

Access Your Potential[®]
Financial Literacy

Buying a Home

A lesson on homeownership and
mortgages for grades 6–8



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Preview

Lesson description

In this lesson, students will learn key terms associated with mortgages and home buying. The lesson begins with students reading several facts and clues in order to guess the topic of the lesson. Students then consider why people borrow money to purchase homes and work together to put the steps of buying a home in order. In pairs or small groups, students predict the impact several factors will have on the cost of a home. They then review several examples using actual values. To conclude the lesson, students write a six-word story to summarize what they learned.

Objectives

Students will be able to:

- Explain why people borrow money to purchase a home
- List steps people take to buy a home
- Describe ways to decrease the total cost of a home

Lesson at-a-glance

Section	Purpose	Approximate time
Introduction	Introduce the presenter and the topic of the lesson	5 minutes
Activity: Guess the topic	Students try and guess the topic of the lesson after receiving three facts and two clues	5–10 minutes
Activity: Steps to buying a home	Students put the steps to buying a home in their correct order	15–25 minutes
Activity: Raise or lower	Students consider the impact various factors will have on the total cost of a home	15–20 minutes
Closing	Students write a six-word story to summarize what they learned	5–10 minutes
Total time		45–70 minutes

Prepare

Materials: *Arrive prepared.*

- **3-2-1 Guess the topic handout**—one for each student
- **Home-buying steps handout**—one set per facilitator
 - Consider printing this on card stock to make it easier for students to hold up in front of them.
- **Home-buying steps answer key handout**—one per facilitator
- **What's the impact?** handout—one for each student
- **Average home price** (see the Background section for instructions)
 - Home price in dollars:

- Area (city, county, state, etc.)

- Source:

- **Blank sheets of paper**—at least one for every group of three to four students
 - Optional, use a larger size of paper such as legal (8.5" x 14") or tabloid (11"x17").
- Markers in various colors (OPTIONAL)
- **Buying a Home post assessment**—one for each student (OPTIONAL)

Background: *Understand the topic.*

Before teaching this lesson, there are two lesson-specific things you will need to do. First, get in touch with the classroom teacher and let him or her know that the lesson begins with students trying to guess the topic based on a series of clues. Be sure to **let the teacher know this in advance** so that the answer isn't given away before you arrive. Second, you will need to do some online research in advance of the lesson to determine the **average home price in the students' area**. This can be the city, county, region, state, etc. in which the school resides. Make note of the amount, source, and area specified in the Materials section above.

Within the lesson, you will be helping students to better understand homeownership and mortgages. Students should learn a **mortgage** is a loan for a home. People can borrow money for different amounts of time, called the **term**. The **principal** is the amount of money homebuyers actually borrow. This is calculated by taking the selling price of the home and subtracting the **down payment**, or the amount of cash that a buyer offers up front. The **interest rate** is set by the lender and influences how much people will pay to borrow the money for their home.

Vocabulary: *Use grade-appropriate definitions.*

- **Down payment:** A cash payment made toward the purchase of property.
- **Mortgage:** A loan used to purchase property.
- **Fixed-rate mortgage:** A mortgage in which the interest rate remains the same for the life of the loan.
- **Adjustable-rate mortgage:** A mortgage in which the interest rate changes during the life of the loan.
- **Principal:** The amount of money borrowed.
- **Interest:** The cost of money that is borrowed, which is usually a percentage of the borrowed amount.
- **Compound interest:** Interest paid or to be paid on both the principal and any accumulated unpaid interest.

Delivery: *Decide on the format.*

This lesson can be conducted with an entire class or in small groups. For each activity, there are several facilitation options provided. Be sure to review the options in advance and determine which one will work best given the setting, number of facilitators, etc. In some cases, the facilitation option you select will influence the number of handouts needed.

Differentiation: *Be aware of your audience.*

When conducting a lesson on homeownership and mortgages, it is important to consider the students and their experiences. Be prepared to acknowledge the range of experiences and backgrounds. Touch base with your classroom teacher in advance to inquire about the student population you will encounter. Below are several examples of situations you may encounter.

- Some students may live in homes which are rented rather than owned. Avoid any judgment about which approach is better. Remind students that decisions about homeownership can be influenced by many factors including how long a family plans to live in the home, long term financial goals, and more.
- This lesson requires the use of several home price examples. Be sure to consider your audience when selecting realistic examples. If needed, adjust the Mortgage example handout with different amounts that may reflect the price of homes in your area.

Tips for PwC facilitators: *Make the most of your time in the classroom.*

Before facilitating this lesson for the first time, consider the following:

- Read through the entire lesson in advance.
- Touch base with the classroom teacher to make sure you know when to arrive, the process for entering the building, the room setup, photo release protocol, and any available technology. For example:
 - Where should you park? Where should you enter the building? Will find your own way to the classroom or will someone meet you?
 - What is the room set up (individual desks, tables and chairs, etc.)? Will you have access to a whiteboard?
 - Are you allowed to take photos during the lesson? Remember, you are required to get specific written consent from parents/guardians before taking photos of minors. How will you handle the students whose parents/ guardians have not given consent?

