

A SORTED TEACHER'S GUIDE

Mortgages

The biggest purchase
you're likely to make



sorted.org.nz

YOUR INDEPENDENT MONEY GUIDE

BROUGHT TO YOU BY THE RETIREMENT COMMISSION

Welcome to Sorted Journeys

This resource is based on an advertisement featuring real life New Zealanders Rochelle & Junior on their journey towards getting sorted. Rochelle & Junior want to buy a house.

Use this resource to introduce students to mortgages – the decision-making and consequences of those decisions.

Students will explore the following concepts:

- Effective money management and planning helps to achieve goals
- Debt is a big decision and requires financial planning
- There are tools available to help work out the true cost of debt.

This resource is intended for students in Years 11-13. It includes lesson suggestions, extension activities and ideas for homework.



What's in this guide?

Section A Learning outcomes & links

Where possible the Sorted Journey advertisements have been linked to the New Zealand Qualification Authority (NZQA) unit standards as a guide for a core teaching programme. In this section you'll find out how this teaching resource links to the Personal Financial Management Curriculum, the NZ Curriculum and suggested links to a range of unit standards.

Section B Preparing for the lesson

This section lists the things you need to prepare for the lesson and includes background information about Rochelle & Junior and their Sorted journey.

All lessons require internet access.

Section C Learning activities

This section is split into different topics, each featuring relevant resources and suggested activities for the classroom. Some include suggestions for extension activities and homework as well:

- 1 Rochelle & Junior's Sorted journey
- 2 Mortgages – What are they?
- 3 Terminology
- 4 Mortgages – Can I afford one?
- 5 Getting a mortgage – Where to start.

Where possible, the exercises are self contained, scalable, and move from simple to advanced. You can choose and adjust the weight of the exercises based on the level of the group.

If you need to alter activities to make them more relevant to your students – their lifestyles, families, cultural values and social backgrounds – please do so.

Sorted Journeys

Sorted Journeys is a series of four television advertisements featuring real New Zealanders using *sorted.org.nz* to get their money matters sorted.

With these Sorted Journey's education resources, students have the opportunity to identify the financial behaviours that reflect their values and attitudes. They learn about the skills and tools they need to manage their financial situation effectively.

Each advertisement is one minute long and features a particular topic:



Budgeting with Carl & Jess



Mortgages with Rochelle & Junior



Credit cards with Raeanna



Retirement planning with Liz

Section A Learning outcomes & links

Links to the Personal Financial Management Curriculum 2006

Students will demonstrate knowledge and understandings of:

Different values and ethical factors relating to use of income

Students could demonstrate such knowledge and understandings when they:

- Explore ways in which needs and aspirations may be financed.

Managing credit

Students could demonstrate such knowledge and understandings when they:

- Understand the need to plan and manage debt.
- Compare costs, obligations and time frames of different forms of credit arrangements.

Why and how people invest income

Students could demonstrate such knowledge and understandings when they:

- Investigate and compare interest rates and terms over time.

This resource
is intended for
students in Years
11-13.

Links to the NZ Curriculum

The Sorted Journey advertisements provide teaching opportunities of the type outlined in the NZ Curriculum.

'Links between learning areas should be explored. This can lead, for example, to units of work or broad programmes designed to: develop students' financial capability, positioning them to make well informed financial decisions throughout their lives.'

Page 39, The NZ Curriculum

There are teaching opportunities designed to provide knowledge and opportunities to develop key competencies.

The people within the Sorted Journey advertisements have to make decisions, manage self, think and use language, symbols and tools. Their financial behaviour is not value-free and there are situations where their beliefs about what are important and desirable, are reflective of their thinking and actions.

Teachers are advised to keep the key competencies in mind when using these resources.

Through the teaching resource and financial learning experience, students are given the opportunity to learn about their own values and those of others. They will learn about the different kinds of values, including moral and economic values.

These learning experiences provide students with the opportunities to critically analyse people's values, various life stage decisions and the actions on which they are based.

