Your Own Home

Instructor Guide

Building: Knowledge, Security, Confidence

FDIC Financial Education Curriculum

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MODULE OVERVIEW

Purpose

The Your Own Home module provides information on the steps involved in buying a house.

Objectives

At the end of the module, students will be able to:

- Describe the benefits and pitfalls of renting versus owning a home.
- Identify the steps required to buy a home.
- Identify questions to ask to determine their readiness to buy a home.
- Identify basic terms used in a mortgage transaction.
- Describe the advantages and disadvantages of different mortgage options.

Presentation Time

The total presentation time is 90 minutes, depending on how long students take to complete the exercises.

Materials and Equipment Needed to Present This Module

Important Note: The materials and equipment needed to present all of the Money Smart modules are listed in the *Guide to Presenting the Money Smart Program*. Review the Guide thoroughly before presenting this module.

Handouts
None

Lesson Plan

Instructor Notes	Presentation
	MODULE OVERVIEW
	Welcome
1: Your Own Home *Welcome students.*	Welcome to Your Own Home. Owning your own home is a major undertaking, but one that can lead to financial security. This module will help you understand what is involved in buying a home.
	Introduction
2: Introduction	*Introduce yourself and share a little of your background and experience.*
3: Student Introductions	**Student Introductions** Before we get started, I would like to know a little bit about you. *Ask students to introduce themselves and state their expectations, questions, and/or concerns about what will be covered during the training.* *If there is anything that will not be covered in the course, tell students where the information can be obtained (e.g., another module, a Website).* *Record their course-related expectations, questions, and concerns on chart paper and tape to the walls in the classroom.*
	Purpose
4: Purpose. *Describe the purpose of the module.*	The Your Own Home module is designed to give you information on the home buying process. It will also describe several mortgage options that you can use to buy a home.

Instructor Notes	Presentation

MODULE OVERVIEW (Continued)

Objectives

5 and 6: Objectives

By the end of the module, you will be able to:

- Describe the benefits and pitfalls of renting versus owning a home.
- Identify the steps required to buy a home.
- Identify questions to ask to determine your readiness to buy a home.
- Identify basic terms used in a mortgage transaction.
- Describe the advantages and disadvantages of different mortgage options.

Agenda and Ground Rules

7: Agenda and Ground Rules

Describe the module agenda and ground rules.

This course will take about 90 minutes to present, depending on how long it takes us to get through the exercises and activities.

There will be one 10-minute break about halfway through the training.

I will be using a variety of training methods. I will be presenting material to you in the form of lectures.

There will also be classroom and small group discussions and exercises that give you a chance to practice what you have learned.

If you have experience or knowledge in some aspect of the training material, please share your ideas with the class.

One of the best ways to learn is from each other. You might be aware of some method that has worked well for you or some pitfall to avoid. Your contribution to the class will make the learning experience that much better.

Instructor Notes	Presentation
	MODULE OVERVIEW (Continued)
Refer students to the Participant Guide. *Review its contents and organization.*	Each of you has a copy of the Your Own Home Participant Guide. It contains: • Materials and instructions you will need to complete the exercises. • Checklists and tip sheets related to the module content. • Space for you to take notes. • A glossary of the terms used in this module. • Resources for you to investigate after the class. You will also receive a copy of the slides I will be using to present this module. We will be using the Guide throughout the module. You will be able to take it home and use it as a reference.
Ask students …	Do you have any questions about the module overview?

Instructor Notes	Presentation

WHAT DO YOU KNOW?

Purpose

Refer students to the What Do You Know? form on page 17 in their Participant Guide. Explain its purpose.

The What Do You Know? form lets you measure how much you have learned from this training. It also tells me what you liked about it and what needs to be improved.

Read the instructions for the "Before-the-Training" column only and walk students through each statement.

Provide enough time for students to complete this portion of the form.

Tell students they will return to this form at the end of the training to complete the remaining sections.

Transition to the next topic.

Now let's talk about renting versus owning a home.

Instructor Notes	Presentation

TO RENT OR TO OWN

Benefits of Renting a Home

Introduce the topic.

Let's start by taking a look at the advantages and disadvantages of renting and owning a home.

8: Benefits of Renting

Describe the benefits of renting

Some advantages of renting include the following:

- Property maintenance is the responsibility of the landlord.
- You are only under a rental contract for 1 year or less.
- You do not have other costs associated with owning a home, such as property taxes or homeowner's insurance.

Discuss renter's insurance.

Renter's insurance, while not required, can be obtained from the same companies as homeowner's insurance.

Renter's insurance protects your belongings if there is a fire or theft in the apartment or home you are renting. Other types of coverage like earthquake or flood insurance may be available at an additional cost.

Renter's insurance is generally cheaper than homeowner's insurance.

Ask students …

Can you think of any other benefits of renting?

Acknowledge student responses.

Disadvantages of Renting

Ask students …

What are some of the disadvantages of renting?

Write students' responses on chart paper.

Provide the following challenges if students don't mention them.

Answer:

When you rent:

- You are not the owner of your home.
- Your rent might increase.
- You might not be able to renew your rental contract and then will have to find a new place to live.

Instructor Notes	Presentation

TO RENT OR TO OWN (Continued)

Benefits of Owning a Home

9: Benefits of Owning a Home

Describe the benefits of owning your home.

Some of the benefits of owning your home include the following:

- You can build equity. Equity refers to the value of the home minus the debt you owe on it. As you pay down the loan and your home value increases, you build up equity.
- One of the benefits of equity is that you can borrow against it for many purposes, usually at a relatively low interest rate. For example, you can pay for children's or other family members' education.
- Homes generally increase in value over time, so a home can be a good way to invest your money.
- Once your mortgage is paid in full, the home is yours. A mortgage is a loan to purchase a home. We'll talk more about mortgages later in the module.
- Home ownership may reduce the amount of income tax you owe, since mortgage interest and property taxes are deductible.
- You can pass your home on to family members.

Ask students …

Can you think of any other benefits of owning your home?

Acknowledge students' responses.

To Rent or Own

After the discussion, refer students to To Rent Or Own on page 1 of their participant guides.

Instructor Notes	Presentation

TO RENT OR TO OWN (Continued)

Costs of Owning a Home

Ask students …

What are some of the costs of owning your home?

Write students' responses on chart paper.
Provide the following costs if students don't mention them.

Answer:

When you own a home, property maintenance and upkeep are your responsibility. You are also responsible for the additional costs of:

- Homeowner's insurance.
- Real estate taxes.
- Homeowner's association fees, in some cases. These fees pay for maintenance of the common areas and the exterior of the buildings and grounds.

When you own a home, it is not as easy to move as it is when you rent. You will typically have to sell or rent your home before you can afford to buy or rent another one.

It is also important to understand you can lose your home, and your investment in it, if you do not make timely mortgage payments.

Ask students …

Do you have any questions about the advantages and disadvantages of renting versus owning your home?

Transition to the next topic.

Let's take a look at the steps involved in buying a home.

Instructor Notes	Presentation

STEPS INVOLVED IN BUYING A HOME

What Are the Steps Involved In Buying a Home?

10 and 11: Steps Involved in Buying a House

Describe the steps involved in buying a home.

We are going to divide the home buying process into five steps:

- Step 1: Determine if you are ready to buy a house.
- Step 2: Determine how much mortgage you can afford.
- Step 3: Determine which mortgage option is best for you.
- Step 4: Qualify for a loan.
- Step 5: Go through settlement and closing.

