Lesson 4

Save and Invest: Owning versus Renting

Lesson Description

In this lesson, students will compare buying and renting a place to live. Beginning with a brainstorming activity, students will explore considerations that influence a person's decision to buy or rent. Students will explore the responsibilities and risk of buying and renting and compare the costs and benefits of each. Students will examine how the decision to buy or rent can impact a monthly budget and, through an interactive balance sheet, analyze how buying a home can help build worth by increasing net worth.

National Standards in K–12 Personal Finance Education (www.jumpstart.org)

Planning and Money Management
Standard 4: Apply consumer skills to purchasing decisions.

Instructional Objectives

Students will:

- Identify the responsibilities and risks of being a homeowner.
- Identify the responsibilities and risks of being a renter.
- Compare the costs and benefits of buying a home.
- Compare the costs and benefits of renting a home.
- Analyze the impact of buying and renting on a monthly budget.
- Analyze the impact of buying a home on an individual's net worth.

Time Required

One 50-minute class period

Materials Required

SmartBoard
Notebook File
Handout 1: Signing a Lease Agreement

Warning

The first time you teach the lesson, save a master copy to your computer or a flash drive. If you do not, you will not be able to save notes from each class. Before each class, reload the master copy of the notebook file to be certain that all of the elements on each page are ready for use.

Procedure

1. Display Slide 1. Tell students that the topic of this lesson is owning versus renting a home.

2. Display Slide 2. Review the instructional objectives for the lesson.

3. Display Slide 3. Use the space provided to brainstorm with students various considerations a person must consider when looking for a place to live.
   - Answers will vary but should include amount of money for a down payment, credit worthiness, length of time you plan to stay in one place, size of family, pets, location and proximity to school or work.

4. Display Slide 4. Use the graphics on the slide and the information below to introduce many of the concepts a person must think about when considering the purchase of a home.
   - **Property Value (fair market value)**: The estimated price a buyer and seller agree on if both are interested in completing the transaction and both have sufficient information about the market and the property. This will fluctuate with market conditions.
   - **Mortgage**: The loan a person gets to purchase a home.
   - **Equity**: The difference between the value of the property and the amount of the mortgage.
   - **Homeowner's Insurance**: The insurance a person purchases to protect the contents and structure of a home.
   - **Taxes**: Homeowners are responsible for paying taxes each year on the value of their property, but they also receive a deduction off their income taxes for the amount of the mortgage interest they pay.
   - **Responsibilities of Homeownership**: Homeowners have responsibilities that are unique to homeownership.
   - **Risks of Homeownership**: Homeowners face risks just like the owners of any financial assets.

5. Display Slide 5. Use the graphic on the slide and the information below to explain the concept of property value.
   - Tell students that homes are appraised, or have a market value established, whether they are offered for sale or not.
   - Municipalities use appraisals to determine the taxes a homeowner must pay each year in property taxes.
   - When a home is sold, lenders use appraisals to determine how much money a homeowner must provide as a down payment (cash the borrower must provide to cover the difference between the purchase price and the mortgage value).
   - In Texas, appraisals are public information provided by the county in which a home is built.
   - Property value is an asset on a balance sheet.
   - There is no guarantee that the appraised value is the price a home will sell for; it is someone's opinion of the value of the home based on its size, location and real estate conditions in the market where it would be offered for sale.

6. Display Slide 6. Use the graphic on the slide and the information below to introduce the concept of mortgages.
   - Tell students that a mortgage is the loan a homebuyer obtains if unable to pay cash for a home.
   - A mortgage is a liability on a balance sheet.
   - Mortgagees must pay the bank (or lending institution) interest over the life of the loan.
   - The interest rate charged on a loan is based on the creditworthiness, or likelihood of repayment, of borrowers.
   - The interest charged on a primary mortgage can be deducted from a person's income tax each year, lessen-

ing the tax burden.

- Mortgages can have lengths of up to 30 years in most cases.
- See Lesson 11 for more information on creditworthiness and credit scores and Lesson 12 for more information on term loans, like mortgages.

7. Display Slide 7. Use the graphic on the slide to discuss the concept of equity.
   - Equity is the difference between the property value of a home and the amount of money remaining on a mortgage.
   - Because property value is an asset and a mortgage is a liability, the equity in a home is what contributes to the growth of net worth.
   - Equity can increase if the value of the home increases or as the remaining value on the mortgage decreases.

8. Display Slide 8. Use the graphic to discuss property taxes.
   - Municipalities levy property taxes on homeowners based on the value of their homes.
   - One item often funded by property taxes is education, both school districts and colleges.
   - For many homeowners, the cost of their property taxes is built in to what they pay every month for their mortgage, but it is not part of their mortgage.

9. Display Slide 9. Use the graphic on the slide to discuss homeowner's insurance.
   - Homeowner's insurance protects homeowners from many types of loss that can occur.
   - Losses can be a result of natural disasters, fire, crime or other circumstances.
   - Mortgage companies require homeowners to keep homeowner's insurance for as long as there is a loan against the house. This is to protect the mortgage company in the event that the home is destroyed while the mortgagee still owes money.
   - It is important to read carefully what is covered by homeowner's insurance because it varies by policy.
   - For many homeowners, insurance is also rolled into a monthly payment, though like property taxes, it is not part of the mortgage.