Financial learning contains literacy and numeracy elements, as finance has specialist use of language, and tools and symbols to make meaning of information.

Links to NZQA unit standards

Here are some NZQA unit standards that this teaching resource could be relevant to. These are suggestions only and teachers are encouraged to add exercises and resource material to meet assessment guidelines.

Additional standards already registered on the NZQA Framework can be used to deliver financial education content or to use financial education as a context for the standard. These can be found at www.nzqa.govt.nz.

Level 1	
US number	5224
Field	Science
Subfield	Mathematics
Domain	Number
Credits	2
Title	Use decimals and percentages to solve problems.
Elements	Use decimals and percentages to solve problems.

US number	5234
Field	Science
Subfield	Mathematics
Domain	Number
Credits	3
Title	Use calculations in money situations.
Elements	Use calculations in money situations.

US number	5227
Field	Science
Subfield	Mathematics
Domain	Number
Credits	3
Title	Solve problems involving money.
Elements	Solve problems involving money.

US number	1293
Field	
Subfield	Communication skills
Domain	Interpersonal communications
Credits	2
Title	Prepare for an informal one-to-one, face-to-face interview.
Elements	Be interviewed in an informal one-to-one, face-to-face interview.

Level 2	
US number	24704
Field	Core Generic
Subfield	Core Generic
Domain	Personal Financial Management
Credits	2
Title	Demonstrate knowledge of banking products and services for personal financial management.
Elements	Describe banking products and services for personal financial management. Evaluate costs and benefits of personal bank accounts for personal financial management. Select and justify the most appropriate account for a given situation.

Section B Preparing for the lesson

Preparation

- 1 Watch the advertisement: www.sorted.org.nz/journeys/rochelle-and-junior
- 2 Read Rochelle & Junior's story below.
- 3 Preview the teaching material and student workbook so that you're prepared for the topics and tasks that lie ahead. Some learning activities have extension and homework tasks associated with them.
- 4 Print enough student workbooks for your class.

Rochelle & Junior's story

Young couple Rochelle & Junior are a big step closer to owning their first home thanks to the resources on sorted.org.nz.

"We have found a house we both love, but we didn't have any idea what was involved in getting a mortgage. The mortgage calculator helped us work out what our repayments would be and whether we could afford it.

"It's going to be a stretch if we go ahead with the purchase, and we will definitely have to go to the Budget calculator to make sure we don't overspend but at least we will be going into it with our eyes wide open," said Junior.

"I was absolutely shocked when the mortgage calculator showed us how much interest we would pay over a 30 year term. It's almost the same amount again as the price of the house. That provides us with a real incentive to manage our money well and pay off the loan more quickly," said Rochelle.

Junior hopes other people, and in particular Pacific communities will see the process that he and Rochelle have been through and be similarly motivated to explore the Sorted website so they too can plan and budget to meet their goals.

"Gift giving is an important part of our culture but it can easily get out hand and result in real hardship especially if families are forced to borrow money to meet these obligations. Going into debt is a big decision and one that shouldn't be taken lightly," said Junior.

"That's where the Sorted resources are awesome because by taking into account the interest you're going to pay, you can work out the true cost of the borrowings."

Rochelle & Junior are getting sorted and you can too.

All lessons require internet access.



Section C Learning activities

1 Rochelle & Junior's Sorted journey

Students consider Rochelle & Junior's financial situation and identify the key themes and messages within the advertisement.

Estimated time 30 minutes

Resources required

Rochelle & Junior's advertisement:
[www.sorted.org.nz/journeys/
rochelle-and-junior](http://www.sorted.org.nz/journeys/rochelle-and-junior)

Student workbook

ADVERTISEMENT

Individually

Students watch Rochelle & Junior's advertisement several times. Before showing the advertisement for the first time, alert the students to the key themes they will need to look out for each time the advertisement is played.

Themes

First screening: Ask the students to focus on Rochelle & Junior's current lifestyle and their goals.

Second screening: Ask the students to focus on the financial tools Rochelle & Junior use to help them.