- If you opt to use the post-assessments, should students take it using paper and pencil or online with school-provided devices? Will the teacher want to collect the assessments and forward the results, or should you collect them?
- Remember that adults in most high schools are addressed formally using their title (Mr./Mrs./Ms.). Plan to address the teacher and any of your colleagues in this manner, even if you would normally call each other by first names.

Educator insights: *Adapt this lesson for your classroom.*

PwC is pleased to offer these lessons for use by classroom teachers to support or augment their financial education efforts. Please recognize that the materials were designed for employees to use as facilitators when visiting a class. Therefore, some sections (such as the introduction) may be unnecessary. Feel free to adapt the materials in whatever way makes the most sense for your classroom including the optional extension activities at the end of the lesson.

Teach

Opening (5 minutes)

- Thank the teacher and **introduce yourself** to the class. Explain to the students that PwC is a professional services firm that is committed to providing all students with financial literacy education through its program, *Access Your Potential*®. In simple terms, explain what you do at PwC and how it relates to what the students will be learning during the lesson.
- Let students know that you are there to help them learn more about a topic in personal finance. Inform them that they are going to do an activity to see if they can **guess the topic**.

Activity: Guess the topic (5–10 minutes)

Set up

- Tell students that you are going to give them several facts and clues to help them guess the topic of the lesson.
- Distribute a copy of the **3–2–1 Guess the topic handout** to each student. Inform students that you are going to give them **three facts followed by two clues**. They will get **one guess** at the topic of today's lesson—hence the name 3–2–1 Guess the topic.

Implementation

- Tell students they can **try and guess after just one of the clues**. Once they have written a guess down they should **flip their paper over** and listen until all facts and clues are given. They **cannot turn their handout back over** and change their guess.
- Provide the following **facts and clues one at a time**, allowing students enough time to write down a guess in between if they wish:

— Facts

- People typically take 15 to 30 years to pay this off.
- The interest rate for these can be fixed or adjustable.
- People with better credit scores will be offered lower interest rates.

— Clues

- It is often one of the biggest financial decisions a person can make.
- People often do this instead of renting.

Conclusion

- Reveal the topic of today's lesson. **Ask if any students guessed buying a home, mortgages, or home loans.** Any of these answers is correct.
- See if any students guessed it correctly. If so, **how many facts and/or clues** did it take them to guess correctly?

Activity: Steps to buying a home (20–30 minutes)

Set up

- Ask students what they think **the average cost of a home is in their area**, state, and/or the nation. Provide them with the answer and discuss whether it is higher or lower than students expected.
- **Round** that number to the nearest ten thousand (i.e., if the answer is \$238,000, round it to \$240,000). Challenge students to **estimate how long it would take to save enough money to purchase a house for that amount assuming they could save \$1,000 a month toward the purchase.** If needed, walk them through the steps.
 - \$1,000 per month is \$12,000 per year
 - Divide the average cost of a home by \$12,000 to get your answer (i.e. $\$240,000 \div \$12,000 = 20$ years).
- Ask students if they would want to spend that much time saving for a home before buying it. Tell students that **mortgages are loans for a home.** By borrowing money from a bank or other lender, people are able to buy a house sooner.

Facilitation options:

If you do not wish to use an average home price, you have several options. Skip the first step of having students guess and provide students with a sample home price. If desired, you can print a listing of a local home or show one online from a website such as Zillow, Realtor.com, or Trulia.

Implementation

- Inform students that you are going to explain the basics of how a mortgage works with their help. Mix up the pages from the **Home-buying steps handout** and then **hand one page each to select students.**
- Invite the student volunteers to **come to the front** and hold their page in front of them. Ask the remaining students to offer suggestions for **which step should come first, next, and last in the process.** Work through the steps and move students around until the steps are all in order.

Facilitation options:

If conducting this activity with multiple facilitators in small groups, have students order the steps on the table or on the floor. If choosing this option, make additional copies of the **Home-buying steps handout.**

Conclusion

- Review the **correct order** using the notes from the **Home-buying steps answer key handout**.
- Ask students to turn to a neighbor and share **one thing they have learned so far** about the homebuying process.

Activity: Raise or lower (20–30 minutes)

Set up

- Let students know that the same house can cost people a different amount over time based on several factors.
- Distribute a copy of the **What's the impact? handout** to each student. Explain that each of the factors shown on the handout will influence how much people pay.

