MoneyWi$e

Consumer Action and Capital One Partnership

Successful Homeownership

Seminar Lesson Plan & Class Activities

www.money-wise.org

Successful Homeownership Seminar

Seminar Purpose:

To provide workshop participants with an understanding of the responsibilities of homeownership and the information they will need to protect their home and investment

Seminar Objectives:

By the end of the training, participants will understand:

- The responsibilities of homeownership
- What successful homeownership means
- How to manage the costs of homeownership
- The tax benefits and responsibilities of homeownership
- How insurance protects their home and their investment
- How to build and preserve their equity
- What to do to avoid foreclosure

Seminar Duration:

This is a four-hour seminar. There will be one 20-minute break about halfway through.

Materials:

<u>For instructor:</u>

- *Successful Homeownership* seminar lesson plan:
    - Lesson plan
    - Monthly Budget Worksheet
    - Cent Tracker
    - *Making the Right Borrowing Choices* exercise
    - *Successful Homeownership Crossword Puzzle*
    - *Successful Homeownership Crossword Puzzle Solution*
    - Evaluation form for the MoneyWi$e *Successful Homeownership* seminar
- *Successful Homeownership* Leader's Guide (Q&A)
- *Keeping Your Home: Tips for Successful Homeownership* brochure
- *Successful Homeownership* visual teaching aid (PowerPoint presentation with instructor's notes)

You will also need:

- A computer and an area on which to project the PowerPoint presentation
- An easel and pad, or a whiteboard, and markers

For participants:

- *Keeping Your Home: Tips for Successful Homeownership* brochure
- Monthly Budget Worksheet
- Cent Tracker
- Successful Homeownership Crossword Puzzle
- Copy of seminar PowerPoint slides (optional)
- Evaluation form for the MoneyWi$e *Successful Homeownership* seminar

Seminar Outline

Session One

Welcome (overview, introductions)	(10)
What Is Successful Homeownership?	(10)
Costs of Homeownership	(15)
Budgeting and Saving	(15)
INDIVIDUAL ACTIVITY: Create a Personal Budget	(20)
Tax Benefits and Responsibilities of Homeownership	(15)
Break	(20)

Session Two

Insurance	(20)
Building Equity	(15)
Preserving Your Equity	(15)
GROUP ACTIVITY: Making the Right Borrowing Choices	(30)
Avoiding Foreclosure	(15)
INDIVIDUAL ACTIVITY: Crossword Puzzle	(15)
Questions & Answers	(20)
Wrap-up and Evaluation	(5)

Session One

(***Instructor's Note:*** *Before conducting the training, familiarize yourself with the* Keeping Your Home *brochure, the* Successful Homeownership Leader's Guide *and the PowerPoint presentation. The PowerPoint presentation contains notes for each slide. These notes offer teaching tips, talking points, and detailed information about the items appearing on the slide. This lesson plan indicates which slides correspond to which parts of the lesson, and when to move to the next slide.)*

➡**SLIDE #1** (onscreen as participants arrive)

Have participants pick up packets on their way in, or place them on seats/tables before class. Direct participants who arrive early to begin reading the *Keeping Your Home* brochure.

Welcome (10 minutes)

Welcome participants. Introduce yourself and review the purpose of the seminar and the day's agenda.

You can hand out packets at this point if have not already done so.

Review the contents of participants' packets. Ask the class to take a look inside their packets and make sure they have all the materials needed.

Ask participants to introduce themselves, tell whether they are current or future homeowners, and what they hope to get out of the seminar. On your whiteboard or easel pad, jot down some of the topics participants want to learn about.

(This activity is designed to serve as a brief icebreaker. It will also give you an idea of what participants' expectations and needs are.)

What Is Successful Homeownership (10 minutes)

Ask participants what they think "successful homeownership" means. *(TIP: This can be done informally, with participants calling out answers. If you like, you can write down their responses on the easel pad or whiteboard.)*

After a moment of brainstorming, reveal the next slide.