Refer students to Steps Involved in Buying a Home on page 2 of their Participant Guide.

We are going to look at each step during the remainder of the module.

Meet Patricia

Explain the purpose of the Patricia scenario.

To help us, we will follow Patricia through her experience of becoming a first-time homeowner.

Introduce Patricia.

Let's meet Patricia as she decides if she is ready to buy a house.

After completing her job training program, Patricia got a full-time job as a medical technologist. She makes $49,200 a year, or $4,100 a month.

Patricia has been living with her parents and wants to get out on her own. She has considered her situation and has decided to find out more about home ownership.

The first step she needs to take is to determine whether she is ready to buy a home.

Transition to the next topic.

Instructor Notes	Presentation

AM I READY TO BUY A HOME?

Step 1: Determine if You Are Ready to Buy a House.

Am I Ready to Buy a Home?

The first thing Patricia needs to determine is whether or not she is ready to buy a home.

Here are some questions that she needs to ask herself in order to make this determination.

> *Refer students to the Am I Ready to Buy a Home Checklist on page 3 of their Participant Guide.*
>
> *Review the checklist with them, using Instructor Aid #1 on the next page to guide you.*
>
> *When you have finished reviewing the checklist, describe other questions students should consider.*

After reviewing the list of questions, describe other questions students should consider.

There are many other questions to answer when you decide to explore home ownership. For example:

- Where do you want to live?
- What kind of neighborhood do you want?
- If you have children, what types of schools are in the neighborhood?
- How much space do you need?

While we do not have time to discuss all of these issues in this module, they are important to consider when buying a home.

Is Patricia Ready to Buy a House?

Ask students …

Acknowledge students' responses.

Answer the question.

Based on what you know so far about Patricia, do you think she is ready to buy a house? Why or why not?

Answer: We know that Patricia has a steady source of reliable income. But she has not been working long, so she might not qualify for a mortgage at this point.

Another important question Patricia will have to ask herself is whether she will be able to handle a mortgage payment in addition to the rest of her bills and expenses.

She must also determine whether she has enough money for a down payment.

Transition to the next topic.

She realizes she needs to learn more. Patricia decides to check with her local bank to see if there are any programs that might help her.

AM I READY TO BUY A HOME?

Use these questions to help you decide if you are ready to buy a home:

- Do I have a steady source of income?
    - This usually means you have a job or other sources of income.
- Have I been employed on a regular basis for 2 or 3 years?
- Is my income reliable?
- Do I have a credit history?
    - This refers to whether you have ever borrowed money for any purpose.
- Do I have a good record of paying bills?
- Will I be able to pay my bills and other debts?
- Do I have the ability to make the mortgage payment every month, plus handle additional costs for taxes, insurance, maintenance, and repairs?
- Do I have money saved for a down payment and closing costs?

The down payment is the portion of the home's purchase price the buyer pays in cash. The more you have for a down payment, the less you will need to borrow. Some states offer first-time homebuyer assistance programs.

Lenders prefer that you have 20 percent of the purchase price for a down payment. For example, 20 percent of a $100,000 mortgage is $20,000. However, there are many special programs that you can participate in that require a smaller or no down payment.

Mortgage insurance protects the lender if you default on the loan. It is an additional cost of the mortgage.

Closing costs are the charges related to transferring the ownership of the property. The lender must tell you what these costs are.

If you answer yes to these questions, you might be ready to buy a home. You also should consider that you may need additional funds saved for emergencies, like possible repairs to the home you buy. If you answer no to any of them, concentrate on strengthening those areas.

To strengthen those areas, look for homebuyer education classes in your area. These classes are a good source of information and will help you prepare for home ownership.

Instructor Notes	Presentation

HOMEBUYER ASSISTANCE PROGRAMS

What Are Homebuyer Assistance Programs?

12: Homebuyer Assistance Programs

Introduce the topic.

Describe homebuyer assistance programs.

There are a number of different programs available to help first-time homebuyers.

- For example, in an Individual Development Account (IDA) program, participating organizations match your savings contributions to help you save for a down payment or closing costs.

  These programs require that you complete financial education classes.

  You can learn more about IDA programs by taking the Money Smart module Pay Yourself First.

- Many cities and local governments offer homebuyer assistance.
- Many financial institutions offer special loan products to help you become a homeowner.

Ask your lender or local government about the homebuyer assistance programs they offer. Local real estate agents might also be aware of special programs.

Characteristics of Government Programs

13: Characteristics of Government Programs.

Describe the characteristics of government programs.

Government loan programs are generally targeted to individuals and families with a modest income.

They will have one or more of these characteristics:

- Zero or low down payment requirements. For example, some require 3 percent down payment; some require 5 percent down payment with 3 percent coming from the borrower and the other 2 percent coming from gifts or other grants.

Tell students the debt-to-income ratio will be discussed later in the module.

- More flexible underwriting standards. This means the lender will consider non-traditional forms of credit history, such as rent or utility payments, and higher ratios of debt compared to your income.
- Longer payment terms than typical mortgage loans. This means your monthly payment will be lower and the mortgage will take longer to repay.

Instructor Notes	Presentation

HOMEBUYER ASSISTANCE PROGRAMS
(Continued)

- The program might require homeowner education. Homeowner education programs help people understand the home buying process. These programs cover such things as budgeting, finding a home, getting a loan, and maintaining a home.

  One example is the Homebuyer Education Learning Program (HELP) for Federal Housing Administration (FHA) loans.

- Government program restrictions might include purchase price limitations, service charges, and higher loan origination fees.

Homebuyer Assistance Programs

Additional information on homebuyer assistance programs can be found in Homebuyer Assistance Programs beginning on page 20 of your Participant Guide.

Take some time to look it over after the class.

Does Patricia Have Enough Money for a Down Payment?

Continue with the Patricia scenario.

Let’s see if Patricia has the down payment she needs to buy a house.

Patricia found an IDA program that will match her savings to help with the down payment and closing costs for her first home.

She talked to a non-profit organization to get more information. She learned that the program requires her to attend home ownership counseling and to set up a savings account at a participating bank.

When she opened her IDA, she found out the program would match $3 to her $1, with a maximum contribution of $7,000.

Patricia was already saving $25 a month and had $2,500 in a savings account. But she wants to save $50 to have more money for a down payment.

Instructor Notes	Presentation
	HOMEBUYER ASSISTANCE PROGRAMS (Continued)
Ask students …	What can Patricia do to save an extra $50 a month toward her down payment? *Write students' responses on chart paper.* *Provide the answer if students offer other answers.* **Answer:** Patricia could reduce her spending and save more every month to build up her savings account by taking her lunch to work more often. Patricia also started attending home ownership classes to help prepare for her investment.
Continue with the scenario. *Refer students to Patricia's Savings on page 4 of their Participant Guide.*	Patricia is now saving $50 a month. After 30 months she will have saved $1,500 of her own money. The organization will have matched her 3 to 1. Combined with the $1,500 she saved over 30 months, she has a total savings of $6,000 in the IDA program. She still has the $2,500 she saved prior to the IDA program. This means she has a total of $8,500 for down payment and closing costs.
Ask students …	Do you have any questions about what Patricia did to save for her down payment?
Transition to the next topic.	Next, we will talk about some of the information Patricia found out about mortgages.

