PFL Academy

Teacher Guide: Chapter 6.2 — Understanding Homeownership

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	L-31 Rental Costs

LESSON FLOW

5 min — **THE CHALLENGE**

- Read Maria's scenario aloud or have students read silently.
- Discussion: "What would you need to know before helping Maria decide?"
- Connect to previous lesson: How is buying different from the rental costs we studied?

8 min — **CORE CONCEPTS**

- Review the 5 key terms. Emphasize that PMI disappears once you reach 20% equity.
- Clarify the difference between down payment and closing costs.
- Quick check: Ask students to name the four components of PITI (Principal, Interest, Taxes, Insurance).

25 min — **APPLY IT**

- **Part A (10 min):** Mortgage comparison. Walk through the table together. Students calculate total monthly payments and compare options.
- **Part B (10 min):** True cost calculations. Emphasize that the mortgage payment is NOT the total monthly cost.
- **Part C (5 min):** Rent vs. buy discussion. No single "right answer"—depends on circumstances.

10 min — **CHECK YOUR UNDERSTANDING**

- Complete in class or assign as homework.
- Review Q3 and Q4 calculations—common error is forgetting closing costs.
- Q5 reflection: Encourage specific financial milestones (emergency fund, stable income, credit score).

DIFFERENTIATION

Support

- Provide formula reference: Closing costs = Price × Percentage.
- Work through Part B calculation as a class before independent work.
- Create visual showing PITI components of a mortgage payment.
- Pair students for the rent vs. buy discussion.

Extension

- Research current mortgage rates and compare to the examples.
- Calculate how much equity is built in the first 5 years of a mortgage.
- Analyze how a 15-year mortgage compares to a 30-year mortgage.
- Research FHA, VA, and USDA loan requirements in detail.

ANSWER KEY

Part A: Mortgage Option Comparison

```
Total Monthly Payments (P&I + PMI/MIP):
• Conventional: $1,107 + $94 = $1,201
• FHA: $1,152 + $141 = $1,293
• VA: $1,267 + $0 = $1,267
```

Q1: VA requires lowest upfront cost ($0 down). Conventional has lowest total monthly payment ($1,201) once PMI is included.

Q2: VA loan costs $206,120 - $173,400 = **$32,720 more** in interest over 30 years.

Part B: True Cost of Homeownership

```
Upfront Costs:
• Down payment: $280,000 × 10% = $28,000
• Closing costs: $280,000 × 3% = $8,400
• Total upfront: $28,000 + $8,400 = $36,400

Annual/Monthly Costs:
• Property taxes: $280,000 × 1.2% = $3,360/year = $280/month
• Insurance: $1,200/year = $100/month
• HOA: $250/month
• Maintenance: $280,000 × 1% = $2,800/year = $233/month
• Monthly non-mortgage costs: $280 + $100 + $250 + $233 = $863
```

Q3: Total monthly = $1,276 + $863 = **$2,139/month**

Q4: $2,139 × 12 = $25,668/year. At 30%: $25,668 ÷ 0.30 = **$85,560 annual income needed**

Part C: Rent vs. Buy

Q5: Buying advantages: Building equity, potential appreciation, tax benefits, stability. Renting advantages: Lower upfront costs, flexibility to move, no maintenance responsibility, predictable monthly costs.

Q6: Recommend RENTING. Moving in 2 years means closing costs won't be recouped, limited equity built, and selling costs (6% agent fees) would likely result in a net loss.

Check Your Understanding

1. C (Conventional Loan) — typically requires 3-20% down, higher than FHA (3.5%) or VA/USDA (0%)

2. PMI (Private Mortgage Insurance) protects the lender if you default. Avoid it by: (1) putting 20% down, (2) choosing VA loan if eligible, (3) paying down mortgage until you reach 20% equity.

3. Down payment: $200,000 × 5% = $10,000. Closing: $200,000 × 4% = $8,000. Total: **$18,000 cash needed**

4. Maria needs: $180,000 × 3.5% = $6,300 (down) + $180,000 × 3% = $5,400 (closing) = $11,700 total. She has $8,000. She needs **$3,700 more**.

5. *Accept thoughtful responses mentioning: stable income, emergency fund (3-6 months), adequate down payment savings, good credit score, low debt-to-income ratio, job stability, plan to stay 3-5+ years.*

COMMON MISCONCEPTIONS

Misconception	Clarification
"The mortgage payment is my total housing cost."	The mortgage (P&I) is just the start. Add property taxes, insurance, PMI (if applicable), HOA fees, and maintenance (1% of home value annually).

"Renting is throwing money away."	Renting provides housing value and flexibility. In the early years of a mortgage, most of your payment goes to interest, not equity. Short-term homeowners often lose money.
"I need 20% down to buy a home."	Many loans require much less: FHA (3.5%), Conventional (3-5%), VA and USDA (0%). However, less than 20% means paying PMI.