Third screening: Ask the students to focus on the lessons.

Rochelle & Junior have learnt and their future plans.

Give students time to take notes in between each screening.

MORTGAGES

WHAT DO YOU REMEMBER?

In pairs/small groups

Using their findings from the advertisement, students discuss the following questions with one another. Students record answers in their workbooks in preparation for the next activity.

-
- Q What are Rochelle & Junior's current circumstances? A *Rochelle & Junior got married 6 months ago, they have a baby on the way and they would like to buy their own home.*
-
- Q How did Junior learn about mortgages? A *Junior said he learnt from his parents.*
-
- Q What financial information did they need to complete the mortgage calculation on *sorted.org.nz*? A *The mortgage amount, the start date of the mortgage and the frequency of payments.*
-
- Q What was the outcome of that calculation? A *The minimum fortnightly repayments were equal to about half of one of their wages.*
-
- Q How did they react to the outcome of the calculation? A *Rochelle & Junior seemed shocked.*
-
- Q Why did Rochelle see it as a good idea to do the mortgage calculation? A *Rochelle said it helped to find out whether they can realise their dream now or wait a couple of years.*
-

REFLECTION

Class discussion

Students discuss their answers as a group.

Consider the following questions:

- Do you think Rochelle & Junior will achieve their goal of buying a house?
- If not, why not? How will they fund it?
- What do you think Rochelle & Junior value the most?
- What do you think the couple believes in?
- What other goals might they have?
- What suggestions and/or advice would you offer them?

2 Mortgages – What are they?

A mortgage is money borrowed to buy a property. It's also referred to as a home loan. Rochelle & Junior have their hearts set on owning their own home. They will need to find out what is involved in getting a mortgage to help them achieve their goal. In this topic students are introduced to mortgages.

Estimated time 15 minutes

Resources required

Mortgages section on sorted.org.nz

Mortgages movie on sorted.org.nz/movies

Student workbook

BRAINSTORM

In pairs/small groups

In this activity, students have the opportunity to share their understanding and knowledge of mortgages.

Students brainstorm the following:

- What do you know about mortgages?
- Who gave you this information or where did you learn it from?

Students record the main findings in their workbooks and give feedback to the class. Answers will vary depending on Year group.

MORTGAGES MOVIE

Individually

Students view the Mortgages movie www.sorted.org.nz/movies and write any observations or notes in their student workbook.

INTERVIEW

Homework

Students interview an adult or a group of adults on the following topic and record the responses in their workbook:

The pros and cons of paying rent compared with owning a property and paying a mortgage.

Here are some suggestions:

Renting

Pros: You do not pay for repairs (eg: if the oven or plumbing needs fixing).

Cons: You may not be able to decorate the property as you'd like.

Home ownership

Pros: You have an asset.

Cons: All costs associated with the property are your responsibility.

Students present their interview findings to class. You may wish to adopt a PMI (positive, minus, interesting) format for this, which students can use to compare and discuss.

3 Terminology

For many, a home is likely to be the biggest purchase of their lives, and a home loan their biggest financial commitment. Yet the language and terms related to mortgages can be specific and confusing. In this topic, students familiarise themselves with the terminology associated with mortgages.

Estimated time 60 minutes

Resources required

Mortgages section on sorted.org.nz

Glossary on sorted.org.nz

Student workbook

THE LANGUAGE OF HOME LOANS

In pairs

Select some mortgage terminology for students to research. Depending on the Year group, additional terms can be added to the words suggested here:

Mortgage terms

Assets	Liability	Refinance
Bridging finance	Loans	Repayment holiday
Equity release	Mortgage protection insurance	Revolving credit
Guarantors	Pre-approval certificate	Table mortgage
House deposit	Principal	Valuation
Interest (fixed, floating, interest only)		

Ask the students to arrange themselves in a line from those who know a lot about mortgages to those who know the least. The more knowledgeable students pair up with the less knowledgeable for this activity.

Students brainstorm and discuss the mortgage terms and create their own definitions. Then compare their definitions to those on sorted.org.nz and record the Sorted definition in their workbooks.