Instructor Notes | **Presentation**

MORTGAGE TERMS

What Costs Make up a Mortgage Payment?

14: Components of a Mortgage Payment

Before you can determine how much you can afford to spend on a house (Step 2), there are some mortgage terms that you should be familiar with.

These terms describe the components of a mortgage payment. Your mortgage payment will reflect the following costs:

- Principal is the amount applied to the outstanding balance of the loan.
- Interest is the amount of the charge for borrowing money.
- Taxes equal 1/12th of the estimated annual real estate taxes on the home.
- Insurance equals 1/12th of the annual homeowner's insurance premium. In addition to homeowner's insurance, this figure will include flood or earthquake insurance. For more information on flood insurance and preparing for disasters, visit www.fema.gov.
- Private mortgage insurance, if required.

How Taxes and Insurance Are Paid

15: How Taxes and Insurance Are Paid

Explain how property taxes and insurance premiums are paid.

You will most likely pay the taxes and insurance along with the principal and interest to the lender every month. However, the lender may allow you the option of paying the taxes and insurance separately.

If the lender requires you to pay the taxes and insurance as part of your mortgage payment, the lender will open an escrow account to hold this money until the payments are due. Many people consider this convenient because they don't have to make separate payments. In certain states, the escrow account will also earn interest.

Instructor Notes	Presentation
	MORTGAGE TERMS (Continued)
	The Real Estate Settlement Procedures Act (RESPA) limits the amount of money a lender may require a borrower to hold in an escrow account for payment of taxes, insurance, etc. RESPA also requires the lender to provide initial and annual escrow account statements.
	It is the lender's decision whether the borrower must maintain an escrow account for the purpose of paying taxes and other items. Federal regulations only limit the maximum amount that a lender can require a borrower to maintain in an account.
	If the lender allows you to pay the taxes and insurance separately: • You will usually get a quarterly or semi-annual property tax bill. • You will have to pay a separate insurance premium, usually annually, for homeowner's insurance.
Explain the advantages and disadvantages of paying taxes and insurance separately.	Some people prefer to do this because it allows them to keep the money under their own control in their own savings or investment accounts to earn interest until the payments are due.
	However, in many cases, it is better to pay for these items monthly with your loan payment. That way, you don't have to worry about having the money available when it's needed.

Instructor Notes	Presentation

MORTGAGE TERMS (Continued)

The Four Cs of Loan Decision-making

16: Four C's of Loan Decision-Making

Describe the 4 Cs.

Another set of mortgage terms you need to know about are the four factors lenders use to qualify you for a loan. They are known as the Four Cs of Loan Decision-Making.

- Capacity is your present and future ability to meet your payment obligations. This includes whether you have enough income to pay your bills and other debts.
- Capital refers to the value of your assets and your net worth.
- Character refers to how you have paid bills or debts in the past. Your credit report is one tool lenders use to consider your willingness to repay your debts.
- Collateral refers to property or assets offered to secure the loan.

The Money Smart module To Your Credit has more information about the importance of credit reports.

Ask students …

Do you have any questions about the mortgage terms?

Transition to the next topic.

Now let's move to the next step in the process of buying a home, determining how much mortgage you can afford.

Instructor Notes	Presentation

HOW MUCH MORTGAGE CAN I AFFORD?

The Fair Housing Act

Briefly describe the Fair Housing Act.

Before we discuss how to determine how much mortgage you can afford, we need to look at an important law called the Fair Housing Act.

The Fair Housing Act prohibits discrimination on the basis of race, color, religion, sex, national origin, family status (including children under the age of 18 living with parents of legal custodians, pregnant women, and people securing custody of children under the age of 18), or handicap in housing-related transactions.

This law will protect Patricia from discrimination throughout the loan process, from loan application to final loan approval.

Step 2: Determine How Much Mortgage You Can Afford

A good way to find out how much mortgage you can afford is to go through a process called pre-qualification.

Pre-qualification

17: Pre-qualification

Define pre-qualification.

Pre-qualification is an informal way to find out how much mortgage you can obtain.

You can be pre-qualified by giving the lender some basic information over the phone, such as:

- Employment.
- Income.
- Down payment information.
- Outstanding debts.

No paperwork is required. There is no obligation. The pre-qualified amount is not exact; it is only a ballpark figure.

Instructor Notes	Presentation

HOW MUCH MORTGAGE CAN I AFFORD? (Continued)

Pre-approval

18: Pre-approval

Define pre-approval and describe the financial information it requires.

Another term you may hear when discussing mortgages is pre-approval.

Pre-approval is a commitment from the lender to lend you money. The pre-approval process lets you know how much of a mortgage you can obtain and tells sellers you are prepared to buy a home.

To obtain pre-approval, you need to assemble financial records and fill out an application. You will usually need:

- Pay stubs for the last 2 or 3 months.
- W-2 forms for the last 2 years.
- Tax returns for the last 2 years.
- Information about your assets and long-term debts.
- Recent bank statements.
- Proof of any additional income – you do not need to disclose alimony or child support payments unless you want them considered in repaying the loan.

Patricia's Pre-qualification

Explain how much mortgage Patricia is pre-qualified for.

In the middle of her home ownership training, a banker worked with Patricia and pre-qualified her for a maximum mortgage amount of $165,000. She can now start looking for her own home.

Let's talk about how they came up with that figure and other factors that affect how much mortgage Patricia can afford.

- *How Much Mortgage Can Patricia Afford?*
- *Other Factors Affecting How Much Mortgage Patricia Can Afford*

Refer students to How Much Mortgage Can Patricia Afford? on page 5 of their Participant Guide.

Have them read along as you describe how the bank determined how much mortgage Patricia can afford. Use Instructor Aid #2 on the next page to guide you.

Then refer students to Other Factors Affecting How Much Mortgage Patricia Can Afford on page 6 of their Participant Guide.

Discuss these factors, using Instructor Aid #3 on page 21 to guide you.

Answer questions.

HOW MUCH MORTGAGE CAN PATRICIA AFFORD?

As a rule of thumb, many people estimate they are able to afford a mortgage of two to three times their household income. Patricia's annual income is $49,200; she might be able to afford a mortgage of $98,400 to $147,600.

$49,200 x 2 = $98,400
$49,200 x 2.5 = $123,000
$49,200 x 3 = $147,600

Keep in mind that just because you qualify for that amount does not mean you can afford or be comfortable with those monthly payments. You need to consider your own circumstances and your future financial needs and goals.

Lenders look at <u>debt-to-income</u> (DTI) ratios when they consider an application or pre-qualification for a mortgage loan. A DTI ratio is your monthly expenses compared to your monthly gross income.

Lenders consider monthly housing expenses as a percentage of income and total monthly debt as a percentage of income. Both ratios are important factors in determining whether the lender will make the loan.

