL QUESTIONS:

- *Should I rent or buy?*
- *How does homeownership work?*

## ASSESSMENT ACTIVITIES:

### PRE-ASSESSMENT:

- **Pros & Cons of Renting** slide
- **Pros & Cons of Buying** slide

### POST-ASSESSMENT:

- **Renter's Review** handout
- **Buyer's Review** handout
- **Housing Needs** handout
- **Housing Challenge** slides (3)

## MONEY SMART PORTFOLIO:

- **Housing Needs** handout

## INSTRUCTION STEPS

### WARM UP

#### WOULD YOU RATHER? [5 MINUTES]

Begin the lesson by playing a short game of “Would You Rather?” by posing a series of housing-related questions to the class with either/or options. For example: ask students: *Would you rather live alone or with a roommate? Would you rather rent or buy? Would you rather have a big house with a big payment or a small house with a small payment?* Allow students to answer and provide their reasoning.

Engage students in thinking through their positions on each question, and explain that, when it comes to where we live, we have many choices. We can choose to rent or buy, we can choose to have roommates, we can choose to take out a mortgage to help pay for a home, or we can choose not to buy a home at all. Emphasize that, like in other financial areas (such as spending, saving, and budgeting), we make personal choices based on our needs and wants; and housing is no different. Informed consumers (those that understand all of the options available to them) are able to make financially savvy choices when it comes to their housing.

### GUIDED EXPLORATION

#### RENTING VERSUS BUYING [30 MINUTES]

Tell students that perhaps one of the biggest choices they will make regarding housing is whether to rent or buy. First, display the **Pros & Cons of Renting** slide and review the lists. Invite students to share their own ideas on the advantages and disadvantages of renting. Next, display the **Pros & Cons of Buying** slide and engage students in a discussion about the advantages and disadvantages that go along with buying a home.

Display the **Renting Costs** slide and discuss the different expenses associated with moving into a new rental home or apartment, as well as ongoing monthly expenses once you have moved in. For example: some renters choose to pay for renter’s insurance, which protects the renter’s personal items against theft or damage. Explain that, while a landlord will likely have insurance, that insurance will only protect the building of the renter’s apartment and not the renter’s personal items inside the apartment. Remind students that it is important to review your income and expenses before making a housing decision so that you can be sure you can afford all of the expense categories.

##### Grade-Level Modifications:

**Beginner:** Circle back to Lesson 3, *Can You Pay Your Bills?*, and review spending and budgeting strategies. Discuss how to weigh income and expenses in order to create a smart spending plan, and then help students connect those concepts to the context of housing.

**Advanced:** Have students create a housing budget as if they are about to move out on their own for the first time. Challenge students to list all of their personal expenses as well as new housing expenses that will need to be worked into the budget.

Next, distribute the **Renter's Review** handout and have students work with a partner or in small groups to complete the challenge. When students are finished, discuss their answers and reiterate the importance of creating and analyzing a budget before making major decisions, like renting, for the first time.

Transition the discussion next to buying a home. Show students the **Buying Costs** slide and discuss how costs differ from renting versus buying.

## MONEY SMART TIP!

**Have students review the Fair Housing Act, and explain that this law protects you from discrimination throughout the loan process from the time you submit a loan application until you receive the final loan approval. It also covers you as a renter, beginning from the time you are shopping for a rental property. [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/fair\\_housing\\_equal\\_opp/FHLaws/yourrights](http://portal.hud.gov/hudportal/HUD?src=/program_offices/fair_housing_equal_opp/FHLaws/yourrights)**

Help students understand that a mortgage is a loan provided by a financial institution to buy a house or condo and that there are a number of costs associated with a mortgage, including:

- **Closing costs:** fees associated with buying and settling, or finalizing, your loan. They can include property taxes, broker and attorney fees, inspection fees, and title insurance.
- **Taxes:** Taxes are included in your monthly mortgage payment or either paid once or twice a year, depending on the requirement of the financial institution that made the mortgage loan. Taxes can amount to several thousand dollars per year, depending on the value of your house and the state where you live.
- **Insurance:** Homeowner's insurance will cover you in the event of an accident (for example: if your house catches on fire, the basement floods in a storm, someone falls or is injured on your property, or if a window breaks due to a flying rock/debris from a lawn mower).
- **Interest:** Interest is the cost of borrowing money. You pay the mortgage company interest every month as a portion of your monthly mortgage payment.