10. Display Slide 10. Use the graphic on the screen to discuss some of the responsibilities of homeownership.
    - Ask students what chores or responsibilities they are required to perform at home.
      - Answers will vary but might include mowing the lawn, taking out the trash, cleaning their rooms, washing windows.
    - Ask students if they have ever helped with a major project at home; if so, what type.
      - Answers will vary but might include painting, landscaping or repairs.
    - There are many responsibilities associated with homeownership, including paying mortgages, taxes and insurance; maintaining the home to protect its value; and routine upkeep.
    - Some homeowners are able to perform maintenance on their own, while others bear the cost of paying people directly for the maintenance.
    - Some homes are built in locations that place special restrictions on what homeowners can and cannot do to their property.
    - When making a purchasing decision, homeowners should consider all the restrictions and responsibilities they are taking on.

11. Display Slide 11. Use the graphic on the slide to discuss the risks associated with homeownership.
    - Ask students what risks are associated with homeownership.
      - Answers will vary but might include that the house is destroyed, the property value falls, or a homeowner is

forced to sell unexpectedly.

- If property values fall, homeowners could see their equity, and therefore net worth, decrease.
- By being responsible for maintenance, if there were a large uninsured event, the homeowner would be responsible for the repairs.
- If a homeowner needed to sell the home quickly or in an unfavorable real estate market, they might be forced to take a price below what the home would be worth otherwise.

12. Display Slide 12. Use the table on the screen to compare the costs and benefits of owning a home.

Costs	Benefits
Mortgage	Potential to build worth through equity
Mortgage Interest	Often freedom to make changes to the property
Homeowner's Insurance	Opportunity to sell property at a profit
Property Taxes	Ability to deduct mortgage interest from income taxes
Maintenance and Upkeep	

13. Display Slide 13. Use the graphics on the slide and the information below to introduce many of the concepts a person must think about when considering renting a home.

- **Cash**: Renters must have upfront money for deposits and other costs associated with moving into a rental property.
- **Lease Agreements**: Renters sign lease agreements that outline many of their rights and responsibilities as well as the terms of the lease they are entering.
- **Renter's Insurance**: Renters can carry insurance to protect their property while leasing.
- **Responsibilities of Renting**: Renters may have some of the same responsibilities as homeowners, but not all. The specifics are outlined in the lease agreement.
- **Risks of Renting**: Renters take on risks associated with not participating in the real estate market.

14. Display Slide 14. Use the graphic on the slide and the information below to discuss the upfront costs associated with entering a rental contract.

- Ask students what costs might be associated with moving into a rented home.
  - Answers will vary but might include a deposit, pet fees, first and last month's rent upfront.
- Renters often have to provide a deposit before they can occupy their home.
- This fee is not like a down payment because it does not become equity, which helps a homeowner build wealth.
- If the renters take care of the property during the time they lease it, they may be eligible to get some, or maybe all, of their deposit back when they move out.

15. Display Slide 15. Give students copies of Handout 1: Signing a Lease Agreement and give students time to read it.

- Use the highlighter tool to mark the first part of each numbered section of the lease agreement.
- As you highlight each section, ask students to summarize the section and explain whether or not the same rules and restrictions are placed on a homeowner.

- As you discuss the sections, ask why they think each of these is important to the landlord and the tenant.

16. Display Slide 16. Use the graphic on the slide to discuss some of the responsibilities of renting.
- While homeowners maintain property to protect or improve its value, the responsibilities of a renter are outlined in the lease agreement.
- Ask students to recall some of the responsibilities associated with signing the lease agreement and gather them on the board.
  - Responsibilities include paying rent on time in full, only having a certain number of adult and child occupants, cleaning the property at move out, paying additionally for and declaring in advance any pets, and repairing plumbing.

17. Display Slide 17. Use the graphic on the slide and the information below to discuss the risks of renting.
- Ask students if renters bear the same risks as homeowners?
  - No, many of the risks associated with homeownership do not affect renters.
  - Renters are not at risk for decreases in market value, loss or damage to property (not caused by the renters' actions), or an inability to sell the property for the desired price.
- Renters are at risk, however, of real estate prices increasing while they are renting.
- If prices rise while a renter does not own property, they miss out on the wealth-building opportunity associated with an increase in property value.

18. Display Slide 18. Use the graphic on the slide and the information below to discuss renter's insurance.
- Ask students if they think renters are responsible for repairing the home they are renting in the event of a natural disaster.
  - Answers will vary, but often the homeowner or entity that owns the property is responsible for the overall structure.
- Ask students what renter's insurance covers.
  - Renter's insurance covers the contents of the home, or the property owned by the renter.
  - If something happens to the home, and the renter's property is damaged or lost, a renter can use insurance to replace that property.

