

Oklahoma's Personal Financial Literacy Passport

Standard 10. The student will explain and compare the responsibilities of renting versus buying a home.

Standard 10 – Renting vs. Buying

Lesson 10.1 Housing Alternatives

Handout 10.1.1—Housing Choices

Lesson 10.2 Renting an Apartment

Handout 10.2.1—Leasing Lingo

Lesson 10.3 Buying a House

Handout 10.3.1—Mortgage Calculations



Teacher Presentation Series 10

- 🏠 Compare the costs and benefits of renting versus buying a home.
- 🏠 Explain the elements of a standard lease agreement (e.g., deposit, due date, grace period, late fees, and utilities).
- 🏠 Explain the elements of a mortgage (e.g., down payment, escrow account, due date, late fees, and amortization table); types of lenders; and fixed or adjustable rate mortgage loans.



Standard 10.1

Renting vs. Buying

Housing Alternatives

≡ *Payoff* ≡



- 💰 Identify various housing alternatives.
- 💰 Determine local housing options, both renting and buying.



== Cache ==



 Apartment

 Condominium

 House

Down Payment



- 🏠 Emilio and Justine are getting married and they want to live in the city near a bus stop.
- 🏠 Emilio loves the outdoors and thinks they should rent an apartment with a workout room, a pool, and other activities available.
- 🏠 Justine wants to rent a small house with a yard so they can get a dog and have parties on their patio.

Down Payment



What would you recommend to Emilio and Justine?



≡ **Building Interest** ≡



- 💡 What important factors should you consider in choosing a “home?”
- 💡 Is “owning your home” always the best option?
- 💡 What are some of the advantages and disadvantages of “owning your own home?”
- 💡 What are some the advantages and disadvantages of “renting” your home?

Renting



Renting:

- Is often the least expensive housing option.
- Offers a set monthly expense.
- Has minimal maintenance responsibility.
- Provides the ability to relocate relatively easily when your lease expires.
- Requires a contract.
- Offers amenities.
- Has an opportunity cost: privacy.



Condominiums



- 💰 Condominiums and cooperatives generally offer similar amenities to apartment complexes.
- 💰 Difference: condo and coop dwellers generally “own” their units
- 💰 Owner shares the cost of maintaining common areas through monthly homeowner association fees.



Single Family Houses



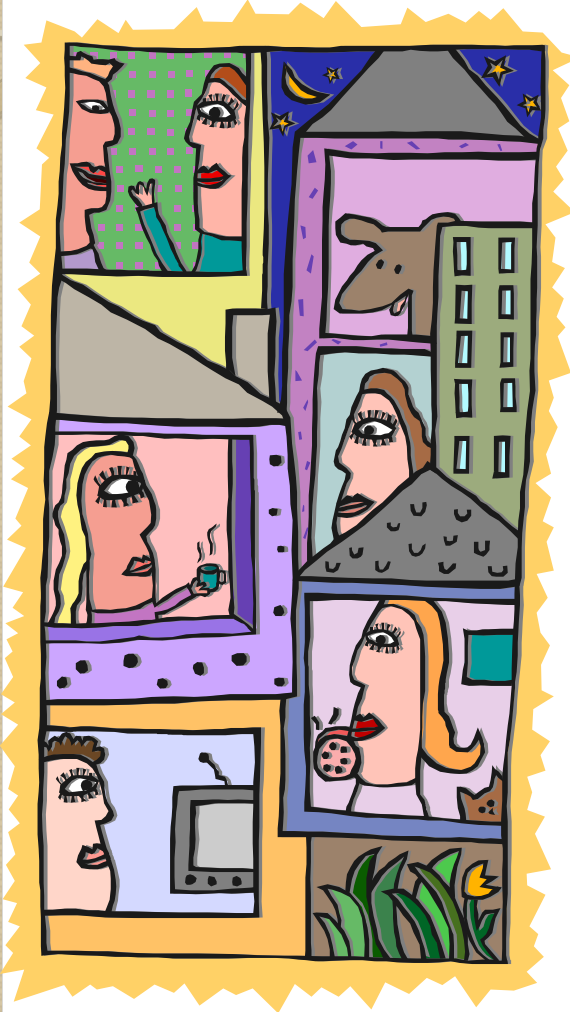
- 🏠 Offers the widest variety of living options and remains the preferred housing choice for most people.
- 🏠 Available in many sizes and costs.
- 🏠 New or old.
- 🏠 Homeowner associations becoming more popular to support amenities.
- 🏠 Flexible to own, but a significant investment.

