At some point you’ll have to choose between buying a home or renting one. It takes a lot of time and planning, so you
should know what you’re getting into and start thinking about it early.

Learn more about buying a home by watching this video and then expand your knowledge by completing this worksheet
by yourself or with an adult!

Try It Yourself!

Let’s say the average cost of a home in your area is $240,000. How long would it take to save enough money to purchase
a house for that amount assuming they could save $1,000 a month toward the purchase?

The answer is 20 years (1,000 per month is $12,000 per year. $240,000 divided by $12,000 = 20 years).

Would you want to spend that much time saving for a home before buying it? Mortgages are loans for a home. By
borrowing money from a bank or other lender, people are able to buy a house sooner. Using what you learned in the
video, organizing these steps from 1-7 (1 being the first step, 7 being the last step). Then answer the four questions at the
bottom.

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<th>Order</th>
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<td>Prepare to pay your down payment.</td>
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<td>2.</td>
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<td>Develop a budget to determine how much you can afford to spend on a home each month in the future.</td>
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<td>Look for homes in your price range.</td>
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Vocabulary:
- **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

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.
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.

Answer key

1. B - A loan for a home
2. C - A lower down payment
3. B - term
4. A - Know how much you can afford each month and C - Visit a lender before falling in love with a specific home.