PFL Academy

Chapter 6.2: Understanding Homeownership

Student Activity Packet

THE CHALLENGE

Maria, a 26-year-old with $48,000 annual income, wants to stop renting and start building equity. She has $8,000 saved, a credit score of 680, and $25,000 in student loans. She's looking at homes around $180,000 in her mid-sized city but is confused about which mortgage type would work best for her situation.

How can understanding different mortgage options and the true costs of homeownership help Maria decide if she's ready to buy?

Learning Objectives

- Compare different types of mortgages and their advantages and disadvantages.
- Calculate the true costs of homeownership beyond the purchase price.
- Evaluate whether homeownership aligns with your financial goals and situation.

CORE CONCEPTS

Term	Definition
Mortgage	A loan specifically for purchasing real estate, where the property serves as collateral.
Down Payment	An initial, upfront payment toward the purchase of a home, typically 3-20% of the price.
PMI	Private Mortgage Insurance required when down payment is less than 20%, protecting the lender.
Escrow	An account managed by the lender to collect and pay property taxes and insurance.
Closing Costs	Fees and expenses (2-5% of purchase price) paid at the closing of a real estate transaction.

Background: Buying a home is one of the most significant financial decisions most people make. Beyond the purchase price, homeownership involves upfront costs (down payment, closing costs), ongoing expenses (mortgage payment, property taxes, insurance, maintenance), and financial benefits (building equity, potential appreciation). Different mortgage types serve different situations: FHA loans help first-time buyers with lower down payments, VA loans benefit veterans with no down payment, and conventional loans work well for buyers with stronger financial profiles.

APPLY IT

PART A: MORTGAGE OPTION COMPARISON

Compare these mortgage options for a $250,000 home purchase. Determine which option has the lowest initial cost, lowest monthly payment, and best long-term value.

Factor	Conventional (10% down)	FHA (3.5% down)	VA (0% down)
Down Payment Amount	$25,000	$8,750	$0
Loan Amount	$225,000	$241,250	$250,000
Interest Rate	4.25%	4.0%	4.5%
Monthly P&I Payment	$1,107	$1,152	$1,267
Monthly PMI/MIP	$94	$141	$0
Total Monthly (P&I + Insurance)			
Total Interest Over 30 Years	$173,520	$173,400	$206,120

1. Which mortgage option requires the lowest upfront cost? Which has the lowest total monthly payment?

2. The VA loan has no PMI but a higher interest rate. Over 30 years, how much more total interest does the VA loan cost compared to the FHA loan?

Hint: *The lowest down payment isn't always the best deal. Consider how PMI affects your monthly payment and how long you'll be paying it.*

PART B: TRUE COST OF HOMEOWNERSHIP

Calculate the complete costs for buying and owning a $280,000 home.

Home Purchase Details

Purchase price: $280,000 | Down payment: 10% ($28,000) | Closing costs: 3% | Property tax: 1.2%/year | Insurance: $1,200/year | HOA: $250/month | Maintenance: 1%/year

Total upfront costs (down + closing): ____________________

Annual property taxes: ____________________

Annual maintenance budget: ____________________

Monthly costs beyond mortgage (taxes + ins + HOA + maint): ____________________

3. If the mortgage payment (P&I) is $1,276/month, what is the total monthly housing cost including all expenses listed above?

Show your work:

Answer: $___________ per month

4. The 30% rule suggests housing shouldn't exceed 30% of gross income. What annual income would someone need to afford this home?

Show your work:

Answer: $___________ annual income needed

PART C: RENT VS. BUY DECISION

5. James can rent a comparable home for $1,800/month or buy for the costs calculated above. List TWO financial advantages of buying and TWO advantages of renting for his situation.

6. If James plans to move for a new job in 2 years, would you recommend renting or buying? Why?

CHECK YOUR UNDERSTANDING

1. Which type of mortgage typically requires the highest down payment?

- ☐ A. FHA Loan
- ☐ B. VA Loan
- ☐ C. Conventional Loan
- ☐ D. USDA Loan

2. Explain what PMI is and how a homebuyer can avoid paying it.

____

____

3. Calculation: A home costs $200,000. Closing costs are 4% and the down payment is 5%. How much cash does the buyer need at closing?

Show your work:

Answer: $____________ cash needed at closing

4. Maria from the challenge has $8,000 saved for a $180,000 home. FHA requires 3.5% down plus 3% closing costs. Does she have enough? If not, how much more does she need?

____

____

5. Reflection: What THREE financial factors would you need to have in place before you would consider buying a home? Why is each important?

____

____

____

____