19. Display Slide 19. Use the table on the slide to gather the costs and benefits of renting.

Costs	Benefits
Deposits and fees No equity No market participation or opportunity for an increase in net worth Restrictions on activities, per lease agreement No income tax deductions	Limited maintenance and upkeep No risk of not being able to sell No property taxes Does not add a liability to the balance sheet No risk of falling property values

20. Display Slide 20. Use the graphic on the slide to demonstrate the impact of buying a home on an individual's budget.
- Use the highlighter to mark all the monthly costs associated with buying a home.
  - Mortgage, Taxes and Insurance

    - Monthly Maintenance
    - Utilities
  - Tell students that when they own a home, they do not always have certainty in costs like maintenance. When variable costs rise, homeowners must find ways to make up the difference from their projected costs.

21. Display Slide 21. Use the graphic on the slide and the information below to discuss how renting impacts a budget.
  - Use the highlighter to highlight the monthly expenses related to renting.
    - Rent
    - Insurance
    - Utilities
  - Tell students that when they rent, there is often more cost certainty. Depending on the lease agreement, a person may have no responsibility at all for maintenance or upkeep.
  - Also, a renter is not directly responsible for the taxes associated with the property they occupy.

22. Display Slide 22. Use the interactive on the slide to reinforce how buying a home impacts a balance sheet and net worth.
  - Use the mortgage and property value buttons to select whether to manipulate the size of the mortgage or the value of the property.
  - Ask students how changes in the property value will affect a person's net worth.
    - Students should respond that as property value increases, so does net worth, and as property value falls, so does net worth.
  - Touch the property value button and use the arrows to manipulate the value up and down. Confirm that changes in the value impact the net worth as anticipated.
  - Ask students how changes in the mortgage value impact a person's net worth.
    - Students should respond that since a mortgage is a liability, as a person finances more of their home relative to their property value, their net worth decreases. As a mortgage is paid off, net worth increases.
  - Touch the mortgage button and use the arrows to change the amount remaining on the mortgage. Confirm that changes to the value impacted net worth as anticipated.

Name:____Date:______________

Lesson 4

Handout 1: Signing a Lease Agreement

W Properties

Residential Lease Agreement

THIS LEASE AGREEMENT is made and entered into this ______ day of ____________, 20 ____, by and between ______________________________ hereinafter referred to as "Landlord" and _____________________________, hereinafter referred to as "Tenant".

1. Tenant shall pay as rent the sum of $ ____________ per month, due and payable monthly, in advance, no later than 5:00 p.m. by the fourth day of every month. Tenant further agrees to pay a late charge of $___________ for each day rent is not received after the fourth of the month to the Landlord regardless of the cause, including dishonored checks, time being of the essence. An additional Service Charge of $_____________ will be paid to Landlord for all dishonored checks.

2. Tenant agrees to use said dwelling as living quarters only for ________ adults and ________children, namely:

____

and to pay $50.00 each month for each other person who shall occupy the premises in any capacity.

Tenant agrees to accept the property in its current condition and to return it in "moving-in clean" condition, or to pay a special cleaning charge of $185.00 upon vacating the premises. The carpets are to be professionally cleaned. If you prefer that we have the carpets cleaned for you, the charge will be billed to you. Carpet cleaning costs are in addition to cleaning charge.

3. PETS ARE NOT ALLOWED WITHOUT WRITTEN PERMISSION FROM LANDLORD. As additional rent, Tenant agrees to pay a non-refundable pet fee of $10.00 per month for each pet. All pets on the property not registered under this Lease shall be presumed to be strays and will be disposed of by the appropriate agency as prescribed by law. A Pet Agreement, if applicable, is attached hereto as Exhibit "B", and incorporated herein by reference. PET NAMES AND DESCRIPTION: ____

4.Tenant will be responsible for payment of all utilities, garbage, water and sewer charges, telephone, gas, association fees or other bills incurred during the term of this Lease. Tenant specifically authorizes Landlord to deduct amounts of any unpaid bills from the Security deposit upon termination of this Agreement.

IMPROVEMENTS TO PROPERTY–Any improvements to the property made by tenant inside or outside must not be removed without written permission from the property manager. This includes landscaping, shrubs, flowers, walkways, out buildings such as storage sheds and playhouses, etc. Any interior improvements the tenant may have made to the property must also remain. Improvements include but are not limited to the following: installation of ceiling fans, book shelves, shelving, light fixtures, etc.

5.If Tenant leaves said premises unoccupied for 15 days while rent is due and unpaid, Landlord is granted the right hereunder to take immediate possession thereof and to exclude Tenant therefrom, removing all Tenant's property contained therein and placing it into storage at Tenant's expense.

6. Tenant is responsible for all plumbing repairs including faucets, leaks, stopped-up pipes, frozen pipes, water damage, and bathroom caulking.

YOU SHOULD READ AND UNDERSTAND THIS LEASE. IT IS A LEGAL AND BINDING CONTRACT.
Signing below means you have read the Lease, are in full agreement with it and have received a copy of the contract.

ACCEPTED THIS ____________ DAY OF ________________________20 _____,

at ____.

(Address, City and State)

Tenant____________________________________

Landlord, Property manager or Agent_________________________