== *Earnings* ==



- 💰 Finding a place to live is an important financial choice.
- 💰 Many people have a tendency to pay more than necessary because of emotional decisions.
- 💰 A good housing choice involves finding a place that best suits your lifestyle and needs.

Balance Sheet



- 💡 Why do individuals sometimes choose to rent when they can buy?
- 💡 Explain some of the key differences between various types of housing options.
- 💡 When it comes to property, what is an amenity?

== ***Paid in Full*** ==



💧 Ask the students to use the PACED Decision-making Model to determine their best housing alternative:

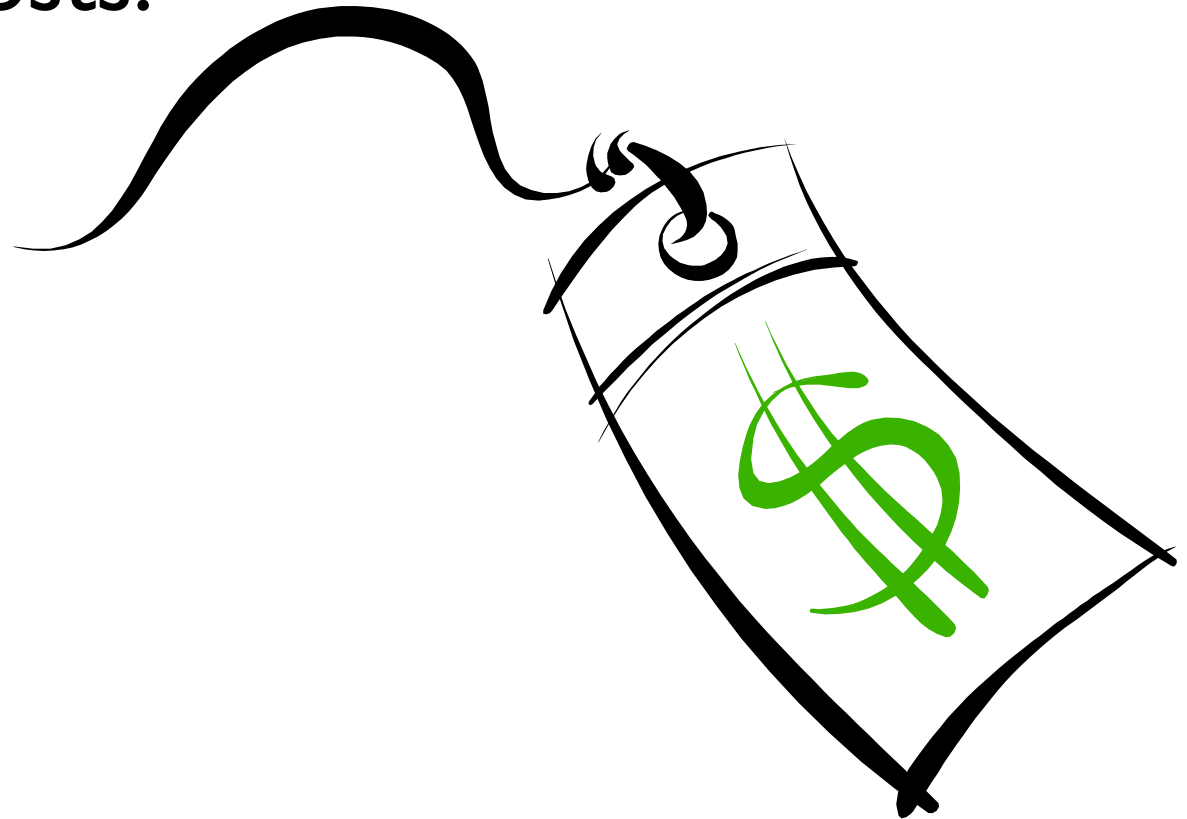
- First, state the problem.
- Second, list alternatives.
- Third, determine criteria.
- Fourth, use criteria to evaluate options.

💧 Encourage them to also think about the costs.

== Paid in Full ==



👉 Encourage them to also think about the costs.



Handout 10.1.1

Housing Choices

- 🏠 What are the advantages and disadvantages of living in an apartment over a condo?





