

Lesson 5: Renting vs. Buying Home Sweet Home

All the materials and information included in this presentation is provided for educational and illustrative purposes only and is presented with the express understanding that Virginia Credit Union and its employees are not engaged in rendering legal, tax, investment, insurance, or other financial planning advice. Please consult a qualified professional if you have specific questions related to your individual situation.

Target Audience: 9-12 grade students
60-90 minute lesson

Objectives

- EPF.10 The student will develop consumer skills by
- e) Describing common types of contracts and the implications of each
 - f) Demonstrating comparison-shopping skills
- EPF.11 The student will demonstrate knowledge of planning for living and leisure expenses by
- b) Comparing the advantages and disadvantages of renting vs. purchasing a home
 - c) Describing the process of renting housing
 - d) Describing the process of purchasing a home
 - e) Calculating the cost of utilities, services, maintenance and other housing expenses
 - f) Evaluating discretionary spending decisions

Materials

- Lesson plan (the **green words** are a basic script guideline for the teacher)
- PowerPoint presentation
- Worksheets and loan talking guide
- Laptops with internet access
- Video: Meet Michael and Jenny: FTHB video

Introduction

Play Meet Michael and Jenny: FTHB video

Have students draw a picture or write the first thing that comes to mind with they think of the word “home.” Discuss drawings.

View and discuss the Homes slide.

These are pictures of different homes in our area. The word home means different things to different people. There is a phrase that says “Home is where the heart is.” When you think of the word home, you don’t necessarily picture the building itself. One might think of family or friends and all of the experiences that happen at home. The building itself is important but regardless of the size or design, your home will be a crucial part of your life. Today, you are going to be introduced to the “home finding process.” I am going to give you some very basic information to help prepare you for finding a home of your own.

Lesson

View and discuss the What Do You Think Of slide.

These points are different things to consider when you are looking at homes. Discuss each point. When picking your place to live, some of these things might be more important to you than others. You might consider one feature an absolute need but another person might not even need or want

that feature in his home. Understanding the basic needs that you will have is important when finding a place to live.

Pass out the Wants vs. Needs puzzle, one puzzle piece per student. Have students find the person that matches their puzzle piece. Then have them discuss which picture is a want and which picture is a need. Emphasize that knowing the difference between wants and needs is important when deciding on where to live. Pass out the Wants and Needs for Home Shopping Worksheet. Have students complete and then share some of the things that are very important to them and might be considered a need vs. the things that would be nice and would be considered a want.

After figuring out what your basic needs are vs. wants, you have to make a choice about what is important to you and what you want to spend your money on. These choices then have opportunity costs. Remember opportunity cost is the value of the item that you gave up. For example, if you think that having a garage is more important than having a pool, the opportunity cost of this decision would be the pleasure of swimming. What are some of the opportunity costs that occur because of the choices you made on the Wants and Needs worksheet?

What you end up choosing to spend your money on is called consumption. Consumption is simply purchasing and using goods and services. You as a consumer make choices based on your wants and needs, therefore determining what is purchased in the marketplace.

Consumption then influences the production of the goods and services and ultimately influences price. This then will impact you and other consumers in the long run. So the choices you make do make a difference in the economy. For example, if everyone in your town wanted to purchase a brand new home then the demand for new homes would go up, therefore the production of new homes would increase. The price could also increase, depending on the demand and availability of the new homes.

View and discuss the Are You Ready to Be on Your Own slide.

Take the quiz. Living on your own is a big step. Let's see if you are ready. The questions on this quiz are to get you to stop and think about your financial knowledge. It is important for you to already have a baseline of financial knowledge. Throughout our lessons we have been learning about budgets, savings and the importance of having a plan. All of those things should be in place before you buy or rent a home. I hope that everyone scored 100! If you didn't, don't worry. It is not too late to learn how to save and budget. Once you get that simple concept down, you are ready to start looking at houses.

As you already know, most people have to live, or should live, on a budget. A budget would include housing expenses. Take a look at the "Monthly Budget Sheet."

View and discuss the Police Officer's Salary slide.

Let's say you are a police officer and your yearly salary is \$43,680. That equals a gross pay of \$3,640 per month. Your net pay is \$2,592 per month.

Go through the budget worksheet and discuss the expenses.

Once all expenses are subtracted from your budget, you end up with \$1,072 to spend for rent or on a mortgage. Keep the \$1,072 figure in mind as we go through this lesson.

View and discuss the Renting vs. Buying slide.

What is the difference between renting and buying a house? We are going to look at both options. That way you can decide which option best meets your needs.

View and discuss the Renting slide.