➡**SLIDE #2**

Using slide notes or the Leader's Guide (section I), go over each item in the list of steps to successful homeownership. Assure the class that, during the course of the seminar, you will cover these various steps in greater detail.

After completing the list, ask the class what the barriers to successful homeownership might be. Allow participants a minute or two to offer responses. Again, if you like, you can write down their answers on the easel pad or whiteboard.

Then reveal the next slide.

➡SLIDE #3

Using the slide notes, expound on each item in the list. See section I of the Leader's Guide for more information. Wrap up this section by reassuring participants that achieving successful homeownership is within everyone's ability through planning and discipline.

Costs of Homeownership (15 minutes)

Begin this section by asking the class what costs renters have that homeowners do not. Responses you are looking for are rent, renters insurance, first and last month's rent (deposit) and security deposit. Explain that, while there are great rewards associated with homeownership, homeowners have many more financial obligations than renters do.

Reveal the next slide.

➡SLIDE #4

Using slide notes, present each expense category in the list.

After presenting the list of homeownership costs, ask the class for ideas for reducing or more easily managing them. See section II of the leader's guide, *How can I reduce or better manage my homeownership costs?,* for specific cost-cutting strategies to share with the class, including:

- canceling PMI when you reach 20% equity
- putting away one-twelfth of your annual insurance and property tax bill each month (if you are not required to pay these bills through an impound, or escrow, account)
- shopping around for the best insurance rates, or increasing your deductible
- setting aside one-twelfth of one percent of the purchase price to cover maintenance
- taking advantage of all available tax benefits
- designing a good budget

Budgeting and Saving (15 minutes)

Begin a discussion about budgeting and saving. Start by asking the class what the purpose of a budget is.

Then ask if anyone in the class has a budget. If one or more participants raise their hands, ask how long they have been using a budget, why they created one, how their budget has (or hasn't) been working for them, and so on.

If nobody in the class has a budget, ask why not. Do they think a budget would be useful?

➡SLIDE #5

Ask participants to take out the budget worksheet from their folders.

Go over each item on the slide, making the following points (use the worksheet to point out certain items, indicated below, as you speak):

- A budget is less like a diet and more like a “spending plan”—it’s a written guide for using your income to meet your expenses and achieve your goals.
- If you are planning to buy a home, creating a budget now will help you determine how much you can afford and how your monthly expenses will change. *(Point out the two columns, “Current” and “Projected.”)* Also use the “Projected” column to calculate how a change in circumstances (a new job that is farther from home and requires you to spend more on transportation, for example) or an effort to reduce expenses (you eat only one restaurant meal per month instead of three, or you cancel premium cable channels, for example) will affect your bottom line.
- A budget is simply a way of prioritizing how you will use your income.
- Expense categories should be divided into essential and discretionary. *(Point out these two sections.)*
- Some expenses will be fixed (such as the monthly payment on a fixed-rate mortgage or your auto loan) and some expenses will be variable (such as groceries, gas and utilities).
- Expenses that you pay on an annual, semiannual or quarterly basis (such as insurance and property taxes, if you don’t have an escrow account), will have to be divided into a monthly amount.
- Anticipate and calculate occasional expenses, such as back-to-school clothes in August, and fluctuations in expenses, such as higher heating costs in the winter months. These totals, too, should be divided by 12 months and made a monthly expense.
- Be sure to include “other” expenses that can be difficult to remember but will make a difference in your bottom line, such as an alarm system or a safety deposit box. *(Point out the space at the bottom of each section of the budget where users can enter “Other” expenses.)*
- A good budget always includes “savings” as an essential expense. *(Point out “Long-term savings” and “Short-term savings” toward the bottom of the Essential Expenses section.)* If you have not already done so, establish and build an emergency fund. (See section II of the Leader’s Guide for more information.)
- Shop around for better prices on essential expenses. Reduce non-essential expenditures, for things like restaurant meals, gifts and entertainment. Avoid fees (for things like ATM transactions and late movie returns) and parking tickets.
- Track impulse and small purchases, such as vending machine snacks, coffee, and magazines. Even small purchases can add up to hundreds or thousands of dollars over the year! (Point out the “Coffee” category in the discretionary expenses section.) Ask participants what their “leaks” are—those things they spend small amounts of money on frequently. Have the class take out the “Cent Tracker” from their packets. Encourage them to use the tracker for at least a week to see where—and how big—their leaks are.
- A budget is not set in stone; make adjustments as expenses, income and priorities change.
- It’s not enough to plan your spending—you must pay your bills on time. As they arrive, collect bills in the same spot (a drawer or large envelope, for example) and check at least weekly for which ones must be paid next.

