Lesson 10.3: Tired of Renting – Should I Buy My Own House?

Standards and Benchmarks

See page 4.

Lesson Description

In this lesson, students are introduced to the pros and cons of renting and owning a home. They also reflect on what they can afford to do, either rent or own. Terms related to obtaining a mortgage are also discussed. To obtain answer keys for the handouts and assessment in this lesson, create an account on FederalReserveEducation.org.

Concepts

Affordability
Mortgage
Owning
Renting

Objectives

Students will be able to:

- compare and contrast the benefits and costs of renting versus owning a place to live.
- explain what a mortgage is.

Compelling Question

What are the costs and benefits of owning your own home?

Time Required

60 minutes

Materials

- Handout 10.3.1: Pros and Cons of Renting vs. Buying a Home, one copy for each student
- Handout 10.3.2: Should They Buy or Rent?, one copy for each student
- Handout 10.3.3: Assessment, one copy for each student
- Answer Key 10.3
- The Pros and Cons of Buying vs. Renting a Home Video: https://youtu.be/HRGiazqyGlw
- Mortgage 101 Video and Questions: https://www.federalreserveeducation.org/teaching-resources/personal-finance/managing-credit/mortgage-101

Procedure

1. Explain to the students that some people decide to purchase a home after renting for a while. For those people, the reasons for purchasing a home can vary. However, people should always make an informed decision before deciding to purchase a home. They should be aware of the benefits, or "pros," and the costs, "cons," of both renting and buying a home.

2. Write the following categories at the top of a whiteboard or chalkboard, or on chart paper placed in different locations in the classroom: "Pros of Renting", "Cons of Renting", "Pros of Buying", and "Cons of Buying."

3. Tell students you are going to show a video on the pros and cons of renting vs. buying a home. As they watch the video, they should use the left side of the sheet of notebook paper to record examples from the video of pros (benefits or advantages) and cons (costs or disadvantages) of renting a home. They should record examples of pros and cons of buying a home on the right side of the paper.

4. Show students the video "The Pros and Cons of Buying vs. Renting a Home (Bank of America)" found here: https://youtu.be/HRGiazqyGlw .

5. Ask for four volunteers to write an example from their video notes for each of the categories posted in the room.

6. Divide the class into groups of three or four students.

7. Distribute copies of Handout 10.3.1: Pros and Cons of Renting vs. Buying a Home to each student. Tell them to use their video notes and work together in their assigned groups to develop a complete list of pros and cons for both renting and buying a home.

8. Ask each person in the teams to list an appropriate example for one of the four categories. If there are only three students in the group, one person should record an example for two categories. They should record a response that is different from examples recorded by other teams.

9. When all teams have recorded examples in the appropriate category, go over the Answers to Handout 10.3.1, found in Answer Key 10.3.

10. Tell students that costs for both renting and buying can vary wildly depending on location. In the end, deciding to buy or rent a home is a personal decision. Since it is a major part of their budget, it is very important that they consider all their options.

11. Distribute a copy of Handout 10.3.2: Should They Buy or Rent? to each student. Have students work with a partner to complete the activity. Ask for volunteers to share their answers and their rationales with the class. The answers to the handout can be found in Answer Key 10.3.

12. Tell students that to buy a home, they will likely need to take out a **mortgage**, or a loan for the purchase of a home or real estate.

13. To learn more about mortgages and the process of getting a mortgages, assign the students the following video and questions: https://www.federalreserveeducation.org/teaching-resources/personal-finance/managing-credit/mortgage-101

    NOTE: This resource can be assigned in an LMS or used on its own.

Closure

14. Review the important points of the lesson by asking students:

    a. Why do some people decide to purchase a home and stop renting? (*Answers will vary, but the students could mention that people are looking to build wealth, gain more living space, gain more freedom to make changes in their living space, etc*.)

    b. What are some of the advantages of renting? (*usually costs less than owning, less responsibility for maintenance of property, etc*.)

    c. What is a mortgage? *(A loan for the purchase of a home or real estate*.)