Lenders usually require the principal, interest, taxes, and insurance (PITI) or your housing expenses to be less than or equal to 25 percent to 28 percent of your monthly gross income. Lenders call this the <u>front-end ratio</u>. In other words, since Patricia's monthly gross income is $4,100, or $49,200 annually, her mortgage payment including escrow should be $1,148 or less:

$4,100 x 28% = $1,148 – maximum monthly housing costs

Lenders usually require housing expenses plus long-term debt to be less than or equal to 33 percent to 36 percent of your monthly gross income. Lenders call this the <u>back-end ratio</u>. In other words, since Patricia's monthly gross income is $4,100, the combination of her mortgage, $1,148, and her other long-term debt should be no more than $1,476:

$4,100 x 36% = $1,476 – maximum total debt

How much can the total of Patricia's other debts (e.g., car loan payments, monthly credit card bills) be? <u>No more than $328.</u>

$1,476 (max. total debt) – $1,148 (max. monthly housing costs) = $328

<u>Long-term debt</u> is outstanding debt with a remaining term of more than 10 or 11 months. It can include student loans, credit cards, car loans, and other non-housing expenses.

If your debt-to-income exceeds these ratios, talk to your lender about your options.

OTHER FACTORS AFFECTING HOW MUCH MORTGAGE PATRICA CAN AFFORD

Two other factors affect how much mortgage Patricia can afford: the length or term of the mortgage and whether her mortgage has a fixed or variable interest rate.

Mortgages may range from 10-year to 50-year terms. The table shows the most typical 15-year and 30-year terms.

15-Year Mortgage	30-Year Mortgage
Borrow less money Build equity faster Less interest to pay Larger monthly payment Lower interest rate **For example, if you borrowed $75,000 for 15 years at 7.5%, your monthly principal and interest payment would be $695.**	Borrow more money Build equity slower Can deduct more interest from income tax Lower monthly payment Higher interest rate **For example, if you borrowed $75,000 for 30 years at 8%, your monthly principal and interest payment would be $550.**

Whether her mortgage has a fixed or variable interest rate will also affect how much mortgage Patricia can afford.

Fixed-Rate Mortgage	Adjustable-Rate Mortgage (ARM)
Interest rate stays the same for the term of the loan. Your payments are predictable and not affected by interest rate changes. Interest rates could go down while you are locked into your mortgage at a higher-than-market rate	Interest rate can increase or decrease during the term of the loan. You might have a low rate for an initial period of 1, 3, 5, 7, or 10 years. Monthly payments can be lower than fixed-rate loans. The interest rate and your payment can increase significantly throughout the term of the loan.

Note: Make sure you compare loan offers based on annual percentage rate (APR), not interest rate.

Instructor Notes	Presentation
	HOW MUCH MORTGAGE CAN I AFFORD? (Continued)
Ask students …	Which mortgage do you think would be good for Patricia, based on what we know so far about how much mortgage she can afford? Why?
	Spend up to 5 minutes discussing students' responses. *Provide the following information to supplement the discussion* *Answer questions.*
	Answer: Thirty-year mortgages have higher interest rates, but her monthly payment would be lower. Fifteen-year mortgages have lower interest rates, and she could build equity faster. A fixed-rate mortgage might be a good choice if Patricia wants her payments to be predictable and easier to budget. An adjustable-rate mortgage might be an option if she thinks she will have a steady rise in income or if she plans to sell her home soon. Patricia might be able to take advantage of lower initial interest rates and not care about interest rate changes.
Explain that there are no right or wrong answers.	There is no right or wrong answer, since we don't have enough information about Patricia. It is only important that you understand the advantages and disadvantages of these traditional mortgages.
Continue with the scenario.	At the end of the 30 months of saving and attending many homeowner education classes, Patricia is ready to buy a home.
Ask students …	Do you have any questions about pre-qualification and the factors affecting how much mortgage Patricia can afford?
Transition to the next topic.	Now Patricia knows the maximum mortgage she can afford. Let's talk about how she might shop for the best deal.

Instructor Notes	Presentation

MORTGAGE SHOPPING

Step 3: Determine Which Mortgage Option Is Best for You.

19: Mortgage Options

Introduce the topic.

So far we have been discussing what is called a traditional mortgage, whether it is a fixed-rate or adjustable-rate mortgage.

To be on the safe side, Patricia is going to choose a traditional mortgage, since she is a first-time home buyer.

However, there are two other types of mortgages that you should know about:

- Interest-only mortgage.
- Biweekly payment mortgage.

Mortgage Options.

Let's take a look at these mortgages.

> *Refer students to Mortgage Options on page 7 of the Participant Guide.*
>
> *Review the options, using Instructor Aid #4 on the next page to guide you.*
>
> *Answer questions.*

When you have finished discussing the mortgage options, ask students …

Do you have any questions about these mortgage options?

Transition to the next topic.

Let's look at some tips for finding the best price for your mortgage.

MORTGAGE OPTIONS

Interest-Only Mortgage

Unlike conventional mortgages, interest-only mortgage loans are mortgages in which only interest, not principal, is paid in the initial monthly payments. Then, after a specified period, depending on the loan, you will have to pay the entire principal balance in a lump sum, or you will begin to pay regular mortgage payments.

Interest-only mortgages have a lower monthly payment, so borrowers can purchase a home that they might otherwise be unable to afford, especially in areas with high housing costs.

Be very careful with these mortgages, because you may not pay down your principal. This mortgage payment may also increase over time because very frequently the interest rate is adjustable. Additionally, the term may convert to a conventional mortgage, which requires both interest and principal payments.

Biweekly Payment Mortgage

Biweekly payment mortgages are usually fixed-rate conventional mortgages with payment due every 2 weeks. The borrowers can pay their mortgage faster because every year, they pay 26 smaller biweekly payments instead of 12 monthly payments. Many borrowers who receive biweekly wages find this mortgage option a closer match to their spending plans. Because of the frequency of payment, lenders usually require direct bill payment from a bank or credit union account. Ask whether your lender offers a biweekly payment mortgage option.

You might be able to achieve the same result by adding more money to your monthly payment. Generally, your lender will not charge you a fee for this option. However, check to ensure that your lender does not charge a prepayment penalty.

Instructor Notes	Presentation

MORTGAGE SHOPPING (Continued)

Shop, Compare, Negotiate

20: Shop, Compare, Negotiate!

Once you have decided on the type of mortgage you want, there are several steps you can take to get the best price for your mortgage.

- Check advertisements in local newspapers and on the Internet to get an idea of the best terms and rates. Be aware, however, that rates change frequently, and you may not be able to get the published rate.
- Contact several lenders on the same day to compare quotes.
- Negotiate for the best price you can get. Ask the lender for better terms than originally quoted. Lenders might offer different prices to different borrowers even with the same qualifications. Ask the lender to waive or reduce one or more of the fees, or agree to a lower rate or fewer points, and make sure the lender does not lower one fee and raise another in its place.
- Do not be afraid to let lenders compete for your business by letting them know you are shopping for the best deal.
- Make sure the lender gives you all the costs of the loan in writing.
- Use the APR and good faith estimate of closing costs to compare all costs.

Good Faith Estimate

21: Good Faith Estimate

Explain what a good faith estimate is.

Be sure to get a good faith estimate of settlement service charges you will likely have to pay. The law requires that the lender or mortgage broker give you this information.

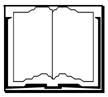
Be aware that the amounts listed on the good faith estimate are only estimates. Actual costs may vary. Changing market conditions can affect prices.

Instructor Notes	Presentation
	MORTGAGE SHOPPING (Continued)
	Keep your good faith estimate so you can compare it with the final settlement costs and ask the lender questions about any changes.
Ask students …	Do you have any questions about shopping for the best mortgage?
	For additional guidance, see *Looking for the Best Mortgage* in the Consumer Resources Section of www.fdic.gov.
Transition to the next topic.	Let's look at a tool that you can use to help you shop for the best mortgage.