Pairs share their findings with the class. Allow additional time for discussion and feedback.

MORTGAGES

REFLECTION

Class discussion

Ask students to consider the following questions:

- Do they think this information would have helped Rochelle & Junior in their understanding of mortgages? Why? Why not?
- Have the definitions helped your understanding of mortgages? What else would you like to know?

ACTIVITY VARIATIONS/EXTENSIONS

DEFINITIONS

Class activity

Students compile a dictionary of mortgage-related terms that they can share with family and friends.

4 Mortgages – Can I afford one?

For students, mortgages may seem like a long way off. However they may have an idea of the sort of home they would like to have one day. But do they know how much they will have to borrow to buy it?

This section introduces students to mortgage calculators on *sorted.org.nz* and how different interest rates and payment options can influence their decisions to borrow.

Estimated time 60 minutes

Resources required

Mortgages repayment calculator on *sorted.org.nz*

Calculator

Student workbook

DIFFERENT OPTIONS

In pairs/small groups

There are many different loans you can choose from, each with its own interest rate, fees and degree of flexibility. These key features all affect how much the loan will cost you and when it will be paid off. Don't be distracted by giveaways, competitions or gimmicks which don't have any effect on the loan itself.

*Will the lender lend you the money you need for your dream home?
That depends on:*

- 1 The repayments you can afford to make*
- 2 How much your borrowing will be when compared to the value of the house.*

In this activity students use the information in the following case study to look at different mortgages (interest rates, timeframes, house prices) for three different houses, and assess the options.

CASE STUDY

Imagine Rochelle & Junior have viewed three houses. They would like to see which home is best suited to their situation.


They have been to a lending organisation and have three different mortgage options to choose from, each with three different interest rates.


They would like to make fortnightly repayments to the mortgage.




MORTGAGES

Students use the Mortgage repayment calculator on sorted.org.nz to complete the following tables.

OPTION 1		
House price: \$320,000	Suggested mortgage: \$260,000	
Time frame: 15 years	Start date: Use today's date	
Interest rate	Fortnightly payment	Total repayment
7.0%		
7.2%		
7.5%		

OPTION 2		
House price: \$275,000	Suggested mortgage: \$220,000	
Time frame: 20 years	Start date: Use today's date	
Interest rate	Fortnightly payment	Total repayment
7.0%		
7.2%		
7.5%		

OPTION 3		
House price: \$445,000	Suggested mortgage: \$356,000	
Time frame: 30 years	Start date: Use today's date	
Interest rate	Fortnightly payment	Total repayment
7.0%		
7.2%		
7.5%		

MORTGAGES

Using the information in the tables, students discuss the following questions and record their answers in their workbooks.

- Q Which mortgage option should Rochelle & Junior take? Why?
- Q Once Rochelle & Junior have their baby, they will have to rely on one income. Imagine Junior's income is \$50,000 (after tax). With the mortgage option you've chosen, will they still be able to meet the mortgage payments?

Answers will vary.

REFLECTION

Class discussion

Consider the following question:

- As well as saving for a deposit, home-buyers also need money to cover the legal costs, mortgage application fees, the property valuation (if required), insurance and the cost of moving. How much extra do you think they should save to cover these costs?

ACTIVITY VARIATIONS/EXTENSIONS

VISUAL DISPLAY

Individually/in pairs/ groups/homework

Students create a visual display of their dream home using a range of mediums. Examples could include: a magazine spread, flyer, posters, dream boards and sculptures. Students present or report findings back to class.

RESEARCH

Individually/pairs

Students find a house they'd like to buy using the real estate section of the local newspaper, Trade Me or real estate magazines. Make sure it includes an indicative price. Students research home loan rates with different banks and use the Mortgage repayment calculator on sorted.org.nz to see how altering the interest rate or the length of the home loan can affect the repayment amounts and the amount of interest charged. Discuss the differences with one another.

