Home – Lesson – Home Buying – Are You Ready?

Instructor Instructions

Welcome to Wells Fargo's Hands on Banking® Program!

The Hands on Banking® program is an easy and enjoyable way to teach and learn the essentials of financial education. Whether it's opening a checking account, paying for college, buying a home, or starting a small business, the *Hands on Banking* program provides real-world skills and knowledge everyone can use.

Using the Instructor Guides

These instructor guides can be used to present financial education to your audience. Additional resources are available at https://handsonbanking.org. We encourage you to review these materials prior to presenting. Doing so will allow you to present the materials more effectively and confidently.

Each Instructor Guide Includes:

The lesson includes:

- Lesson Overview
- Learning Objectives
- Starting a discussion questions
- The basics
- Tips
- Activities (Instructor and Participant copies)
- Lesson Summary

Printing Instructions

Please print one copy of the Instructor information and multiple copies of the Participant information located at the end of this instructor guide.

How to Access the Online Program

The *Hands on Banking* program is available free of charge at https://handsonbanking.org in both English and Spanish.

Thank you for sharing these valuable financial education programs with students and adults in our communities. As an instructor, your training and guidance will provide others with the knowledge and skills they need for a brighter financial future. Please contact us via email with any comments or success stories at HOBinfo@wellsfargo.com.

Lesson Overview

This lesson will teach participants the benefits and realities of owning a home, the costs involved and how to decide if they're ready to buy.

Learning Objectives

After completing this lesson, participants will be able to:

- List the benefits and realities of home ownership.
- List and explain the variety of expenses involved in purchasing and maintaining a home.
- Determine if they're ready to buy a home.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- What do you think are some of the pluses and minuses of renting your home or apartment?
- By comparison, what do you think are some of the pluses and minuses of owning your own home?
- How many Americans do you think own their own home (about two-thirds)?
- How would you go about deciding if you're ready—financially or otherwise—to own your own home?

The Basics

- Buying a home is one of the largest purchases you'll ever make.
- You need to really think through your decision to buy a home.
- Homeownership offers lots of benefits.
- But before you start house shopping, you need to think about whether owning a home is right for you—and what it will really take to buy and maintain a home.

Activity #1 – Benefits and Realities Activity (Instructor Copy)

Instructor Note

Pass out the first, blank handout. Instruct participants to write down a list of benefits of owning a home and a list of the realities of owning a home. Then, pass out the second, completed handout and lead a discussion.

Instructions

Have your participants write a list of benefits of owning a home and a list of the realities of owning a home.

Benefits and Realities of Homeownership

BENEFITS OF OWNING A HOME	REALITIES OF OWNING A HOME
A place of your own • Owning a home is an opportunity to settle down and gain a sense of belonging in a community. • It can give you a sense of personal satisfaction to have a home of your own to share and enjoy with family and friends.	Ongoing costs • Homeownership is a large, long-term financial responsibility. • If you don't want to commit to a mortgage, taxes, insurance, utilities, and maintenance—or if your future income is uncertain—owning a home may not be practical at this time.
An investment in your future • The value of your home can increase over time, making your investment grow. • As you pay down your mortgage loan over the years, you can build ownership interest, called equity, which can offer financial flexibility under the right circumstances. • Your home is also a legacy, financial or otherwise, for the next generation.	Less easy to move • If you think you may need to move in the near future, buying a home may not be practical because selling it could take time. • If you buy a home and then have to move, you could end up paying for the home you already own, plus the added expense of a new home.
Manage your housing payments • In some cases, monthly mortgage payments may be lower than rental payments. • Many home loans, or mortgages, are fixed-rate. This means the amount you pay stays the same month after month, which can help you plan your spending.	Upkeep of the home • You'll be responsible for all utility bills, home repairs, and maintenance, some of which can be costly. • You'll also be responsible for property taxes and homeowners insurance, costs that often increase over time.
Tax benefits • Most homeowners receive tax breaks, because interest paid on a home mortgage and real estate taxes are almost always tax deductible. • Consult your tax advisor regarding the deductibility of interest.	Increased value not guaranteed • While most homes increase in value over time, it is possible that your home could lose some of its value. • You could lose money if you sell it for less than what you paid for it. • Even if values in your area remain steady or increase, if you don't keep your property well maintained, it could decrease in value.
A financial stepping stone • Paying your mortgage and other expenses on time and in full will strengthen your credit rating. • Managing your finances responsibly helps to increase your financial strength and options.	Possibility of foreclosure • In an extreme situation, if you couldn't make your mortgage payments, the lender could foreclose. This means you would lose ownership of the property.