Instructor Notes	Presentation

MORTGAGE SHOPPING (Continued)

Mortgage Shopping Worksheet



Refer students to the Mortgage Lending Worksheet on page 8 of their Participant Guide.

Provide these preliminary remarks about the information in the worksheet.

There is a tool in your Participant Guide that will help you shop for the best mortgage.

Federal law requires the lender or broker to:

- Disclose estimates of how much the loan will cost and the APR (truth in lending disclosure).
- Give you an estimate of closing cost fees and include how much money is required at closing (good faith estimate).

These disclosures are not required until you apply for a home loan. To compare terms before you fill out an application, ask the lender for the information listed on the worksheet.

Summarize the worksheet.

Let's talk about the different sections of this worksheet.

> *Summarize the sections of the Mortgage Lending Worksheet, using the information below.*
>
> *As you provide this summary, refer to the worksheet as needed, using Instructor Aid #5 on page 30 to guide you.*

In **Section A**, record basic information about loan options. Be sure to compare the APRs of different loans from different lenders.

- The APR includes any points charged. Points are charges paid by the borrower at settlement, or they may be added to the mortgage amount. One point equals 1 percent of the loan amount.
- The APR is a measure of the cost of your loan expressed as a yearly percentage rate, such as 10 percent or 11 percent.

Instructor Notes	Presentation

MORTGAGE SHOPPING (Continued)

In **Section B**, you will compare information about the fees from different lenders. These fees are some of the standard fees included in the mortgage loan process.

In **Section C**, you will compare closing costs. Closing costs are associated with the transfer of property. The costs you ultimately pay should be similar to or less than the estimate given to you at the time of application.

In **Section D**, you will compare the total of the fees from sections A, B, and C. Be sure that lenders give you estimates.

In **Section E**, you will record and compare the answers to other questions about the loan.

Prepayment penalties – Some mortgages charge a fee if you pay the loan off within a few years.

A **lock-in**, also called a rate-lock or rate commitment, is a lender's promise to hold a certain interest rate and points for you, usually for a specified period of time, while your loan application is processed.

A lock-in protects you against interest rate increases while your application is processed. However, a locked-in rate could also prevent you from taking advantage of rate decreases during this period.

Instructor Notes	Presentation

MORTGAGE SHOPPING (Continued)

Adjustable-rate loans require additional disclosures that contain the listed items, such as the maximum that the interest rate can increase or decrease each month, year, or during the life of the loan. The lender must also disclose the index for rate changes.

The **Index** is a base interest rate used to calculate the interest rate that will be charged on a variable-rate loan. The rate you will pay on a variable-rate loan is usually a set percentage above the base rate or the index.

Credit life insurance may pay off the mortgage if the borrower dies. This coverage is optional and costs an additional fee.

When you have finished discussing the Mortgage Lending Worksheet, ask students …

Do you have any questions about the Mortgage Lending Worksheet?

Transition to the next topic.

Let's look at the details of the mortgage Patricia found.

Instructor Aid #5

MORTGAGE LENDING WORKSHEET

	Lender 1		Lender 2	
Name of Lender				
Name of Contact				
Date of Contact				
Mortgage Amount				
A. Basic Information about the loan	**Mortgage 1**	**Mortgage 2**	**Mortgage 1**	**Mortgage 2**
❶Type of Loan: Fixed rate, variable rate, conventional, FHA, other?				
❶Minimum down payment requirement				
❶Loan term (length of loan)				
❶Contract interest rate				
❶Annual Percentage Rate (APR)				
❶Points (may be called discount points)				
❶Monthly PMI payments (mortgage insurance)				
❶How long must you keep PMI?				
❶Estimated monthly escrow for taxes and insurance				
❶Estimated monthly payment (Principal, Interest, Taxes, Insurance, PMI)				
B. FEES – different banks have different names for similar fees. Listed below are some of the typical fees you may see on loan docs				
❶Application or loan processing fee				
❶Origination or underwriting fee				
❶Lender fee or funding fee				
❶Appraisal fee				
❶Attorney fees				
❶Document preparation and recording fees				
❶Broker fees (may be quoted as points, origination fees, or interest rate add-on)				
❶Credit report fee				
❶Other fees				
C. Other Costs at Closing/Settlement				
❶Title Search/Title Insurance For Lender For You				
❶Estimated prepaid amounts for interest, taxes, hazard insurance, payments for escrow				
❶State and local taxes, stamp taxes, transfer taxes				
❶Flood determination				
❶Prepaid PMI				
❶Surveys and home inspections				
D. Total Fees and other closing/settlement cost estimates				

Instructor Aid #5

MORTGAGE LENDING WORKSHEET (Continued)

Name of Lender	**Lender 1**		**Lender 2**	
E. Other Questions and Considerations about the loan	**Mortgage 1**	**Mortgage 2**	**Mortgage 1**	**Mortgage 2**
➊Can any of the fees or costs be waived?				
Prepayment Penalties				
➊Is there a prepayment penalty?				
➊If so, how much is it?				
➊How long does the penalty period last? (3 yrs? 5yrs?)				
➊Are extra principal payments allowed?				
Lock-ins				
➊Is the lock-in agreement in writing?				
➊Is there a fee to lock-in?				
➊When does the lock-in occur – at application, approval or another time?				
➊How long will the lock-in last?				
➊When the rate drops before closing, can you lock-in at a lower rate?				
If the loan is an adjustable rate mortgage:				
➊What is the initial rate?				
➊What is the maximum the rate could be next year?				
➊What are the rate and payment caps each year and over the life of the loan?				
➊What is the frequency of rate change and any changes to the monthly payment?				
➊What is the index the lender will use?				
➊What margin will the lender add to the index?				
Credit Life Insurance				
➊Does the monthly amount quoted to you include a charge for credit life insurance?				
➊If so, does the lender require credit life insurance as a condition of the loan?				
➊How much does the credit life insurance cost?				
➊How much lower would your monthly payment be without the credit life insurance?				
➊If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers?				

Instructor Notes	Presentation

MORTGAGE SHOPPING (Continued)

Step 4: Qualify for a Loan

Patricia's Mortgage

> *Refer students to Patricia's Mortgage on page 10 of their Participant Guide.*
>
> *Describe the details of the loan, using Instructor Aid #6 to guide you.*

Thanks to the worksheet and what Patricia learned in her homebuyer class, she found a townhouse in a neighborhood close to her family. She has also qualified for the first-time homeowners' program in her state. She receives a lower interest rate and the requirement for private mortgage insurance is waived.

- Patricia qualified for a 5 percent down payment mortgage with an interest rate of 6 percent for 30 years
- The price of the house is $172,000. Her monthly principal and interest payment is $980 and her estimated taxes and insurance payments are $125.
- Patricia wants to buy a townhouse so she does not have to worry about taking care of her roof or the outside of her house. However, this convenience will cost her $175 a month in homeowner's association dues. She may also have to pay a special charge, known as an assessment, for major repairs to the roof.
- Patricia's total monthly housing expenses are $1,280, or 31 percent of her monthly income of $4,100.
- The total of Patricia's monthly housing expenses and long-term debt is $1,480, or 36 percent of her monthly income.

Ask students …

Acknowledge students' responses.

Does Patricia's debt-to-income ratio fall within most lenders' guidelines?

