Buying a home might seem like a pipe dream right now, but it’s still a possibility if you plan properly and understand what you’re getting into.

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

Try It Yourself!

Use the terms below to fill in the blanks. Items with the same number will use the same term. Then answer the four questions at the bottom.

- Adjustable rate
- Amortization
- Annual percentage rate or APR
- Down payment
- Fixed rate
- Interest rate
- Monthly payment
- Mortgage(s)
- Private mortgage insurance or PMI
- Principal
- Terms
- Total interest

A real estate agent is hosting an open house in an area that is popular with young families. A couple stops by with their daughter. They let the real estate agent know they currently rent an apartment and are interested in buying a home. They have been saving a portion of their income each month in order to afford a (1) ________________. They heard that if they can pay at least 20%, they can avoid being charged for (2) ________________. The real estate agent confirms this. She says that the more they can set aside and pay upfront, the lower their (3) ________________ will be for their (4) ________________.

The couple asks if they can afford the home that is for sale. The real estate agent advises them to do some calculations. Using the home’s listing price of $200,000 they should first calculate 20% for the (1) ________________ which would be $40,000. The difference ($160,000) is how much they would need to borrow, also known as the (5) ________________.

She explains that several other factors will influence the amount they pay each month. First, their credit will be checked by the lender. This will influence the (6) ________________ they are offered: the better their credit, the lower the (6) ________________. This amount is often expressed as an (7) ________________. She also lets them know that there are different types of (4) ________________. Most will have a (8) ________________ which means that the percentage charged for interest never changes. Some, however, have an (9) ________________ meaning that after a set number of years, the (6) ________________ will change.

The real estate agent suggested that the couple use an online (4) ________________ calculator to get an idea of how much their (3) ________________ would be. Using a (4) ________________ calculator would allow them to look at the impact that a higher or lower (6) ________________ would make. They could also compare the costs using different (10) ________________ or durations of the loan — usually 15 or 30 years. She urged them to use one that can also create an (11) ________________ table to show how much they would pay in (12) ________________ over the duration of the entire loan.
Vocabulary:

- **Adjustable-rate Mortgage (ARM):** A mortgage in which the interest rate changes during the life of the loan
- **Amortization Table:** A schedule of payments showing the amounts of principal and interest that make up each payment
- **Closing Costs:** Costs associated with obtaining a mortgage including but not limited to origination fees, taxes, and insurance
- **Closing Disclosure:** A form that provides final details about a mortgage loan, including the loan terms, projected monthly payments, fees, and other costs
- **Compound Interest:** Interest paid on the principal and accumulated unpaid interest
- **Down Payment:** A cash payment made to the lender toward the purchase of property
- **Equity:** The difference between the current market price of a home and the mortgage balance
- **Fixed-rate Mortgage:** A mortgage in which the interest rate remains the same for the life of the loan
- **Interest Rate:** The cost of money that is borrowed, which is usually a percentage of the borrowed amount
- **Mortgage:** A loan used to purchase property such as a house, townhome, or condo
- **Principal:** The amount of money borrowed
- **Term:** The duration of a loan, typically 15 or 30 years for a mortgage

Please select the correct answer(s) for each of the following questions.

1. Which of the following is defined as the number of years that a person has to pay off their mortgage?
   a. Principal
   b. Interest rate
   c. Term
   d. Down payment

2. Your friend Mark makes $3,000 a month in take-home pay. What is the recommended maximum amount he should spend on a mortgage payment?
   a. $300 (10% of his monthly income)
   b. $600 (20% of his monthly income)
   c. $900 (30% of his monthly income)
   d. $1,200 (40% of his monthly income)

3. A couple buys a home with a 30-year, fixed-rate mortgage for $200,000 at 5.2%; however, you’d like to lower your monthly payments. Which of the following would increase their monthly payment?
   a. Decreasing the interest rate to 4.2%
   b. Increasing the length of the loan to 40 years
   c. Decreasing the length of the loan to 15 years
   d. Increasing the principal to $225,000
4. Family members are deciding between renting and owning a home. They made a list of the advantages of home ownership. Which one likely does **NOT** belong on this list?
   a. We could make changes like updating the kitchen or replacing the deck.
   b. We won’t be responsible for fixing things like plumbing leaks.
   c. We can build equity as the home increases in value.
   d. We will be able to write off the interest on our taxes.

**ANSWER KEY**

A real estate agent is hosting an open house in an area that is popular with young families. A couple stops by with their daughter. They let the real estate agent know they currently rent an apartment and are interested in buying a home. They have been saving a portion of their income each month in order to afford a **(1) down payment**. They heard that if they can pay at least 20% of the mortgage down, they can avoid being charged for **(2) private mortgage insurance or PMI**. The real estate agent confirms this. She says that the more they can set aside and pay upfront, the lower their **(3) monthly payment** will be for their **(4) mortgage**.

The couple asks if they can afford the home that is for sale. The real estate agent advises them to do some calculations. Using the home’s listing price of $200,000 they should first calculate 20% for the **(1) down payment** which would be $40,000. The difference ($160,000) is how much they would need to borrow, also known as the **(5) principal**.

She explains that several other factors will influence the amount they pay each month. First, their credit will be checked by the lender. This will influence the **(6) interest rate** they are offered: the better their credit, the lower the **(6) interest rate**. This amount is often expressed as an **(7) annual percentage rate or APR**. She also lets them know that there are different types of **(4) mortgages**. Most will have a **(8) fixed rate** which means that the percentage charged for interest never changes. Some, however, have an **(9) adjustable rate** meaning that after a set number of years, the **(6) interest rate** will change.

The real estate agent suggested that the couple use an online **(4) mortgage** calculator to get an idea of how much their **(3) monthly payment** would be. Using a **(4) mortgage calculator** would allow them to look at the impact that a higher or lower **(6) interest rate** would make. They could also compare the costs using different **(10) terms** or durations of the loan — usually 15 or 30 years. She urged them to use one that can also create an **(11) amortization** table to show how much they would pay in **(12) total interest** over the duration of the entire loan.

**Answer key**

1. C - Term
2. C - $900 (30% of his monthly income)
3. B - Decreasing the length of the loan to 15 years
4. B - We won’t be responsible for fixing things like plumbing leak


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