Activity #2 – The Cost of Homeownership (Instructor Copy)

Instructor Note

Instruct your participant to use the phrases from the Word Bank to match each home ownership cost with its correct description.

Instructions

Have your participants use the phrases from the Word Bank to match each homeownership cost with its correct description.

Word Bank

Bank Fees, Closing Costs, Down Payment, Home Repairs & Mainenance, Home Warranty Protection, Insurance, Mortgage, Overdraft Charges, Property Taxes

Costs of Homeownership

COST	DESCRIPTION
Down Payment	A portion of the sales price paid to the seller by the homebuyer to close the sales transaction. Down payments usually range from 3% to 20% of the property value. You may be required to have Private Mortgage Insurance (PMI or MI) if your down payment is less than 20%.
Closing Costs	Costs paid by the borrower (and in some cases the seller) in addition to the purchase price of a home. These may include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and prepaid items such as tax and insurance escrow payments. It's common for these costs to total between 3% and 5% of your total mortgage. You will receive an estimate of these costs from your lender after you apply for a mortgage.
Mortgage	Because houses have such a high price tag, almost everyone borrows some, if not most, of the money they need to buy one. You'll probably need a home loan, or mortgage, from a mortgage lender. You'll need to pay back the mortgage by making regular payments (usually monthly) over a period of years, with interest.
Home Repairs & Maintenance	The cost of maintaining your home. The amount will depend on the condition of your home, its exposure to the elements, the care with which you treat it, the number of people who live in it and the type of usage.
Property Taxes	Taxes typically paid at least once a year to one or more governmental authorities. The amount is based on the market value of your property as determined by the county where the property is located.
Insurance	Homeowner's or hazard insurance protects you against financial losses on your property as a result of fire, wind, natural disasters or other hazards.
Home Warranty Protection	A home warranty is a type of insurance that some homeowners purchase to cover repairs to major systems such as plumbing, electrical, and heating systems, as well as installed appliances.

Activity #3 – Your Home as an Investment (Instructor Copy)

Instructor Note

Start a discussion by asking questions such as:

- "How can owning a home strengthen your financial situation?"
- "If your home is an investment, what kind of financial benefits will you receive? Are there any disadvantages?"

Then, distribute the activity handout and continue the discussion by emphasizing these key points. When you buy a home, you're making an investment that can strengthen your financial future.

Benefits of Homeownership

BENEFIT	DESCRIPTION
A Solid Long-Term Investment	• Over time, homeownership builds wealth. • According to the most recently available figures from the Federal Reserve, the median net worth for homeowners was 46 times the median net worth for renters: $184,400 vs. $4,000. Homeownership is a powerful contributor to the difference.
Significant Tax Advantages	• Within limits, homeowners can deduct mortgage interest, mortgage insurance, and property taxes. • When you sell the home, there may be a capital gains tax exemption available for primary residences. • Check with a tax professional to see how these benefits may apply to you.
Historically, Home Prices Rise	While home prices have seen recent declines in some areas, home prices generally appreciate, or rise, over time. • Historically, most homeowners who own their property as a long term investment have seen the value of their investment increase.
Housing Markets are Local, not National	A home's value reflects local conditions, so instead of worrying about national averages, consider the prospects for economic growth, housing supply, and housing demand in your local area. Talk with real estate professionals in your community to get an assessment of local conditions.
Timing the Housing Market is Difficult	Naturally, you'd like to buy a home when prices are at their lowest point, and then sell it years later, just as home values and prices reach some peak. But don't count on it. Successfully "timing the market" owes much more to luck than to skill. A more sound strategy is to have more time in the market. In other words, if you plan to purchase a home for the long-term, there's usually a better chance that your investment will increase in value if you buy rather than wait on the sidelines.

