Penny Explains

Key Stage 4 · Years 10 and 11 | Renting, buying and mortgages | About 45 minutes

# Renting, buying and mortgages

Two ways to pay for a home, and what each really costs

## Answers and teaching notes

**For the teacher**

- **Aim:** Pupils compare renting with buying, calculate deposits and the total cost of a mortgage, and see how a change in interest rate changes the monthly payment.
- **Curriculum links:** Financial Education Planning Framework, ages 14 to 16: becoming a critical consumer (planned borrowing, interest rates, comparing products), looking ahead to the 16 to 19 outcomes on mortgages and independent living. Maths: percentages, interest and multi-step problems. Citizenship: financial products. PSHE: economic wellbeing.
- **Watch first:** the Penny Explains video "What is a mortgage?" at pennyexplains.com.
- **Starter:** Show a local home for sale at about £200,000. Ask: how much does the buyer pay back to the bank in the end? Return to the guesses after activity 3.
- **Support:** Allow calculators. For activity 2, remind pupils that 10% of an amount is the amount ÷ 10. For activity 3, do the first gap together.
- **Stretch:** If Jo and Sam saved £40,000 instead, what percentage deposit is that, and how big is the mortgage? (20%; £160,000.) Why might a lender then offer a lower rate?
- **Note:** payments are for a repayment mortgage, rounded to the nearest pound. The Stamp Duty rule is for first-time buyers in England in 2026 to 2027. Pupils live in all kinds of homes: keep to the made-up characters.
- **Total:** 36 points. Suggested answers are shown in red; accept any answer that is well reasoned.

**I can...**

- ☐ I can compare renting a home with buying one.
- ☐ I can work out a deposit as a percentage and explain how a mortgage works.
- ☐ I can show how the interest rate changes a monthly mortgage payment.

**Key words**

**Tenancy agreement:** the contract between a tenant and a landlord.

**Deposit:** money paid up front. Buyers put theirs towards the price of the home.

**Mortgage:** a long-term loan to buy a home, secured on that home.

**Repossess:** when a lender takes back a home because the mortgage was not repaid.

**Fixed and variable:** a fixed rate stays the same for a set time; a variable rate can go up or down.

## 1 True or false?

4 points

Jo and Sam, both 27, rent a flat together and dream of buying one. What do they need to know? Circle True or False.

| | | |
|---|---|---|
| A mortgage is a loan that is secured on the home you buy. | **True** | False |
| A 10% deposit on a £200,000 home is £10,000.<br>**10% of £200,000 is £20,000.** | True | **False** |

| | | |
|---|---|---|
| With a fixed rate, the interest rate can change every month.<br>**A fixed rate stays the same for a set time. A variable rate can change.** | True | **False** |
| If mortgage repayments are not kept up, the lender can repossess the home. | **True** | False |

## 2 Jo and Sam's deposit

4 points

Jo and Sam want to buy a flat that costs **£200,000**.

**a) The lender asks for a 10% deposit. How big a mortgage will Jo and Sam need after paying it?**

Working

**Deposit: 10% of £200,000 = £20,000**
**Mortgage: £200,000 – £20,000 = £180,000**

**Answer:** **£180,000**

**b) They have £6,800 saved and can add £550 a month. How many months until they reach the £20,000 deposit?**

Working

**£20,000 – £6,800 = £13,200**
**£13,200 ÷ £550 = 24 months (2 years)**

**Answer:** **24 months**

## 3 The real cost of a mortgage

7 points

A lender offers Jo and Sam a **£180,000** mortgage at **5%** interest over **25 years**. The payment is about **£1,052 a month**. Fill in the gaps.

| | Amount |
|---|---|
| Monthly payment | £1,052 |
| Paid in one year (× 12) | **£12,624** |
| Paid over 25 years | **£315,600** |
| Amount borrowed | £180,000 |
| Total interest (paid over 25 years – amount borrowed) | **£135,600** |

**a) Jo says: "So our £200,000 flat really costs us more than £335,000." Is Jo right? Show how you know.** 2 marks

**Yes. £20,000 deposit + £315,600 in payments = £335,600.**

**b) First-time buyers in England pay no Stamp Duty on the first £300,000 of the price, then 5% on the part above that. How much is due on Jo and Sam's £200,000 flat? And on a £340,000 house?** 2 marks

**£0 on the £200,000 flat. On £340,000: 5% of £40,000 = £2,000.**

## 4 Renting, buying or both?

9 points

Write each one in the right box.

