

Lesson Three

Buying a Home

buying a home lesson outline

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

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

buying a home lesson outline

activities

3-1 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?

3-2 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?

3-3 Shopping for a Mortgage

- Using the Internet or 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.

3-4 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?

3-5 Lesson Three Quiz

For more information, please refer to the Appendix.

buying a home target audiences

Learning activities appropriate to varied target audiences for Lesson Three

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

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 build the 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 risk and opportunity cost to raising funds for down payment, obtaining a mortgage, fluctuating values and mortgage caps
 - Limited mobility if a home is difficult to sell
 - Higher living costs due to repairs and maintenance



discussion



survey/interview:

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



student activity 3-1

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



discussion



student activity 3-2



slide 3-A

buying a home teaching notes

applying for a mortgage

- 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



discussion



oral presentation:

Have students present in class (or on video) examples of actions that could improve or reduce their ability to obtain a mortgage.



slide 3-B

types of mortgages

- A conventional mortgage has equal payments, typically over 15, 30, or 40 years based on a fixed interest rate
- Government-guaranteed financing programs include loans from the Federal Housing Authority (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 without negative amortization
- A buydown is a deal where you pay an upfront sum to the bank to have the interest rate lowered for part or all of the life of the loan
- A shared appreciation mortgage (SAM) is an arrangement in which the lender agrees to take some or all of the repayment for the loan in the form of a percentage of the increased value of the home upon sale or borrower death



discussion



web activity:

Have students locate information on current mortgage rates using a web search.



slide 3-C

buying a home teaching notes

types of mortgages (continued)

- An interest-only mortgage consists of interest-only payments for a specified period, usually five to ten years, during which the principal balance remains unchanged
- Reverse mortgages provide an elderly homeowner with tax-free income in the form of a loan against the equity they've built in their home' that is paid back (with interest) when the home is sold or the homeowner dies
- Refinancing refers to obtaining a new mortgage on your current home, typically at a lower interest rate

selecting a mortgage

- Shop around for mortgages through multiple lenders
- Estimate a mortgage payment based on different factors including interest rates and different terms of the loan



discussion



student activity 3-3



student activity 3-4

closing costs

The common costs associated with the settlement of a real estate transaction may include:

- Attorney or escrow fees
- Title insurance
- Property taxes
- Appraisal fee
- Recording fees, transfer taxes
- Loan discount points
- Inspections
- Lender's origination fee
- Reserves for home insurance and property taxes
- Interest (paid from date of closing to 30 days before first monthly payment)
- Real estate agent commission



discussion



slide 3-D

buying a home teaching notes

selling your home

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



discussion



field activity:

Have students talk to someone who recently sold a home to obtain information on that experience.



slide 3-E

lesson three quiz



quiz 3-5



should they rent or buy?

answer key

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.

RENT **BUY** **DEPENDS**

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.

RENT **BUY** **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 \$20,000 over this time period.

RENT **BUY** **DEPENDS**

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

RENT **BUY** **DEPENDS**

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

RENT **BUY** **DEPENDS**



computing mortgage payments

answer key

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	\$8.44
6.5	6.32	6.75	7.46	8.71
7.0	6.65	7.07	7.75	8.99
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.

$$\underline{\$9.85 \times 75 = \$738.75}$$

2. A 30-year mortgage at 8 percent for \$95,000.

$$\underline{\$7.34 \times 95 = \$697.30}$$

3. A 20-year mortgage at 7 percent for \$155,000.

$$\underline{\$7.75 \times 155 = \$1,201.25}$$

4. A 30-year mortgage at 7.5 percent for \$60,000.

$$\underline{\$6.99 \times 60 = \$419.40}$$



lesson three quiz: buying a home

answer key

true-false

1. t A main advantage of buying is pride of ownership.
2. f Buying a home will usually have fewer costs than renting.
3. t The home-buying process ends with closing the purchase transaction.
4. 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. B 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. C 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. 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 \$18,000 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.*