## MONEY SMART TIP!

**Connect back to Lesson 7, *Capacity, Character, Collateral, Capital*, and discuss the Four Cs as they relate to mortgages. Explain that mortgage lenders will inquire about your Four Cs before qualifying you for a loan.**

Tell students they will now get the chance to assess a homebuyer like they did in **Renter's Review**. Distribute the **Buyer's Review** handout and have students regroup with their partners or small groups to work through the challenge. Invite students to share their answers, and discuss the differences between the renting and buying reviews. Ask students: *How do different stages in our life affect our decision to rent versus buy? Have you considered Ramón's life stage of graduating college and starting his career versus the renter's challenge of moving out on your own for the first time? How are housing choices based on different needs?*

## MONEY SMART TIP!

Expand the discussion by exploring predatory lending practices. Explain that predatory lending occurs when companies offer loan products using sales tactics, propose loan terms that deceive borrowers, and use collection practices that frighten people. Refer to Lesson 20, *Protect Yourself*, for more information.

## INDEPENDENT EXPLORATION

**Note:** These activities are more independent than the Guided Exploration activities and may be used as homework assignments, collaborative group work, or independent study.

### HOUSING CHALLENGE [20 MINUTES]

Tell students that they are going to test their renting and buying skills by assessing different scenarios. Display the (3) **Housing Challenge** slides one at a time and read the scenarios to students. Students will have to assess whether or not the actions in the scenario are wise or unwise to the character's overall financial health.

Designate parts of the classroom to represent "Wise" and "Unwise" and have students move to the area that aligns with their assessment for each scenario. Pause after each scenario and have students defend their positions. Ask students to contemplate why some actions are harmful and why others are helpful. Encourage a lively debate and help students understand that the first scenario is unwise because Jay will have negative cash flow if he makes his housing choice, the second scenario is wise because Rionna delays her home purchase to ensure a sizable down payment, and the third scenario is unwise, because even though Mason was approved for a mortgage amount, that doesn't necessarily mean his monthly budget can afford it.

## MONEY SMART TIP!

**The Housing Challenge activity may be completed individually by having students write down their assessments of the scenarios and then share them in a group discussion.**

## WRAP UP

### HOUSING NEEDS [5 MINUTES]

Close the lesson by distributing the **Housing Needs** handout and give students five minutes to reflect on their housing needs today, tomorrow, and in the long-term future. Invite students to share their responses.

## EXTENDED EXPLORATION

**Note:** Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

### ENGLISH LANGUAGE ARTS

- **Writing Prompts:**
  - What type of home do you need? Think of your needs in terms of location, space, and amenities. What type of home do you want? What do you envision your home to looking like?
  - What is your position on renting versus owning a home? Define and defend your position while considering opposing viewpoints.
- **Suggested Readings:**
  - *Fair Housing - It's Your Right* by the U.S. Department of Housing and Urban Development: Read detailed information on the Fair Housing Act.  
[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/fair\\_housing\\_equal\\_opp/FHLaws/yourrights](http://portal.hud.gov/hudportal/HUD?src=/program_offices/fair_housing_equal_opp/FHLaws/yourrights)
  - *Looking for the Best Mortgage: Shop, Compare, Negotiate* by the U.S. Department of Housing and Urban Development: Investigate how to shop for the best mortgage.  
<http://www.hud.gov/buying/booklet.pdf>
  - *Mortgage Borrowers' Rights* by the U.S. Department of Housing and Urban Development: Read an overview of the mortgage borrower's rights.  
[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/rmra/res/resborwr](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/res/resborwr)

### MATHEMATICS

- **Activity/Project Ideas:**
  - Have students calculate how long it would take to pay off a mortgage using different principal amounts, interest rates, and taxes.

## SOCIAL STUDIES AND ECONOMICS

- **Discussion Topics:**
  - Analyze and discuss the U.S. housing bubble that peaked in 2006 and crashed in 2008 and the implications the housing market has on broader economics. What are the ramifications of increased foreclosures on both a personal and national level?
- **Activity/Project Ideas:**
  - Have students research rental properties and homes for sale in your area and compare and contrast prices. Students may also compare and contrast the cost of renting versus buying by using an online comparison calculator such as the one found at <http://calculators.freddiemac.com/response/lf-freddiemac/calc/home10>.