**Penny says:** Neither renting nor buying is "better". It depends on your savings, your job and how long you plan to stay.

- The home is yours once the loan is repaid
- You could lose the home if you stop paying
- You need a large deposit towards the price
- The landlord pays for most repairs
- You usually pay council tax and energy bills
- A landlord owns the home
- You can move on at fairly short notice
- You make a payment every month
- You pay for all repairs yourself

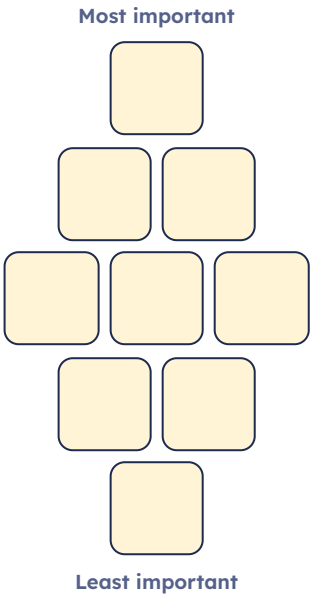
| Renting | Buying with a mortgage | Both |
|---|---|---|
| A landlord owns the home | You need a large deposit towards the price | You make a payment every month |
| The landlord pays for most repairs | You pay for all repairs yourself | You usually pay council tax and energy bills |
| You can move on at fairly short notice | The home is yours once the loan is repaid | You could lose the home if you stop paying |

## 5 What matters most in a first home?

3 points

Put the letters in the diamond: the most important at the top, the least important at the bottom.

- **A** Rent or mortgage I can afford
- **B** Close to work or college
- **C** A safe neighbourhood
- **D** Enough space
- **E** Warm, dry and in good repair
- **F** Low energy bills
- **G** Good bus or train links
- **H** Near friends and family
- **I** A garden or outside space




**Which did you put at the top, and why?**

There is no single right answer. Look for a clear reason for the top and bottom choices.

## 6 Home scramble

4 points

The letters are mixed up. Use the clue to work out each word.

| | | |
|---|---|---|
| S I D P T O E | Money saved up and paid at the start | D E P O S I T |
| T A N T E N | A person who rents their home | T E N A N T |
| N A L O D R D L | The owner of a rented home | L A N D L O R D |
| G A O G T M R E | A loan secured on a home | M O R T G A G E |

## 7 Fixed or variable: what would you do?

5 points

Read the story, then answer the questions.



Sam's sister has a **£150,000** mortgage over 25 years on a **variable rate**. At **4%** she pays about **£792 a month**. If the rate rises to **6%**, her payment becomes about **£966 a month**. Jo and Sam must now choose: a rate **fixed** at 5% for five years, or a variable rate that is a little lower today.

**a) How much more does Sam's sister pay each month at 6% than at 4%? How much is that over a year?** 2 marks

£174 a month more (£966 – £792), which is £2,088 a year (£174 × 12).

**b) Which would you choose in Jo and Sam's place, fixed or variable, and why?** 3 marks

No single right answer. Fixed: the payment cannot rise for five years, so it is easier to budget, but they miss out if rates fall. Variable: cheaper today and could fall further, but could rise as it did for Sam's sister. Reward a clear reason linked to risk and what they can afford.

## 8 Before you go

**One thing I learned today**

**One question I still have**

**How sure do I feel?**

Not yet · Getting there · Got it



**Take it home**

Look at a property website with someone at home. Pick one flat to rent and one home for sale nearby. What deposit would each one need?

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Worked examples for England, 2026 to 2027. Education, not financial advice.