Activity #4 – Are You Ready? (Instructor Copy)

Instructor Note

Instruct your participants to complete the checklist. When they are finished, reveal that if they checked yes to at least six of the items, they are probably in a good situation to consider buying their first home. This checklist will help you determine if you're ready by asking you questions about:

- Your current financial picture
- Credit history and credit score
- Debt-to-income ratio
- Ability to pay monthly

Benefits of Homeownership

YES √	NO √	SITUATION
		I have a steady, reliable source of money coming in.
		I've been employed on a steady basis for at least the last two years.
		I pay my regular monthly bills, such as rent and utilities, on time.
		I make regular payments on my debts (credit cards, car loans, etc.).
		I can afford to continue to pay these debts plus pay a mortgage. (In general, mortgage costs should not exceed 28% of your gross income.).
		I've researched how much my other expenses are likely to be—such as homeowners insurance, taxes, association dues, utilities, repairs, and maintenance— and feel confident that I can pay them.
		I have some money saved for the purpose of buying a home.
		I understand that buying a home is a major, long-term responsibility. I'm committed to fulfilling that responsibility.
		I have time to take care of a house—including responsibilities like home repairs and yard work.
		I've recently reviewed my credit report; I know my current credit score.

TIP!

As a homeowner, your monthly house expenses may be higher than what you paid in rent, but you're investing in an asset that can help you build wealth and roots in a community.

Activity #5 – To Buy or Not to Buy? (Instructor Copy)

Instructor Note

Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions

Have participants read Brandon and Tracy's story. Based on their situation, choose the best possible option. Then, for each option, have them write a few sentences about why the option was right or wrong for Brandon and Tracy's situation.

Brandon and Tracy's Story

Brandon and Tracy both have demanding jobs and live in a beautiful $1,200 a month apartment. They're considering buying their first home and have found two they like. Each costs $200,000; the monthly mortgage payment will be $1,298. The house they prefer needs a lot of repairs. To buy either, they'll need most of their savings for the down payment and need to cut back on a number of things in order to pay the new monthly expenses. What should Brandon and Tracy do?

1. Keep working, saving, and enjoying their apartment until they can buy a house they really want.

Consequences: They're enjoying the apartment, but are not getting anywhere financially. Their homeowner friends are starting to build home equity and have tax advantage. They have nothing to show but a cancelled check. They should have been more flexible about giving up a few things and bought a home sooner.
Feedback: If their landlord raises their $1,200 rent by 2% a year, in 30 years they'll be paying $2,828 a month. After 30 years, they'll have paid more than $685,000 with no assets to show for it. If they're willing and able to pay somewhat more for housing now, they could start building wealth as home- owners.

2. Buy the house that's in better condition.

Consequences: This was the right choice at the right time. Although it isn't their dream home, it's a great start to building home equity and getting tax advantages. They're managing their money to pay all the new expenses. They liked the other house, but didn't have the time or money to deal with all the repairs.
Feedback: This is the best choice. Based on a 3% average annual increase in value, their$200,000 home will be worth $485,000 in 30 years. They'll also be able to save money each year on taxes.

3. Buy the house they prefer, even though it needs repairs.

Consequences: They're glad to be homeowners, but living through the remodeling is a hassle. They're both so busy at work that they had to hire contractors for the repairs. That costs a lot, espe- cially on top of all their other new home expenses. But, they are in the location they want and the house will look great. Overall, we think our investment in this fixer-upper will be worthwhile.

Feedback: This wasn't the ideal short-term choice but could work out long-term. They should have considered the total picture of their new monthly expenses. They'll be short on funds until the remodel is done and their home could lose value if they can't complete the necessary work.

Lesson Summary

Instructor Note

Summarize this lesson by reviewing these key points with your participants.

Key points from the Financial Institutions lesson

- Buying a home is one of the largest purchases you'll ever make.
- You need to really think through your decision to buy a home.
- Homeownership offers lots of benefits.
- But before you start house shopping, you need to think about whether owning a home is right for you—and what it will really take to buy and maintain a home.

Instructor Note

At this point in the class, consider using this recommended Topics (Checking Accounts | Manage Your Account | About Financial Institutions) as a discussion resource or a takeaway for your participants. You can find this and other Topics on https://handsonbanking.org.

PARTICIPANT HANDOUT

Activity #1 – Benefits and Realities Activity

Instructions

In the spaces provided, write a list of the benefits of owning a home and a list of the realities of owning a home.

Benefits and Realities of Homeownership

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This checklist will help you determine if you're ready by asking you questions about:

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What should Brandon and Tracy do?

1. **Keep working, saving, and enjoying their apartment until they can buy a house they really want.**
   Should they choose this option? Why or why not?

2. **Buy the house that's in better condition.**
   Should they choose this option? Why or why not?

3. **Buy the house they prefer, even though it needs repairs.**
   Should they choose this option? Why or why not?