Standard 10.2

Renting vs. Buying

Renting an Apartment

== *Payoff* ==



- 💰 Discuss the reasons that people rent.
- 💰 Explain the elements of a standard lease agreement.
- 💰 Recognize other costs involved in leasing an apartment or house, such as deposits, late fees and utilities.
- 💰 Evaluate the cost and benefits of renting.

== Cache ==



 Landlord

 Lease

 Rent

 Tenant



== *Down Payment* ==



- 👛 Kendall and Greenlee want move into their own apartment.
- 👛 They sit down and make a list of “wants,” research what is available online, and then go look at potential locations.
- 👛 Adrian and Ryan also want to get an apartment.

Down Payment



- 👤 One Saturday afternoon, they start looking without knowing how much they can spend.
- 👤 Which set of friends has the best strategy for finding a place to live?



≡ ***Building Interest*** ≡

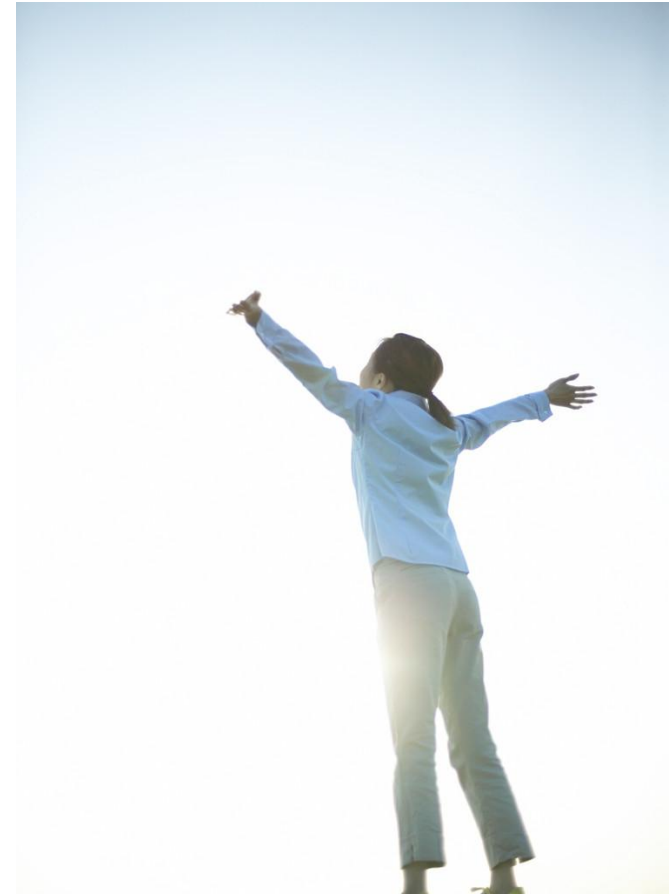


- 👉 What is one of the most important things to consider in choosing the location where you will live?
- 👉 What is a lease?
- 👉 What is the advantage of having renter's insurance?

Advantages of Renting



- 💰 Flexibility
- 💰 No down payment
- 💰 No repair or property maintenance costs
- 💰 Wide variety of amenities
- 💰 More freedom to relocate



Disadvantages of Renting



- 💰 Lack of control over property
- 💰 Lack of privacy
- 💰 Potential delays in property repairs
- 💰 May be restricted in terms of:
 - Personal redecoration choices
 - Pets/children
- 💰 Do not build equity
- 💰 No tax benefits

Reading a Lease



- Leases protect both your rights as a tenant, and the owner's or manager's rights as a landlord.
- Leases are all binding, legal contracts that are enforced by law.

Reading a Lease



📁 Components of a standard lease:

- **Landlord information** - identifies the landlord and how to contact them.
- **Tenant names** - include the names of ALL roommates on the lease.
- **Apartment address** - street address and apartment number.

Reading a Lease



📌 Components of a lease: - continued

- **Rent** - exact amount of rent and how often it is paid (weekly, monthly, etc.)
- **Additional fees** - for certain services, such as replacing a key, allowing pets, carports, and so forth.
- **Services paid by the landlord** – such as water or any other utilities.
- **Security deposit**

Reading a Lease



🏠 Components of a standard lease: -
continued

- **Policies** – such as pet, furniture, redecoration, visitor stays or children restrictions.
- **Lease start date and end date**
- **Landlord's right of entry** - conditions under which a landlord can legally enter your apartment
- **Everyone's Signatures**

== *Earnings* ==



💰 Putting together a checklist of what you do and do not want will help you make an informed choice.