Answer

Yes. While Patricia's front-end ratio is above historical standards of 28 percent, it is well within Fannie Mae/Freddie Mac underwriting guidelines. Her back-end ratio of 36 percent meets industry standards.

PATRICIA'S MORTGAGE

Cost of Townhouse 5% Down payment	$172,000 $8,250
30 year mortgage @ 7% Monthly P & I Monthly T & I Mortgage Insurance Homeowner's Association Dues	**$163,750** $1,081 $125 $105 $160
Total Housing Expenses (35.9% of $4,100 monthly income) Total Long-Term Debt	**$1,471** $100
Total Housing and Long-Term Debt (38.3% of $4,100 monthly income)	**$1,571**

Instructor Notes	Presentation

MORTGAGE SHOPPING (Continued)

When Debt-to-Income Exceeds Recommended Ratios

22: When Debt-to-Income Exceeds Recommended Ratios

Explain other criteria lenders accept when debt-to-income exceeds recommended ratios.

If Patricia had not met the lender's debt-to-income ratio, she might still qualify for the loan if she:

- Shows she currently pays more in rent than her mortgage payment would be.
- Has a good credit history or limited credit use.
- Makes a larger down payment.
- Has cash reserves, such as savings and investment accounts.

Transition to the next topic.

Patricia found the perfect townhouse and was approved for the loan.

Before the home is hers, Patricia must complete a few more steps.

Instructor Notes	Presentation

LOAN SETTLEMENT

Step 5: Go Through Settlement and Closing.

23: Settlement

Define settlement.

Patricia must now go through settlement, also called closing.

Settlement occurs when the borrower meets with the seller and other representatives to sign the documents that will finalize the sale of the house and any mortgage financing.

An important document that Patricia must review before the settlement meeting takes place is the HUD-1 or HUD-1a Settlement Statement. This is to ensure that the closing fees are what she and her lender agreed upon.

Patricia needs to compare these costs with the good faith estimate she received when she applied for the loan.

HUD-1 Settlement Statement

Let’s take a brief look at the HUD-1 Settlement Statement. You have a right to review it at least 1 day before closing.

We are not going cover all of the information it contains. I just want you to know what the form looks like and what to expect during settlement.

Refer students to the HUD-1 Settlement Statement on page 11 of the Participant Guide.

Briefly review it with students, using Instructor Aid #7 on the next page to guide you.

Answer questions.

HUD-1 SETTLEMENT STATEMENT

A. **Settlement Statement**

U.S. Department of Housing and Urban Development

OMB Approval No. 2502-0265 (expires 9/30/2006)

B. Type of Loan

1. ☐ FHA 2. ☐ FmHA 3. ☐ Conv. Unins. 4. ☐ VA 5. ☐ Conv. Ins.	6. File Number:	7. Loan Number:	8. Mortgage Insurance Case Number:

C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

D. Name & Address of Borrower:	E. Name & Address of Seller:	F. Name & Address of Lender:

G. Property Location:	H. Settlement Agent:	
	Place of Settlement:	I. Settlement Date:

J. Summary of Borrower's Transaction		**K. Summary of Seller's Transaction**	
100. Gross Amount Due From Borrower		**400. Gross Amount Due To Seller**	
101. Contract sales price		401. Contract sales price	
102. Personal property		402. Personal property	
103. Settlement charges to borrower (line 1400)		403.	
104.		404.	
105.		405.	
Adjustments for items paid by seller in advance		**Adjustments for items paid by seller in advance**	
106. City/town taxes to		406. City/town taxes to	
107. County taxes to		407. County taxes to	
108. Assessments to		408. Assessments to	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. Gross Amount Due From Borrower		**420. Gross Amount Due To Seller**	
200. Amounts Paid By Or In Behalf Of Borrower		**500. Reductions In Amount Due To Seller**	
201. Deposit or earnest money		501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)		502. Settlement charges to seller (line 1400)	
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204.		504. Payoff of first mortgage loan	
205.		505. Payoff of second mortgage loan	
206.		506.	
207.		507.	
208.		508.	
209.		509.	
Adjustments for items unpaid by seller		**Adjustments for items unpaid by seller**	
210. City/town taxes to		510. City/town taxes to	
211. County taxes to		511. County taxes to	
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. Total Paid By/For Borrower		**520. Total Reduction Amount Due Seller**	
300. Cash At Settlement From/To Borrower		**600. Cash At Settlement To/From Seller**	
301. Gross Amount due from borrower (line 120)		601. Gross amount due to seller (line 420)	
302. Less amounts paid by/for borrower (line 220)	( )	602. Less reductions in amt. due seller (line 520)	( )
303. Cash ☐ From ☐ To Borrower		**603. Cash ☐ To ☐ From Seller**	

Section 5 of the Real Estate Settlement Procedures Act (RESPA) requires the following: • HUD must develop a Special Information Booklet to help persons borrowing money to finance the purchase of residential real estate to better understand the nature and costs of real estate settlement services; • Each lender must provide the booklet to all applicants from whom it receives or for whom it prepares a written application to borrow money to finance the purchase of residential real estate; • Lenders must prepare and distribute with the Booklet a Good Faith Estimate of the settlement costs that the borrower is likely to incur in connection with the settlement. These disclosures are manadatory.

Section 4(a) of RESPA mandates that HUD develop and prescribe this standard form to be used at the time of loan settlement to provide full disclosure of all charges imposed upon the borrower and seller. These are third party disclosures that are designed to provide the borrower with pertinent information during the settlement process in order to be a better shopper.

The Public Reporting Burden for this collection of information is estimated to average one hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

The information requested does not lend itself to confidentiality.

Previous editions are obsolete

Page 1 of 2

form **HUD-1** (3/86)
ref Handbook 4305.2

HUD-1 SETTLEMENT STATEMENT (Continued)

L. Settlement Charges

	Paid From Borrowers Funds at Settlement	Paid From Seller's Funds at Settlement
700. Total Sales/Broker's Commission based on price $ @ % =		
Division of Commission (line 700) as follows:		
701. $ to		
702. $ to		
703. Commission paid at Settlement		
704.		
800. Items Payable In Connection With Loan		
801. Loan Origination Fee %		
802. Loan Discount %		
803. Appraisal Fee to		
804. Credit Report to		
805. Lender's Inspection Fee		
806. Mortgage Insurance Application Fee to		
807. Assumption Fee		
808.		
809.		
810.		
811.		
900. Items Required By Lender To Be Paid In Advance		
901. Interest from to @$ /day		
902. Mortgage Insurance Premium for months to		
903. Hazard Insurance Premium for years to		
904. years to		
905.		
1000. Reserves Deposited With Lender		
1001. Hazard insurance months@$ per month		
1002. Mortgage insurance months@$ per month		
1003. City property taxes months@$ per month		
1004. County property taxes months@$ per month		
1005. Annual assessments months@$ per month		
1006. months@$ per month		
1007. months@$ per month		
1008. months@$ per month		
1100. Title Charges		
1101. Settlement or closing fee to		
1102. Abstract or title search to		
1103. Title examination to		
1104. Title insurance binder to		
1105. Document preparation to		
1106. Notary fees to		
1107. Attorney's fees to		
(includes above items numbers:)		
1108. Title insurance to		
(includes above items numbers:)		
1109. Lender's coverage $		
1110. Owner's coverage $		
1111.		
1112.		
1113.		
1200. Government Recording and Transfer Charges		
1201. Recording fees: Deed $; Mortgage $; Releases $		
1202. City/county tax/stamps: Deed $; Mortgage $		
1203. State tax/stamps: Deed $; Mortgage $		
1204.		
1205.		
1300. Additional Settlement Charges		
1301. Survey to		
1302. Pest inspection to		
1303.		
1304.		
1305.		
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)		

Previous editions are obsolete   Page 2 of 2   form **HUD-1** (3/86) ref Handbook 4305.2

Instructor Notes	Presentation
	LOAN SETTLEMENT (Continued)
Continue with the scenario.	It's easy to be overwhelmed by the paperwork at closing. Patricia knew she had to take her time and not sign anything she did not understand.
Ask students …	Do you have any questions about settlement?
Transition to the next topic.	Now that Patricia is a homeowner, she can tap into the equity of her home as it grows.