Implementation

- Let students know that they will be working with another student or in groups of three to make a prediction about how each factor will impact the total cost of a home.
- Allow time for students to complete the column labeled, **"Predicted impact on the total cost of the home."**

Conclusion

- Review the answers using the **What's the impact? answer key handout**.
- If time allows, distribute the **Mortgage examples handout** and discuss the difference each factor has on the monthly payment and the total cost of the home.

Closing (5–10 minutes)

- Invite students to write a **six-word story to summarize the lesson**. As the name implies, a six-word story uses only six words to tell a story. An example is, "Mortgages help people buy a home."
- (OPTIONAL) Distribute a copy of **Buying a Home post assessment** to each student. Direct students to answer the questions. Inform them that they do not need to put their name on the assessment unless the teacher wishes to keep a copy for grading purposes.
- Thank students and the teacher for letting you come and talk to the class about home buying and mortgages. Remind students that the purchase of a home might seem like a long way in the future, but **the main concepts are important to understand now. Also, by saving from an early age, they can have money set aside for a down payment.**

Extend

Teacher-led follow up ideas

Bulleted list of ways the educator can extend the lesson once the facilitator leaves. Each list will include a mention of a corresponding module from the Digital Classroom, such as:

- Use the *Mortgage Mystery* module in the intermediate level of the [Earn Your Future® Digital Classroom](https://app.pwcfdearnyourfuture.org/) (<https://app.pwcfdearnyourfuture.org/>) to help students learn even more about income and careers. This resource made possible by the PwC Charitable Foundation, Inc.®, is designed for students in grades 3–12 and can be delivered in multiple formats (classroom, small group, or individually) and has accompanying educator resource guides to assist in delivery. Students can engage with financial literacy concepts through innovative self-paced modules featuring custom videos, animations, and interactive activities. A free teacher login is required to access the modules.
- Invite students to use an online mortgage calculator such as the one in the [Earn Your Future Digital Classroom](https://app.pwcfdearnyourfuture.org/) (<https://app.pwcfdearnyourfuture.org/>) to further explore the impact of various factors on the cost of a home.
- Challenge students to use a mortgage calculator to create a chart showing various interest rates and the monthly payment amount given a home price and then a spreadsheet program to create a corresponding graph of the data.
- Direct students to research interest rates and mortgages. Small groups can be given different questions to answer, such as: What is the impact of credit scores on interest rates? What is the difference between a fixed-rate mortgage and a variable-rate mortgage? How have the interest rates charged on mortgages changed over time? What are the current rates being offered on mortgages by various financial institutions?

Connect

Standards correlation

This lesson is correlated to the National Standards for Financial Literacy from the Council for Economic Education available at <http://www.councilforeconed.org/resource/national-standards-for-financial-literacy/>. Standards are classified as primary or secondary. Primary standards are addressed directly and thoroughly. Secondary standards are addressed indirectly or partially.

Primary

Using credit:

- People can use credit to finance investments in education and housing. The benefits of using credit in this way are spread out over a period of time and may be large. The large costs of acquiring the education or housing are spread out over time as well. The benefits of using credit to make daily purchases of food or clothing are short-lived and do not accumulate over time.
- People who apply for loans are told what the interest rate on the loan will be. An interest rate is the price of using someone else's money expressed as an annual percentage of the loan principal.
- The longer the repayment period on a loan and the higher the interest rate on the loan, the larger is the total amount of interest charged on a loan.

Secondary

Using credit:

- Lenders charge different interest rates based on the risk of nonpayment by borrowers. The higher the risk of nonpayment, the higher the interest rate charged. The lower the risk of nonpayment, the lower the interest rate charged.
- Various financial institutions and businesses make consumer loans and may charge different rates of interest.
- Interest rates on loans fluctuate based on changes in the market for loans.

Buying a Home

Home-buying steps handout

Prepare to pay
your down
payment.

Buying a Home

Home-buying steps handout

Meet with a lender to learn about loan options and pre-qualify for a loan.

Buying a Home

Home-buying steps handout

Make an offer on a home.

Buying a Home

Home-buying steps handout

Close on your mortgage.

Buying a Home

Home-buying steps handout

Review your savings to decide how much money you can spend on a home now.

Buying a Home

Home-buying steps handout

Develop
a budget to
determine how
much you can
afford to spend
on a home each
month in the
future.

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Home-buying steps handout

Look for homes
in your price
range.

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Home-buying steps handout | Answer key

(Note: The first two steps may be interchanged.)

1. Review your savings to decide how much money you can spend on a home now.

Explain that most home loans or mortgages require borrowers to pay a certain amount of money—called the down payment—upfront.

2. Develop a budget to determine how much you can afford to spend on a home each month in the future.

Share that this is the most they should expect to pay each month on their loan payment plus any other housing-related expenses such as insurance or taxes. Stress that it is important for the buyers to determine how much they can realistically afford and not the lender. Some lenders or real estate agents may encourage people to get a house that is too expensive for them to pay for each month.