## TECHNOLOGY

- **Online Resources:**
  - U.S. Department of Housing and Urban Development: Review this comprehensive website for information on housing, including renting, buying, discrimination, avoiding foreclosure, and more. <http://portal.hud.gov/hudportal/HUD>
  - Rent Versus Buy Calculator: An online calculator that compares costs of renting versus buying a home. <http://money.msn.com/home-loans/rent-or-buy-calculator.aspx>
  - *Know Before You Owe* by the Consumer Financial Protection Bureau: Learn about the Dodd-Frank Act and what consumers should know before closing on a mortgage. <http://www.consumerfinance.gov/knowbeforeyouowe/>
  - Mortgage Calculator: An online calculator used to calculate monthly mortgage payments. <http://www.zillow.com/mortgage-calculator/>
  - *Home Mortgage Disclosure Act* by the Consumer Financial Protection Bureau: Obtain data, facts, and figures on U.S. mortgages. <http://www.consumerfinance.gov/hmda/>

# ANSWER KEY

## for Student Handouts

### LESSON 16: CRASH PAD

#### Student Handout: *Renter's Review*

1. Based on your total initial funds, can you afford to move into a one-bedroom apartment at the PineWoods Apartments today? No; you would need at least \$910, and you only have \$625.
2. How much more money would you need to save to move into a one-bedroom apartment? \$285
3. How long will it take you to save that amount if you continue to save \$50 a month? 6 months
4. Could you afford the monthly rent (for a one-bedroom apartment) and your estimated expenses based on your income? You could pay for the rent and your expenses. However, you would have only \$124 remaining each month for any additional (for example: entertainment and personal expenses) or unexpected (for example: medical or car repair bills) expenses.
5. You and your best friend decide to rent a two-bedroom apartment together. If you split the costs to move in (security deposit, application fee, and first month's rent), what would it cost each of you to move in, and could you afford it? \$605. You could afford it, but it would leave you with only \$20 until you received your next paycheck. You should save at least \$1,481 for the move-in costs and your first month's expenses. It would be better if you had several months' worth of savings as a cushion in case you are unable to work (from illness or injury) or you become unemployed (that is, laid off or fired).
6. Could you afford the monthly rent and your expenses if you shared a two-bedroom apartment? Yes. You would have about \$349 left each month for any additional (for example: entertainment and personal expenses) or unexpected (for example: medical or car repair bills) expenses if you split the rental costs and utilities.

#### Student Handout: *Buyer's Review*

1. Does Ramón have enough money for the down payment and closing costs? No
2. If not, how much more does he need? \$2,800
3. Do you think Ramón is ready to buy a home? If not, what can he do to be better prepared? Answers will vary. For example: Ramón would need to save some additional money to cover the closing costs. However, he may be able to negotiate and have the seller pay some or all of the closing costs. We still do not know enough about Ramón's situation (for example: whether he can afford the monthly mortgage payment, or his debt and savings).

#### Student Handout: *Housing Needs*

While we can't predict the future, we can think ahead and make a plan! Think about what your housing needs are today and how those might change over the course of your life. Answer the questions below.

Answers will vary. Use handout to assess student ability to reflect on personal short, medium, and long-term housing needs.



# for Grades 9-12 Student Guide



## HOMEOWNERSHIP & RENTING - STUDENT GUIDE



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- ***Student Handout 1: Renter’s Review***
- ***Student Handout 2: Buyer’s Review***
- ***Student Handout 3: Housing Needs***

# RENTER'S REVIEW

**Name:** \_\_\_\_\_

Review the rental costs at Pine Woods Apartments outlined below. Compare these costs with your estimated income and rental and living expenses, and then answer the following questions.

## THE CHALLENGE

You have \$500 in savings and \$125 in cash. You start a full-time job and your take-home pay is \$1,400 a month.

You are currently living with your parents and only have to pay a monthly car payment of \$195 and a cell phone bill of \$56. You also spend about \$100 on gas and have been saving \$50 a month. That leaves you with about \$800 each month for entertainment, food/eating out, personal expenses, and additional savings toward an apartment.

You are anxious to move out on your own. You begin to look at one- or two-bedroom apartments at the Pine Woods Apartments to determine whether you can afford it yet.