Renting is an option that many people choose, especially young adults. When you rent a house, you sign an agreement where a payment is made for the temporary use of a property owned by another person or company.

Review the vocabulary of lessor and lessee.

One option is to act out the roles of lessor and lessee as you view the lease. Have a student be the lessor and you, the lessee. Then ask them what kind of role they would play in implementing a lease.

View the lease on the overhead.

As you go through the lease, focus on the different terms that are used: lessor/lessee, landlord/tenant. Emphasize the different rules that the lessor lists in the lease. Students need to understand that once they sign the lease, they have to obey the terms that the lessor placed in the lease.

There are some initial renting expenses that you will also need to budget for.

View and discuss the Initial Renting Expenses slide.

We are going to do some of our own research.

View and discuss the Find a Rental Property slide.

First I want you to find a rental house or apartment that would fit within the budget of a police officer. Write down your findings on the rental side of your handout. Then, you may proceed to search for a house or apartment without price being a factor.

Discuss findings from the student's research.

View and discuss Renter's Insurance slide.

Renter's insurance is not always required but is something you consider. Some landlords may require you carry renter's insurance. Renter's policies can vary in price. They are based on your credit, the zip code where you will be living, the age of the building, the amount of coverage you select and other factors. This protects you for theft and damage caused by certain events to your property. You also receive liability insurance in a renter's policy. Keep in mind that the landlord's building insurance policy doesn't cover any of the renter's personal property.

What would happen to the renter if:

- The apartment building burned down?
- A thief broke into the apartment and stole your valuable belongings?
- A guest slipped and injured himself in the kitchen?
- The apartment suffered water damage and ruined your belongings?

Without renters insurance, you have no coverage for personal property loss or damage.

View and discuss the Advantages of Renting slide.

Some of the advantages to renting are: low initial investment, less costly, limited responsibility, greater ease of mobility, lower insurance cost.

View and discuss the Buying a Home slide.

Let's research buying a home. When you buy a home, you pay for the home with cash or a mortgage. With a fixed rate mortgage your rate is basically going to stay the same throughout the length of the mortgage. With an adjustable rate your rate changes. It could go up or down. There are many different types of mortgages, so when you are ready to buy a home it would be wise to do more research or get a professional to help you get a loan that will meet your needs.

A mortgage is made up of the following:

- Principal – The base amount of the mortgage.
- Interest – The money you pay to the financial institution to borrow for the mortgage.
- Taxes – Property taxes
- Insurance – A contract that protects you from financial losses on your property that might result because of fire or other hazards. It also covers helps with liability in case someone gets hurt on your property.

View and discuss Homeowners Insurance slide.

Homeowners insurance is similar to renters insurance in some ways. It protects your personal property and includes liability but it also covers your home itself. If you have a mortgage on your home you are required to carry homeowners insurance. The determination of the rate is similar to a renter's policy. It is hard to give an estimate without actually running a quote. Naturally the more expensive the home, the more the insurance will cost.

If you do not keep the insurance on your home the mortgage company has the right to place Forced Insurance on the home.

View and discuss the How Much Do You Qualify For slide.

Let's say we are a police officer and have \$1,072 a month budgeted for PITI. Let's see what kind of house we could afford.

Keep in mind this is just an estimate. Financial institutions look at a lot of different factors to determine how much they will allow a person to borrow. They can look at how many assets you have and also how much debt you already have in your name. For today's purposes let's say that this police officer does not have any other debt and has a good \$5,000 to put down for a down payment.

View and discuss the Ongoing Additional Expenses slide.

Not only do you have to keep in mind a basic house payment but one also should consider "Ongoing additional expenses" (see slide) that occur with owning a house.

View the mortgage application. There is a talking guide to help answer questions.

Now the fun part begins. You get to go “window shopping” for homes. Write down your findings on the “Buying” side of your handout. First, find a home that a police officer could afford, around \$165,000. Then you can search for the home of your choice. Be sure to write the tax information on the house.

Let’s find out how much your monthly payment would be.

View the What Will Your House Payment Be slide.

After doing this research what are some advantages that you feel would be to buying a house?

Discuss and then view the Advantages of Buying a House slide.

Conclusion

View and discuss the Have a Savings Plan slide.

The home finding process can be a lot like this picture of a house made of cards. You need to have everything lined up so that your house won’t crumble. The more you know, the better off you’re going to be. You need to put into practice all we have learned about saving and budgeting. Pay yourself first and save! Develop a plan and do your research before you buy a house. If you do all of these things and plan ahead, your house won’t fold under the pressure!

Assessment

Collect their worksheets to grade.