3. Meet with a lender to learn about loan options and pre-qualify for a loan.

Tell students that getting qualified for a mortgage before getting your heart set on a specific home is a good idea. This can help you make realistic choices and avoid spending more than you should.

4. Look for homes in your price range.

Reinforce that this step should only happen after you know how much home you can afford.

5. Make an offer on a home.

Buyers make an offer to the seller. Sometimes they offer to buy the house for less than the amount the seller is asking. Other times they offer even more to compete with other buyers.

6. Prepare to pay your down payment.

The down payment on a home may be the largest check you will ever write. You will need to make sure this amount of money is in your checking account and ready to be spent when you close on your home.

7. Close on your mortgage.

Closing on a home means that you sign all of the mortgage documents and pay your down payment. Once this is done, you may move into your new home.

Buying a Home

What's the impact? handout

Directions: Predict what will happen to the total amount you pay for the home if each of the following things happens. It might help to know that the basic interest equation is $i = Prt$ where i equals the amount of interest you pay. The rest of the variables are explained below.

Factor	What happens	Predicted impact on the total cost of the home	Actual impact on the total cost of the home
Term (t) The length of the loan	Longer term		
	Shorter term		
Interest rate (r) The percent charged to borrow the money	Higher interest rate		
	Lower interest rate		
Principal (P) The amount borrowed	Borrow more		
	Borrow less		
Down payment How much you pay upfront for the home	Pay a higher down payment		
	Pay a lower down payment		

Buying a Home

What's the impact? handout

Directions: Predict what will happen to the total amount you pay for the home if each of the following things happens. It might help to know that the basic interest equation is $i = Prt$ where i equals the amount of interest you pay. The rest of the variables are explained below.

Factor	What happens	Predicted impact on the total cost of the home	Actual impact on the total cost of the home
Term (t) The length of the loan	Longer term		Raises the total cost
	Shorter term		Lowers the total cost
Interest rate (r) The percent charged to borrow the money	Higher interest rate		Raises the total cost
	Lower interest rate		Lowers the total cost
Principal (P) The amount borrowed	Borrow more		Raises the total cost
	Borrow less		Lowers the total cost
Down payment How much you pay upfront for the home	Pay a higher down payment		Lowers the total cost
	Pay a lower down payment		Raises the total cost

Buying a Home

Mortgage examples handout

The example below is based on the following:

- Home sells for \$240,000
- Interest rate starts at 3.810%
- The starting term is 30 years
- The monthly payment does not include homeowner's insurance, property tax, or Homeowners Association fees.

Down payment	Principal	Term	Interest rate	Monthly payment	Total cost of the home
20% \$48,000	\$192,000	30 years	3.810%	\$895	\$322,690.86
20% \$48,000	\$192,000	15 years	3.810%	\$ 1,401	\$252,419.73
20% \$48,000	\$192,000	30 years	4.530%	\$ 976	\$351,559.77
20% \$48,000	\$192,000	30 years	3.320%	\$ 842	\$303,729.66
10% \$24,000	\$216,000	30 years	3.810%	\$1,007	\$362,988.36
30% \$72,000	\$168,000	30 years	3.810%	\$ 783	\$282,393.53

Buying a Home

Post-assessment

Section 1: Please select the correct answer for each of the following questions.

1. Which is the best definition of a mortgage?
 - a. The amount of money people borrow when buying a home
 - b. A loan for a home
 - c. The interest rate calculation used for home loans
 - d. The amount of time a person borrows money to buy a home
2. Which of the following factors will **INCREASE** the total cost of a loan?
 - a. A lower interest rate
 - b. A shorter term
 - c. A lower down payment
 - d. A lower principal amount
3. The amount of time a borrower has to repay their home loan is called the _____.
 - a. mortgage
 - b. term
 - c. down payment
 - d. principal
4. Which of the following is good advice for someone thinking about buying a home? Select all that apply.
 - a. Know how much you can afford each month.
 - b. Be sure to save at least 50% of your income for your down payment.
 - c. Visit a lender before falling in love with a specific home.
 - d. Consider renting because homeownership is too expensive.

Section 2: Please choose the number on the scale that best indicates how strongly you agree or disagree with the following statements:

	Strongly disagree				Strongly agree
I understand the basics about mortgages.	1	2	3	4	5
I feel confident asking good questions about mortgages.	1	2	3	4	5
I am interested in learning more about buying a home.	1	2	3	4	5

Section 3: Circle your grade level.

K 1 2 3 4 5 6 7 8 9 10 11 12

Buying a Home

Post-assessment | Answer key

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 - b. **A loan for a home**
 - c. The interest rate calculation used for home loans
 - d. The amount of time a person borrows money to buy a home
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 - d. Consider renting because homeownership is too expensive.

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