



Lesson 16: Crash Pad

TOPIC: Homeownership and Renting

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.

OBJECTIVES:

1. Explain the responsibilities and expenses of renting versus owning
2. Analyze renting versus homeownership
3. Evaluate sound financial decision making for renting and owning property
4. Discuss costs related to homeownership
5. Discuss how homeownership can create wealth
6. Understand the mortgage approval process

INDIVIDUAL HANDOUTS:

- 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:

- **Slide:** Pros & Cons of Renting
- **Slide:** Pros & Cons of Buying

Post-Assessment:

- **Handout:** Renter's Review
- **Handout:** Buyer's Review
- **Handout:** Housing Needs
- **Slide:** Housing Challenge slides (3)

Time: 60 min

Subject Connections:

- English Language Arts
- Math

Supplies:

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

Preparation:

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

Glossary with key vocabulary 11

***Money Smart Portfolio Handouts**

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.

+	-
<ul style="list-style-type: none">• Not responsible for property maintenance• Generally, under a rental contract, or lease, for one year or less, creating greater flexibility to move• You don't have costs associated with homeownership, like property taxes and homeowner's insurance. You may, however, have renter's insurance.	<ul style="list-style-type: none">• You are not the owner of the home• Your rent might increase over time• You might not always be able to renew your lease• You will not receive a federal tax deduction for rent payments, but when you own a home, mortgage interest is tax-deductible

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Pros & Cons of Buying

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+	<ul style="list-style-type: none"> You may build equity, which is the value of your home minus the debt you owe on it Once you pay the mortgage in full, you own the home! Your income tax may be reduced, because mortgage interest and property taxes are generally tax deductible 	-	<ul style="list-style-type: none"> You will have to purchase homeowner's insurance and possibly other insurance such as flood insurance Buying a home requires more cash up front for a down payment You may need to purchase additional insurance, such as that covering earthquakes or floods It is not as easy to move when you own a home You may have to pay monthly condominium or homeowner association fees. These vary considerably, but generally cover expenses such as the maintenance of common areas in your community.
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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.

Renting Costs

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	<ul style="list-style-type: none"> security deposit fees (credit report fees, pet fees) connecting utilities first month's rent
	<ul style="list-style-type: none"> rent utilities renter's insurance (optional) fees (parking, pet fees, storage)

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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.

Buying Costs

25

A mortgage is a loan, provided by a financial institution, to buy a house or condo. Most first-time home buyers obtain a mortgage to help finance the home.

	<ul style="list-style-type: none"> interest repayment of principal insurance taxes
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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

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?*


INDEPENDENT EXPLORATION Housing Challenge

20 MINUTES


Housing Challenge 1 26

Jay is moving out on his own next month. He found a great apartment for \$695 a month. His total net income is \$1,590 and his current expenses, between his SUV, food, entertainment, and cell phone are about \$950 each month, give or take \$100.

Jay is signing the lease on the dotted line today. Is his choice wise?



WISE




UNWISE

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Housing Challenge 2 27

Rionna graduated from college several years ago, and her career as a graphic designer is going well. She works for one of the largest design firms in her area. Since she has started working, she has always rented a studio apartment to save on costs but now she is ready for more space. She has been working with a homeownership counselor, and she decided to buy next year when she will have saved up enough money to put a 10% down payment on the home.

Rionna will buy a house next year. Is her choice wise?



WISE




UNWISE

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Housing Challenge 3 28

Mason has a steady job as a law clerk, but is living with his parents at home to save money while he prepares to buy a house. He has been approved for a \$200,000 mortgage. If he decides to borrow the full amount, his monthly mortgage payments would be \$1,300. Mason earns \$2,800 net pay each month and his expenses include credit card payments (\$500), groceries and eating out (\$300), entertainment (\$200), truck payment (\$250), and cell phone (\$75).

Mason finds a home he likes for \$195,000 and decides to put in a full-price offer. Is his choice wise?



WISE



UNWISE

Money Smart for Young People Grades 9 - 12

WRAP UP Housing Needs

5 MINUTES

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.

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

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 is saving money for a down payment and is preparing to then buy her home; 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.

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 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 Rights and Obligations by the U.S. Department of Housing and Urban Development: Read detailed information on the Fair Housing Act.

www.hud.gov/program_offices/fair_housing_equal_opp/fair_housing_rights_and_obligations

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.

www.hud.gov/sites/documents/BOOKLET.PDF

Know Before You Owe by the Bureau of Consumer Financial Protection: Read an overview of the mortgage process.

www.consumerfinance.gov/know-before-you-owe

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. www.realtor.com/mortgage/tools/rent-or-buy-calculator/

Mortgage Calculator: An online calculator used to calculate monthly mortgage payments. www.knowyouroptions.com/find-resources/information-and-tools/financial-calculators/mortgage-calculator

Home Mortgage Disclosure Act by the Consumer Financial Protection Bureau: Obtain data, facts, and figures on U.S. mortgages. www.consumerfinance.gov/hmda

Answer Key

Student Handout 1:

Renter's Review

1. Based on your total initial funds, can you afford to move into a one-bedroom apartment at the Pine-Woods 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 vehicle 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 vehicle repair bills) expenses if you split the rental costs and utilities.

Student Handout 2:

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 3:

Housing Needs

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



Lesson 16: Crash Pad 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 vehicle 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.

Pine Woods Apartments:

Rental Expenses	Bedroom	
	1	2
Security Deposit:	\$500	\$650
Application Fee:	\$10	\$10
First Month's Rent:	\$400	\$550
Total to Move In:	\$910	\$1,210

Income

Savings:	\$500
Available Cash:	\$125
Total Initial Funds:	\$625
Total Monthly Funds:	\$1,400

Estimated Living Expenses if Renting

Utilities (for example: water, electric/gas, cable, Internet, and phone):	\$200
Food:	\$200
Vehicle payment:	\$195
Vehicle insurance:	\$75
Gas:	\$100
Cell phone:	\$56
Savings:	\$50
Estimated Total:	\$876

- Based on your total initial funds, can you afford to move into a one-bedroom apartment at the Pine Woods Apartments today?
- How much more money would you need to save to move into a one-bedroom apartment?
- How long will it take you to save that amount if you continue to save \$50 a month?
- Could you afford the monthly rent (for a one-bedroom apartment) and your estimated expenses, based on your income?
- 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?
- Could you afford the monthly rent and your expenses if you shared a two-bedroom apartment?



Lesson 16: Crash Pad 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.

Ramón's Funds

Down payment and closing costs:	\$4,200
Matched savings:	\$4,200
Total funds available:	\$8,400

Purchase Cost

Cost of house:	\$140,000
Down payment:	\$4,200
Closing costs:	\$7,000
Total funds to purchase:	\$11,200

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.

$$\$49,200 \times 2 = \$98,400$$

$$\$49,200 \times 2.5 = \$123,000$$

$$\$49,200 \times 3 = \$147,600$$

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.

1. Does Ramón have enough money for the down payment and closing costs?
2. If not, how much more does he need?
3. Do you think Ramón is ready to buy a home? If not, what does he need to do to be better prepared?



Lesson 16: Crash Pad 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?

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?

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?