

Name:

### Students will be able to

- Explain what a mortgage is and why most Americans require one to finance a home
- Use a mortgage calculator to explore how downpayment, credit score, interest rate, and term all impact the total cost of buying a home
- Distinguish between fixed- and adjustable-rate mortgages

**NOTE:** Vocabulary for this unit can be found in the [NGPF Personal Finance Dictionary](#)

### INTRO

#### **DATA CRUNCH:** [What Percentage of US Households Own Homes?](#)

Analyze the image on the worksheet to answer the questions on this Data Crunch.

### LEARN IT

#### **VIDEO:** [Demystifying Mortgages](#)

Since the start of the 21st century, over half of US households have been homeowners rather than renters. What you may or may not know is that most homeowners can't afford to buy their homes in one cash payment; instead, they take out a mortgage. Watch this video to answer the questions about mortgages.

- 1. How does an annual percentage rate (APR) for mortgages differ from a more traditional interest rate?**
- 2. One downside of an adjustable-rate mortgage is that it is riskier than a fixed-rate mortgage. Explain why.**
- 3. In the video's amortization example, the borrower makes a \$711 payment, where \$375 goes toward paying interest and \$336 goes toward paying the principal. Should the borrower be worried that they'll never pay off the mortgage? Why or why not?**

#### 4. Why is choosing an appropriate mortgage potentially even more important than choosing an appropriate auto loan?

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##### **ARTICLE:** [How to Choose Between a Fixed-rate and ARM](#)

An adjustable rate mortgage is sometimes called an ARM for short. Read the linked portion (How to Choose Between a Fixed-Rate and Adjustable-Rate Mortgage) of this article for some tips on how to choose between fixed-rate and ARMs, stopping after the Pro/Con chart the article provides.

##### **1. Decide which type of mortgage each person listed here might choose.**

- a. Carl, who is living in Lexington with his girlfriend until she finishes her med school program
  
- b. Tanya, who's worked out a budget that allows her to pay her mortgage and save for her three young children's college funds
  
- c. Kristie, who needs lower payments for a few years until she's done paying off her student loans, and who thinks she could then afford far greater payments.



##### **ACTIVITY:** [CALCULATE: Using a Mortgage Calculator](#)

Now that you know a little bit about mortgages, use an online mortgage calculator to explore some real-life scenarios for prospective homeowners. Follow the directions on the worksheet to complete this activity.



Follow your teacher's directions to complete the Exit Ticket.