💰 Making a decision with your head, not your heart, will help make it a good financial choice.



== *Balance Sheet* ==



- 💰 What are some of the potential restrictions you may run in to trying to rent an apartment?
- 💰 What are some of the basic requirements included in a lease?
- 💰 What is a month-to-month rental agreement?

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- 📌 Kendall and will undoubtedly make a better choice than Adrian and Ryan.
- 📌 You will always improve your chances of making a better choice when taking the time to have a plan.





Standard 10.3

Renting vs. Buying

Buying a House

≡ *Payoff* ≡



- 💰 Discuss the reasons that people buy.
- 💰 Explain the elements of a mortgage (e.g., down payment, escrow account, due date, late fees and amortization table).
- 💰 Explore the different types of lenders and housing loans.
- 💰 Recognize other costs associated with home ownership, such as maintenance, homeowner association fees, etc.

≡ **Payoff** ≡



🏠 Evaluate the costs and benefits of home ownership.



== Cache ==



- 💰 Closing costs
- 💰 Down payment
- 💰 Equity
- 💰 Mortgage

== *Down Payment* ==



- 💰 Hank and Peggy decide it is time to buy a house.
- 💰 They have been going to open houses to see what is available and to check out prices.
- 💰 They have been saving money for a down payment and for closing costs.
- 💰 They have been reading about housing styles and new construction techniques.

Down Payment



- ☛ They feel prepared, but are overwhelmed about making a good decision.
- ☛ If Hank and Peggy asked you for advice, what would you encourage them do?

== Building Interest ==



💧 Buying a house is the most expensive purchase many people make during their lifetime.

💧 Some common expenses associated with owning a house include:

- Insurance
- Landscaping
- Pest Control
- Mowing
- Emergency Repairs



== Building Interest ==



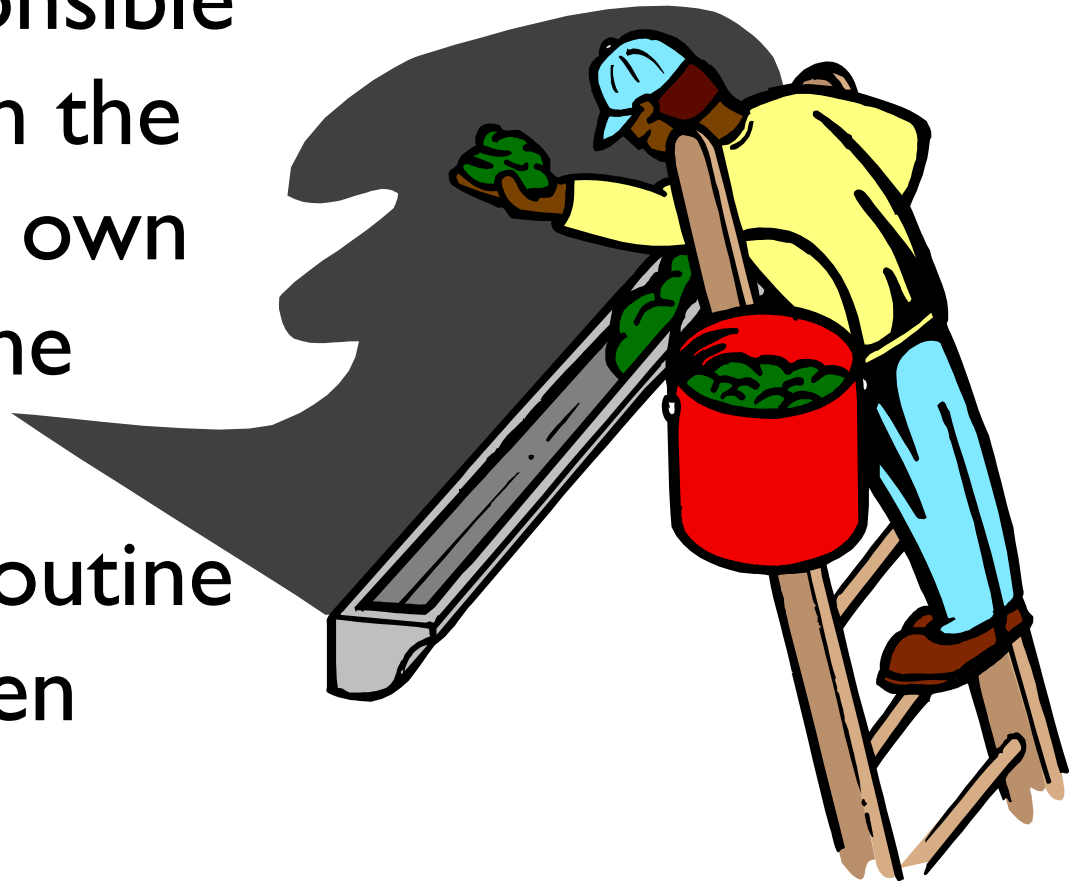
🏠 Houses come in different types:

- Single family house
- Condominium
- Duplex
- Townhouse
- Modular home
- Mobile home

≡ *Building Interest* ≡



🏠 Who is responsible for upkeep on the property you own and what is the best way to prepare for routine and unforeseen expenses?



Advantages and Disadvantages of Homeownership



Advantages:

- Improved privacy and security over living in an apartment
- Right to remodel or decorate as you please
- Provides a sense of permanency
- Builds equity
- Tax benefits

Advantages and Disadvantages of Homeownership




Disadvantages:

- Substantial financial commitment
- Requires a down payment and additional fees such as points and title insurance
- Living expenses tend to be higher
- Requires time commitment and work
- Face the risk of losing money on your investment

Financing a House



-  First step: determine how much you can afford to spend.
- Most people tend to “over buy” or “over commit.”
 - Some choose to get “pre-approved” for a mortgage amount, allowing the lender to determine how much you can afford to spend.



Financing a House



Housing Expense Ratio

Suppose your gross monthly income is \$2,000. Your house payment, including taxes, insurance, and interest, should not exceed \$560 a month.

$$(\$2,000 \times .28 = \$560)$$

Debt Ratio Formula

Suppose you pay \$500 a month in bill payments (car, credit cards, etc) and your gross monthly income is \$2,000. Your house payment, including taxes, insurance, and interest, should not exceed \$220 a month.

$$(\$2,000 \times .36 = \$720.$$

$$\$720 - \$500 = \$220.)$$

Closing Costs



🏠 Closing Costs – expenses you will need to pay when getting a house loan

- attorney's fees
- property survey fees
- lender's origination fees
- credit reports
- escrow payments
- title insurance
- recording fees
- appraisals
- termite/mold inspection
- home inspection report

Down Payments



- 🏠 Down payments are required to protect the lender in case you default (or fail to pay) on your loan.
- If you cannot pay full amount, you will be required to purchase private mortgage insurance.
 - Can take out two loans but interest and payments will likely be higher.



Down Payments



Escrow are payments made to a special account for property taxes, homeowner's insurance and other fees.



Fixed Versus Adjustable Rates



- 🏠 Fixed rate loan - has the same interest rate and monthly payment for the life of the loan.
- 🏠 Adjustable rate loans (ARM) start with lower interest rates that gradually increase. When interest rates increase, so do payments.

Fixed Versus Adjustable Rates



THREE WAYS TO REDUCE YOUR MORTGAGE COSTS

1. Make a larger down payment.
2. Shop for interest rates.
3. Make extra payments on your loan.

Congratulations on Your New House



- 🏠 Realtors can help you make good choices about real estate.
- Show you homes for sale in your price range.
 - Help negotiate the terms and sales price when making an offer.
 - Assist in finding the right people to do home inspections or minor repairs.

Congratulations on Your New House!



🏠 Earnest money is a deposit held by a third party, such as a real estate agent or a title company, until the closing



Balance Sheet



- 💡 Buying a house is similar to making any other investment.
 - Buy smart
 - Find the right house in the right location.
 - Continue to maintain it as long as you own it.
- 💡 Comparison shopping for a mortgage is as important as shopping around for the right house.
- 💡 Rate of interest and the mortgage terms will have a big impact on the total amount you pay.

== Paid in Full ==



- 💰 Hank and Peggy seem to be stuck in the “looking” stage.
- 💰 They should go to a lender, get pre-approved for a loan, then contact a real estate agent to help them find the right house.

