Mortgage Basics (Key)

Your name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Partner’s Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Instructions: Working in pairs, use your textbook and reliable internet sources to fill in the worksheet. You BOTH must turn in a completed worksheet at the end of class. If you get stuck on an item, skip it and be sure to ask at the end of class. Please make sure to cite your sources on this sheet in the space provided.

1. A mortgage is:

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| There are a wide variety of correct answers. After about 5 minutes of group work time, discuss as a class to ensure everyone is on the same page. “A temporary, conditional pledge of property to a creditor as security for performance of an obligation or repayment of a debt.” |

* 1. Once you have made enough payments to completely pay off the debt on a mortgage contract, you OWN your home.
1. In reference to housing, rent (noun) is:

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| Again, there are many correct answers. “Payment, usually of an amount fixed by contract, made by a tenant at specified intervals in return for the right to occupy or use the property of another.” |

* 1. At the end of your rent contract, the LANDLORD owns the space you were living in.
1. A mortgage payment consists of several costs. Every mortgage includes PRINCIPLE and INTEREST.
	1. The amount of your mortgage payment allotted for INTEREST usually decreases over the life of the loan while the amount allotted to PRINCIPLE usually increases.
	2. You earn EQUITY in your home by paying off the principle of your loan and when the value of your property INCREASES.
	3. Funds from the balance of your mortgage payment (after principle and interest) get deposited into an ESCROW account, and are used to pay for property TAXES and INSURANCE.
2. Homeowners must carry HOMEOWNERS insurance, sometimes referred to as hazard insurance. This insurance helps protect the homeowner’s POSSESSIONS and also protects them from LIABILITY in case someone gets hurt on their property.
3. If your DOWNPAYMENT is less than 20% of the appraised value of the home you want to buy, you may be required to carry PRIVATE MORTGAGE INSURANCE or PMI. This insurance protects the LENDER in case the BORROWER stops paying their payments, otherwise known as DEFAULTING on the loan.
4. In some communities, an additional monthly fee must be paid to the HOME OWNERS ASSOCIATION or HOA.
	1. The HOA uses these fees to keep up playgrounds, pools, tennis courts and other amenities for use by people who live in the community. They may also have special requirements, known as COVENANTS, that might restrict how your home can look on the outside including paint color, lawn maintenance and use of clotheslines.

Now, as a pair, do your own research on typical rent payments.

1. How are rent payments similar to mortgage payments?

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| There are a variety of correct answers. They may include: They are both costs of living, both occur monthly, both are expensive, etc.  |

1. How are rent payments different from mortgage payments?

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| Also, many correct answers here. Possibilities include: rent is not a loan while a mortgage is, you don’t have anything to show for a rent payment while you will eventually own your home after your mortgage, renting feels more temporary while a mortgage feels more permanent, etc.  |

1. Regardless of whether you are paying on a mortgage or making rent payments, experts recommend that your total housing costs equal less than 30% of your monthly take-home income.
2. Neither rent nor mortgage payments typically include UTILITIES such as gas, electricity and WATER.

List the page numbers and/or websites you used in your research below.

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After the class discussion, please write down any questions you still have:

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