Instructor Notes	Presentation

TAPPING INTO THE EQUITY OF YOUR HOME

Introduce the topic by continuing with the scenario.

Patricia has been living in her home for several years now and is starting to build up equity.

Ask students …

Acknowledge students' responses.

Do you remember what equity is?

Answer:

Equity is the value of the home minus the debt or what you owe on the house.

Write the example of equity below on chart paper …

Value of Home	=	$250,000
minus Debt	=	- 200,000
Equity	=	$ 50,000

24: Tapping Into Your Home's Equity

There are several ways Patricia can take advantage of her rising equity:

- Home equity loans
- Home equity line of credit
- Cash-out refinancing
- Reverse mortgages

Let's take a look at each one of them.

Refer students to Tapping Into Your Home's Equity on page 13 of their Participant Guide.

Refer students to Tapping Into Your Home's Equity on page 13 of the Participant Guide.

Review the information with students, using Instructor Aid #8 on the next page to guide you.

Answer questions.

When you have finished reviewing the information, ask students …

Acknowledge students' responses.

Patricia had decided to remodel her kitchen and bathroom. She needs about $35,000 to pay for these home improvements.

Should she get a home equity loan, line of credit, or try cash-out refinancing?

Answer:

If she can get a lower interest rate on her current mortgage, she should try cash-out refinancing. If not, a home equity loan or line of credit might be better.

TAPPING INTO YOUR HOME'S EQUITY

Home Equity Loans and Home Equity Lines of Credit

The "traditional" home equity loan is a one-time loan for a lump sum, and typically at a fixed interest rate. The loan is repaid in equal monthly payments over a set period of time.

A home equity line of credit (HELOC) works like a credit card. You receive a line of credit from which you can draw money. As you repay the principal, your available credit goes up again, just like a credit card. Typically, the interest rate on a line of credit is variable, meaning that it is tied to an index and will change with movements in interest rates.

Advantages

Home equity products offer homeowners great flexibility to finance major expenses, including home improvements and college tuition. They usually have a lower interest rate than credit cards, and the interest often is tax deductible (check with your tax advisor).

Risks

The most important thing to remember is that your home is collateral for the loan. If you run into repayment difficulties, you could lose your home. So, before you put your home at risk, you should learn more about how these loans work and what can go wrong if you do not use them carefully.

With both types of home equity products you also are at risk if there is a drop in the value of your home. Although the housing market has done extremely well in recent years, there is always a chance that real estate values will go down.

HELOCs often come with extra-low interest rates for an introductory period, such as 6 months, but these are variable rates that could go up during the life of the loan.

When deciding whether a line of credit is right for you, ask yourself if you can afford the increased monthly payments after the introductory period ends or when interest rates rise. You will also have to decide if you are comfortable with a fluctuating monthly mortgage payment or whether a fixed interest rate and stable payments are better for you.

Also remember that you are drawing out the money you have invested in your home, so you should think carefully about what you do with that money. It is generally best to invest in another asset of long-term value, such as a home renovation or college tuition, instead of paying for a car or a vacation. The flexibility these loans give you can be dangerous because if you are not disciplined about how you use the funds, you could end up paying a lot of money over a long period of time for something you no longer own or that did not add any value to your existing assets.

TAPPING INTO YOUR HOME'S EQUITY (Continued)

Your Rights

You have specific rights if you are using your home as security for a home equity loan or line of credit. Federal law gives you 3 business days after signing the loan papers to cancel the deal – for any reason – without penalty. You must cancel in writing. The lender also must return any fees or finance charges you had paid. This right does not apply if you are buying a home or refinancing without borrowing additional money.

For more information, see the brochure *Putting Your Home on the Loan Line Is a Risky Business*, available on the FDIC Website at www.fdic.gov/consumers/consumer/predatorylending.

Cash-Out Refinancing

With cash-out refinancing, you refinance your mortgage for more than you currently owe, then pocket the difference.

Here is an example: Suppose you still owe $80,000 on a $150,000 mortgage, and you want a lower interest rate. You also want $20,000 cash, perhaps to finance your child's education. You can refinance the mortgage for $100,000. That way, you get a better rate on the $80,000 that you owe on the house, and you get a check for $20,000 to spend as you wish.

How does cash-out refinancing differ from a home equity loan?

Cash-out refinancing differs from a home equity loan in a couple of ways. First, a home equity loan is a separate loan on top of your first mortgage; a cash-out refinance is a replacement of your first mortgage. Second, the interest rate on a cash-out refinancing is usually, but not always, lower than the interest rate on a home equity loan.

Another difference: You have to pay closing costs when you refinance your loan; you may not have to pay closing costs for a home equity loan. Closing costs can amount to hundreds or thousands of dollars.

Finally, it does not make sense to refinance a higher amount at a higher rate. If your current mortgage is at a lower interest rate than you could get now by refinancing, it is probably better to get a home equity loan.

Is cash-out refinancing right for you?

How do you decide whether a cash-out refinancing is right for you?

It depends on how much you would save each month and what you want to spend the money on.

TAPPING INTO YOUR HOME'S EQUITY (Continued)

Let's take the example of a couple who own a home. They took out a $100,000 mortgage on a $130,000 house in early 1992. Their interest rate was 9.95 percent, making their monthly payment $873.88 (plus taxes, insurance, and other extras).

For 13 years, they never bothered refinancing. Now it is spring 2005, and they qualify for a rate of 6.02 percent. They still owe $87,000 on their mortgage and they want $20,000 cash to pay for some home improvements. They could refinance $107,000 at a cost of $642.90 a month for 30 years, allowing them to pocket the $20,000. Over 30 years they would pay $231,442.40.

Or they could refinance the $87,000 at a cost of $522.73 a month, then take out a $20,000 home equity loan at 7.36 percent for 20 years. That would cost $159.41 a month. Added together, they would pay $682.14 a month for 20 years, then $522.73 a month for the last 10 years. Total cost over 30 years: $226,440.75.

With the home equity loan, they might struggle with higher payments for 20 years, but will save about $5,001.65 over 30 years. Which option they take is a matter of personal preference.

When you decide whether to do the cash-out refinancing option, keep in mind that you will have to pay private mortgage insurance (PMI) if you borrow more than 80 percent of your home's value. If you have to pay PMI, it might be cheaper to take out a home equity loan.

How do you plan to spend the cash?

Take a close look at how you plan to spend the money from cash-out refinancing. Specifically, is the cash for a short-term purpose or a long-term purpose?

