



# Financial Literacy Course

East High School  
Module 7

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# What will you learn about?

- Your Housing Choices
- What is a Mortgage
- The Difference Between Renting and Owning
- Your Transportation Choices

# Your Housing Choices

**Buying Basics** – Unless you're already wealthy, you'll need a mortgage to buy a place

- When you apply for a mortgage, the bank will look at your credit rating to see what mortgage terms you qualify for
- To make sure you pay your mortgage, the bank has a lien on the property you buy. The legal definition is a little complicated, but basically it means if you don't pay the mortgage, the bank has the right to take your house.
- You are responsible for all maintenance costs and utilities bills

# Your Housing Choices

## **Advantages and Disadvantages of Buying**

**Buying** – Ownership mean you can do what you want with your property. You can have all the pets you want, for example.

- If you have a fixed-rate mortgage, you'll pay the same amount every month. There is no landlord raising the rent.
- Depending on the market, houses can increase in value or appreciate. When you sell your house, you might make a profit.
- To get a mortgage, you need to have quite a bit saved up and usually make a down payment at the beginning – a large sum of money you pay towards the property upfront

# Your Housing Choices

**Renting Basics** – Renting is usually what people do when they're just starting out.

- You sign a lease with a landlord and agree to pay a monthly rent to live there, making you a tenant of the property
- Landlords usually takes care of the building maintenance as part of the agreement
- Sometimes utilities are included in rent
- You don't have to worry about selling if you want to move – you wait until the lease is over

# Mortgages

**Mortgage** – A loan used to buy a house

- **Fixed Rate** – Interest rate stays the same
- **Adjustable Rate** – Rate tied to an economic index that can go up or down. This will change your monthly payment
- **Balloon Payment Loan** – Lower interest rates in exchange for making a really big payment at the end of the loan period.
- **Default** – If you don't make your payments, you are failing to hold up your end of the bargain. The bank can foreclose on the property

# Renting vs Owning Terms

**Lease** – A rental agreement that lays out terms for the property you'd like to rent (like how much you're going to pay and how long (and how often) you're going to pay it)

- The most familiar use of a lease is in the rental of housing, like an apartment. This refers to the document you sign with the owner giving you the right to live there in exchange for paying the rent and complying with any other requirements
- Leases are also used with leasing a car, which is really just a long-term rental agreement.

# Renting vs Owning Terms

**Appreciating Asset** – Something you own that increases in value over time.

- Real estate can be an appreciating asset

**Depreciating** - Something you own that decreases in value over time.

- A car is a great example of a depreciating asset.



# Transportation Choices

**Why Buy** – Buying means you'll have full ownership, so you can do pretty much whatever you want with your car. You can drive it as far as you want and treat it however you like.

- Because it's an asset you own, you can sell your car and make back some of your money
- A car is a depreciating asset, so you're likely to get less money than you paid for it when you sell it

# Transportation Choices

**Lease** – A long-term rental agreement for a car or other type of vehicle. You pay rent each month to the dealership you leased it from to drive it. Unlike renting an apartment, however, you pay the maintenance fees, too.

- Dealer sets a maximum mileage you can drive each year, with charges if you go over the limit.
- Wear and tear requirement – if your car gets banged up, you get charged
- Early termination fees if you end your lease too early
- Since you don't own the car, you can't make any money back when you sell it later

# Transportation Choices

**Why Lease** – Leasing payments tend to be cheaper than loan payments for the same car if you buy it. You can lease a more expensive car than you could afford to buy

- Not having to sell the car when you're done with it means one less thing to worry about
- Even if you lease a car, most agreements give you the option of buying it once the lease is up, in case you'd like to keep it

# Transportation Choices

## **Downside of Car Buying/Leasing**

- Number of expenses you'll pay no matter if you buy or lease
  - Gasoline
  - Legally required to own car insurance
  - Maintenance and repairs