<b>Pine Woods Apartments: Rental Expenses</b>	<b>1- Bedroom</b>	<b>2- Bedroom</b>
Security Deposit:	\$500	\$650
Application Fee:	\$10	\$10
First Month's Rent:	\$400	\$550
<b>Total to Move In:</b>	<b>\$910</b>	<b>\$1,210</b>

<b>Income</b>	
Savings:	\$500
Available Cash:	\$125
<b>Total Initial Funds:</b>	<b>\$625</b>
<b>Total Monthly Funds:</b>	<b>\$1,400</b>

## RENTER'S REVIEW (continued)

<b>Estimated Living Expenses if Renting</b>	
Utilities (for example: water, electric/gas, cable, Internet, and phone):	\$200
Food:	\$200
Car payment:	\$195
Car insurance:	\$75
Gas:	\$100
Cell phone:	\$56
Savings:	\$50
<b>Estimated Total:</b>	<b>\$876</b>

1) Based on your total initial funds, can you afford to move into a one-bedroom apartment at the Pine Woods Apartments today?

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2) How much more money would you need to save to move into a one-bedroom apartment?

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3) How long will it take you to save that amount if you continue to save \$50 a month?

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4) Could you afford the monthly rent (for a one-bedroom apartment) and your estimated expenses, based on your income?

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5) You and your best friend decide to rent a two-bedroom apartment together. If you split the costs to move in (security deposit, application fee, and first month's rent), what would it cost each of you to move in, and could you afford it?

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6) Could you afford the monthly rent and your expenses if you shared a two-bedroom apartment?

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# BUYER'S REVIEW

Name: \_\_\_\_\_

Review the scenario and then answer the questions.

## THE CHALLENGE

Ramón has graduated from college and started his career as an engineer. Now he thinks he may be ready to buy a condo or townhouse.

Ramón's gross pay is \$4,100 a month, and his net, or take-home pay, is \$3,075. He has been saving for a down payment and closing costs and has \$4,200 saved so far. Ramón contacted his state's Housing Finance Authority and learned about a program that helps first-time home buyers with their down payment and closing costs. The program matches the amount the buyer has saved to buy a home. That means he would have \$8,400 he could put toward a down payment and closing costs. He enrolls in the program and completes several homeownership classes that are part of the program's requirements.

In the middle of his homeownership training, a banker works with Ramón and pre-qualifies him for a maximum mortgage amount of \$165,000. (Pre-qualification is an informal way to find out how much money you can borrow.) Ramón is also eligible to pay only a 3% down payment because he is a first-time home buyer.

As a rule of thumb, many people estimate they are able to afford a mortgage of two to three times their household income. Ramón's annual income is \$49,200, so he might be able to afford a mortgage of \$98,400 to \$147,600.

$$\mathbf{\$49,200 \times 2 = \$98,400}$$

$$\mathbf{\$49,200 \times 2.5 = \$123,000}$$

$$\mathbf{\$49,200 \times 3 = \$147,600}$$

Keep in mind that, if you qualify for a higher amount, that does not mean you can afford or will be comfortable with those monthly payments. Consider your own circumstances and your future financial needs and goals.

Ramón has found a townhouse that he likes. It is listed for \$140,000. The lender estimates that Ramón would need \$4,200 for a 3% down payment and \$7,000 (5% of house cost) for closing costs.

## BUYER'S REVIEW (continued)

Ramón's Funds		Purchase Cost	
Down payment and closing costs:	<b>\$4,200</b>	Cost of house:	<b>\$140,000</b>
Matched savings:	<b>\$4,200</b>	Down payment:	<b>\$4,200</b>
		Closing costs:	<b>\$7,000</b>
<b>Total funds available:</b>	<b>\$8,400</b>	<b>Total funds to purchase:</b>	<b>\$11,200</b>

1) Does Ramón have enough money for the down payment and closing costs?

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2) If not, how much more does he need?

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3) Do you think Ramón is ready to buy a home? If not, what does he need to do to be better prepared?

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# HOUSING NEEDS

**Name:** \_\_\_\_\_

While we can't predict the future, we can think ahead and make a plan! Think about what your housing needs are today (for example: number of bedrooms, square footage, location, amenities, security, comfort, view) and how those might change over the course of your life. Answer the questions below.

## **SHORT-TERM**

What are my housing needs now? How much space do I need? What location do I need to live in? How important are amenities and security to me? What actions can I take today to meet those needs?

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## **MEDIUM-TERM**

What do I think my housing needs will be five years from now? How will my needs change if I have children or relocate to a new area? How much space will I need then? How important will location, security, and amenities be to me? What financial choices can I make today that will help support my future housing needs?

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## **LONG-TERM**

What do I think my housing needs will be 15 years from now? 30 years? How will my needs change if my family grows? How will my housing needs change as I grow older? Will I need more or less space? What financial choices can I make today that will help support my future housing needs?

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