Assessment

15. Distribute a copy of Handout 10.3.3: Assessment to each student and have them complete it individually.

Standards and Benchmarks

National Standards for Personal Financial Education

Standard 2: Spending

A budget is a plan for allocating a person's spendable income to necessary and desired goods and services. When there is sufficient money in their budget, people may decide to give money to others, save, or invest to achieve future goals. People can often improve their financial well-being by making well-informed spending decisions, which includes critical evaluation of price, quality, product information, and method of payment. Individual spending decisions may be influenced by financial constraints, personal preferences, unique needs, peers, and advertising.

Benchmarks: Grade 12

6. Housing decisions depend on individual preferences, circumstances, and costs, and can impact personal satisfaction and financial well-being.

Standard 5: Managing Credit

Credit allows people to purchase and enjoy goods and services today, while agreeing to pay for them in the future, usually with interest. There are many choices for borrowing money, and lenders charge higher interest and fees for riskier loans or riskier borrowers. Lenders evaluate creditworthiness of a borrower based on the type of credit, past credit history, and expected ability to repay the loan in the future. Credit reports compile information on a person's credit history, and lenders use credit scores to assess a potential borrower's creditworthiness. A low credit score can result in a lender denying credit to someone they perceive as having a low level of creditworthiness. Common types of credit include credit cards, auto loans, home mortgage loans, and student loans. The cost of post-secondary education can be financed through a combination of grants, scholarships, work-study, savings, and federal or private student loans.

Benchmarks: Grade 12

2. Loans that are secured by collateral have lower interest rate than unsecured loans because they are less risky to lenders.

3. Monthly mortgage payments vary depending on the amount borrowed, the repayment period, and the interest rate, which can be fixed or adjusted.

6. Down payments reduce the amount needed to borrow.

Handout 10.3.1: Pros and Cons of Renting vs. Buying a Home

Directions: The question of whether to rent or buy a home may not be as simple as you think. To make an informed decision, people should be aware of the “Pros” (benefits or advantages) and “Cons” (costs or disadvantages) of both renting and buying a home. Use your video notes and work with your assigned group to complete the table below.

Pros (Benefits) of Renting	Pros (Benefits) of Buying
Cons (Costs) of Renting	**Cons (Costs) of Buying**

Handout 10.3.2: Should They Buy or Rent? (Page 1 of 2)

Directions: For each of the following situations, circle RENT or BUY to indicate your opinion related to the person's housing decision. Give at least two appropriate reasons for your response.

1. Jess, age 20, has just taken her first job as a sales representative trainee for an electronics company. She has enough income to pay for a monthly mortgage or a rent payment, but she wants to begin saving money for an emergency fund, a new car, and a retirement plan.

RENT OR BUY

Reasons:

1.

2.

2. Bill, age 44, travels out of town frequently for his sales job. His company may transfer him to another sales territory in her sales job.

RENT OR BUY

Reasons:

1.

2.

Handout 10.3.2: Should They Buy or Rent? (Page 2 of 2)

3. Craig, age 33, recently completed his master's degree in business while working at the same company for the past eight years. He has also been able to save nearly $30,000 over the time period.

RENT OR BUY

Reasons:

1.

2.

Handout 10.3.3: Assessment

Directions: Answer each question below.

1. A common disadvantage of buying a home is:
   a. An increase in equity.
   b. Condition in the lease.
   c. Limits on mobility if owner wants to move.
   d. Restrictions on decorating and having pets.

2. A common disadvantage of renting a home is:
   a. There are property taxes on a rental property.
   b. Having no equity in the home.
   c. Renters are required to take out a bank loan to pay the monthly rent.
   d. Upfront costs are generally higher for renting than buying a home.

3. Paul, age 22, plans to work full-time while completing his college degree in a nearby city. Explain why it might be wise for Paul to rent a home instead of purchasing a home. Give two reasons for your answer.