If you are going to make payments for 15 or 30 years, it makes sense to spend the money on something that will last: an addition to the house that will increase its value, potentially lifesaving experimental medical treatment that your health insurance will not pay for, or starting a business.

In other words, do you want to spend 15 years paying for your month-long dream vacation? Do you want to spend 30 years paying for that luxury car? The car might be on the junk heap by the time it is paid for.

Maybe you want the cash so you can pay down a mountain of high-interest credit card debt. Yes, you will pay a lower interest rate and you can take a tax deduction, but you are probably lengthening the time it will take to pay off the credit card debt. You are taking 30 years to pay off credit card debt that you might have been able to tackle in 5 or 10 years by cutting other expenses or taking out a shorter term home equity loan.

Source: adapted from www.bankrate.com/brm/news/loan/20010824a.asp

TAPPING INTO YOUR HOME'S EQUITY (Continued)

Reverse Mortgage

A reverse mortgage is a home loan that you do not have to pay back for as long as you live in your home. It can be paid to you in one lump sum, as regular monthly income, or at the times and in the amounts you want. The loan and interest are repaid only when you sell your home, permanently move away, or die.

Because you make no monthly payments, the amount you owe grows larger over time. By law, you can never owe more than your home's value at the time the loan is repaid.

You continue to own the home, so you must pay the property taxes, insurance, and repair costs. If you fail to pay them, the lender can use the loan to make payments or require you to pay the loan in full. To qualify for a reverse mortgage:

- All homeowners must be at least 62 years old.
- At least one owner must live in the house most of the year.

Homes that are eligible for the reverse mortgage are:

- Single family, one-unit dwellings.
- Two-to-four unit, owner-occupied dwellings.
- Some condominiums, planned unit developments, or manufactured homes.

  NOTE: Cooperatives and most mobile homes are not eligible.

Reverse mortgages can be paid to you:

- All at once in cash.
- As monthly income.
- As a credit line that lets you decide how much you want and when.
- In any combination of the above.

The amount you get usually depends on your age, your home's value and location, and the cost of the loan. The greatest amounts typically go to the oldest owners living in the most expensive homes getting loans with the lowest costs.

If your heir or your family members want to keep the house, they must repay the loan. They will also have to repay any interest, finance charges, or fees.

Most people get the most money from the Home Equity Conversion Mortgage (HECM), a federally insured program. The Federal Government requires you to see a federally approved reverse mortgage counselor as part of getting a HECM reverse mortgage.

For more information, visit the U.S. Department of Housing and Urban Development's Website at www.hud.gov, or visit the U.S. Financial Literacy and Education Commission's Website at www.mymoney.gov.

Source: adapted from www.pueblo.gsa.gov/cic_text/housing/bad-loans/loan.htm.

Instructor Notes	Presentation
	TAPPING INTO THE EQUITY OF YOUR HOME (Continued)
	Beware of Predatory Lenders
	Predatory lending has become a serious problem. It occurs when companies offer loan products, like home equity loans or cash-out refinancing, using certain marketing tactics, collection practices, and loan terms that deceive and exploit borrowers.
	The Money Smart module Keep It Safe provides detailed information on predatory lending practices.
Describe HUD'S post-home ownership course.	We recommend that you take a post-home ownership course. The Department of Housing and Urban Development (HUD) funds housing counseling agencies that can give you advice on buying a home, renting, defaults, foreclosures, credit issues, and reverse mortgages.
	You may contact HUD at 800-569-4287 or visit www.hud.gov to find a list of HUD-approved housing counseling agencies.
Ask students …	Do you have any questions about tapping into your home's equity?
Transition to the next topic.	Let's take a look at what we've learned today.

Instructor Notes	Presentation

SUMMARY AND CONCLUSION

Summary

Review what was covered in the module.

Review the chart papers with students' expectations, questions, and concerns to make sure they have all been covered.

Congratulations! You have completed the Your Own Home module. We've covered a lot of information today about how to save for the future. You learned about:

- The benefits and pitfalls of renting versus owning your home.
- The steps required to buy a home.
- Questions to ask to determine if you are ready to buy a home.
- The components of a mortgage.
- Different mortgage options for buying a home.
- Tapping into your home's equity.

You should know be familiar with the process of buying and financing a home.

Ask students …

Do you have any final questions?

Evaluation Form

Refer students to pages 17 through 19 of their Participant Guide.

Allow time for participants to complete it.

To improve the training, we will need your feedback. The After-the-Training column on the What Do You Know? form and the Evaluation Form will identify changes that can make this training better.

Please complete the After-the-Training column and the Evaluation Form now.

Make sure you collect all the forms.

Great job completing the Your Own Home module! Thank you for participating.

WHAT DO YOU KNOW? – YOUR OWN HOME

Instructor: ______________________________ Date:______________________

This form will allow you and the instructors to see what you know about home ownership both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

I know:	Before the Training: Strongly Disagree	Before the Training: Disagree	Before the Training: Agree	Before the Training: Strongly Agree	After the Training: Strongly Disagree	After the Training: Disagree	After the Training: Agree	After the Training: Strongly Agree
1. The benefits and pitfalls of renting versus owning a home.	1	2	3	4	1	2	3	4
2. The steps required to buy a home.	1	2	3	4	1	2	3	4
3. What questions to ask to determine my readiness to buy a home.	1	2	3	4	1	2	3	4
4. Basic terms used in a mortgage transaction.	1	2	3	4	1	2	3	4
5. The advantages and disadvantages of different mortgage options.	1	2	3	4	1	2	3	4

EVALUATION FORM

This evaluation will allow you to assess your observations of the Your Own Home module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Overall, I felt the module was: [ ] Excellent [ ] Very Good [ ] Good [ ] Fair [ ] Poor					
2. I achieved the following training objectives:					
a. Describe the benefits and pitfalls of renting versus owning a home.	1	2	3	4	5
b. Identify the steps required to buy a home.	1	2	3	4	5
c. Identify questions to ask to determine my readiness to buy a home.	1	2	3	4	5
d. Identify basic terms used in a mortgage transaction.	1	2	3	4	5
e. Describe the advantages and disadvantages of different mortgage options.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The overheads were clear.	1	2	3	4	5
5. The overheads enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this module.	1	2	3	4	5
7. The module included sufficient examples and exercises so that I will be able to apply these new skills.	1	2	3	4	5
8. The instructor was knowledgeable and well prepared.	1	2	3	4	5
9. The worksheets are valuable.	1	2	3	4	5
10. I will use the worksheets again.	1	2	3	4	5
11. The students had ample opportunity to exchange experiences and ideas.	1	2	3	4	5

	None					Advanced
12. My knowledge/skill level of the subject matter before taking the module.	0	1	2	3	4	5
13. My knowledge/skill level of the subject matter upon completion of the module.	0	1	2	3	4	5

Continued on next page…

EVAUATION FORM (Continued)

Instructor Rating

Please use the response scale and circle the appropriate number.

Response Scale: **5 Excellent** **4 Very Good** **3 Good** **2 Fair** **1 Poor**	**Name of Instructor**
Objectives were clear & attainable	**5 4 3 2 1**
Made the subject understandable	**5 4 3 2 1**
Encouraged questions	**5 4 3 2 1**
Had technical knowledge	**5 4 3 2 1**

What was the most useful part of the training?

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What was the least useful part of the training?

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