5 Getting a mortgage – Where to start

Getting a mortgage is a big decision. Like Rochelle & Junior, the students will have several factors to consider. From this activity, students find out about questions to ask a lender or mortgage broker when considering a mortgage. Students also identify the main factors that loan officers consider when assessing a home loan application.

Estimated time 60 minutes

Resources required

Mortgages section on sorted.org.nz

Mortgages checklist on sorted.org.nz

Glossary on sorted.org.nz

Student workbook

MORTGAGE CHECKLIST

Small groups/class

It is important that you know just what you can and can't do with a loan, and what the costs are, before signing up.

Students read the checklists (Questions to ask a lender, Questions to ask a mortgage broker) on sorted.org.nz. Then discuss in small groups and identify any key messages and/or terms they are unfamiliar with.

Discuss as a class and record findings on the board. Use the glossary and Mortgage section on sorted.org.nz to help with definitions.

QUESTIONS TO ASK A MORTGAGE BROKER OR LENDER

In pairs/small groups

There are no regulations stating what information mortgage brokers have to tell you. It is up to you to find out about their services and their background.

Students brainstorm questions to ask a mortgage broker or lender. Record their questions in their workbooks.

MORTGAGES

Examples could include:

- How old do you need to be before you can get a mortgage?
- How much money do you need to buy a house?
- What are the different types of mortgages?
- How long does it take to get a mortgage?
- What is the average mortgage for a New Zealander?
- What happens if you can't pay back your mortgage?

VISIT FROM A PROFESSIONAL

Class activity

Invite a mortgage broker or lender to come and speak to the class.

Students can gain an insight from a professional into the main factors a loans officer or mortgage broker considers when assessing mortgage applications.

Before the visit, students can predict what situations the mortgage broker or lender may encounter. Students put the questions they have prepared to the mortgage broker or lender, and record their responses in their workbooks.

REFLECTION

Class activity

After the visit, students compare their expectations and what they learnt.

ROLE PLAY

Class activity

Estimated time:

20-25 minutes

- 5-10 minutes for brainstorm
- 10 minutes for interview
- 5 minutes for feedback

How

Divide the students into groups of three and allocate the following roles: loans officer; Rochelle; Junior. (Alternatively, the teacher can play the role of loans officer.)

The loans officers work together to prepare a list of potential questions to ask the couple. Ask them to brainstorm answers to questions that Rochelle & Junior may have when applying for the loan.

The students playing Rochelle & Junior prepare questions for the loan officers. They should also brainstorm a background scenario of their circumstances based on their observations of Rochelle & Junior's advertisement.

Alert students to the following possible assessment criteria:

- Age
- Occupation
- Stability of residence
- Employment history
- List of assets and liabilities
- Income and expenditure pattern
- Security offered
- Existing commitments (eg, children etc)

Students act out the scene of applying for a loan in person with the loans officer. Keep to time for impact. This can be presented in individual groups to the class, which will require a longer timeframe. Alternatively have everyone presenting at once and observe.

Feedback

- Students playing the loans officers - how many of them gave the couple the loan? Why? Why not?
- How did the students playing Rochelle & Junior feel? Where there any questions they were unable to answer?

Other questions can be asked depending on the time allocated to task.

The Retirement Commission

The Retirement Commission helps New Zealanders prepare financially for retirement, through education, information and promotion.

Our Sorted information programme helps Kiwis of all ages to understand money matters and manage their personal finances throughout life. The Sorted programme is made up of the website sorted.org.nz, a range of Sorted booklets and Sorted seminars, as well as these educational resources.

The Sorted website was launched in 2001 along with the Sorted mouse, which was created to encourage people to go online and get sorted. The catch phrase for the Sorted website was 'To Get Sorted on Money Matters – Use Your Mouse'.

If you have any feedback about these resources we would like to hear from you. Please email the Sorted team at office@sorted.org.nz.

Retirement Commission
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www.sorted.org.nz



To order Sorted booklets:

- ▶ sorted.org.nz/ordering
- ▶ 0800 SORT MONEY (767 866)



sorted.org.nz
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