Now that you have discussed how a budget works and what it looks like, introduce the following activity.

INDIVIDUAL ACTIVITY: Create a Personal Budget (20 minutes)

This activity is an important step in helping class participants achieve successful homeownership. Without a budget, or spending plan, homeowners are more likely to overspend and are less likely to plan for emergencies and occasional expenses, or to save regularly.

Give participants 15 minutes to complete the worksheet as much as possible, acknowledging that they may have to finish at home.

At the end of the time period, ask the class:

- if they are surprised by any of the numbers they have entered so far. Are they spending more or less on certain categories than they thought they were?
- if they can see ways to improve the numbers. How could they increase income or reduce expenses?
- if anyone feels like homeownership is more or less achievable or manageable based on their numbers

Ask participants to put away their worksheets. Strongly encourage them to finish them at home, since the completed budget worksheet will be an indispensable tool for meeting financial obligations and goals.

Tax Benefits and Responsibilities of Homeownership (15 minutes)

➡SLIDE #6

Per slide notes, go over each item on the slide. See section III of the Leader's Guide, *Understanding Your Tax Benefits and Responsibilities*, for more information.

When you get to the second point (adjusting your Form W-4 to improve your monthly cash flow), go through the following example on your easel or whiteboard:

➡ Maria buys a home. Her mortgage interest and property taxes total $12,000 per year.

➡ Maria is in the 28% tax bracket.

➡ Her tax savings as a homeowner will be approximately 28% of her $12,000 deduction, or $3,360 per year ($12,000 x .28 = $3,360).

Instead of waiting for a $3,360 tax refund, Maria changes her W-4 form at work (she claims more "exemptions") to have fewer taxes taken out of her paycheck. Maria's increase in net pay is approximately **$280 per month**!

This tax savings and paycheck adjustment can make it easier to meet the monthly financial responsibilities of homeownership.

When you get to the third point (tax-free profit), go through the following example on your easel or whiteboard:

➡ Ruben and Sandra buy a home for $275,000.

➡ They pay $9,000 in closing and miscellaneous costs.

- ➡ During their first year in the home, the couple does extensive landscaping in the front and back yards, at a cost of $4,500.
- ➡ During their second year in the home, they convert an extra closet to a guest bathroom, at a cost of $5,500.
- ➡ Ruben and Sandra sell the home in the fifth year at a price of $345,000. Their net profit on the sale is $51,000 ($345,000 – [$275,000 + $9,000 +$4,500 + $5,500]). They do not have to pay taxes on this profit since it is below the $500,000 limit for couples.

Break (20 minutes)

Announce a 20-minute break. Make yourself available for a few minutes to direct people to the restroom or a place to get drinks and snacks.

Leave the following slide onscreen during the break.

➡SLIDE #7

Session Two

Insurance (20 minutes)

Ask participants why they think homeowners insurance is important. Why does the lender require it? What does it cover? How does it protect the homeowner and the lender?

➡SLIDE #8

Go over each item. Read Section IV of the Leader's Guide, *Insuring Your Investment*, in preparation for this portion of the lesson.

➡SLIDE #9

Per slide notes, go over each item.

Building Equity (15 minutes)

Ask the class what they think "equity" is and how you build equity. After a few responses, reveal the next slide.

➡SLIDE #10

Use the following example to illustrate "equity":

- ➡ Margie and Antonio bought a home for $200,000.
- ➡ They made a downpayment of $20,000 and borrowed $180,000.
- ➡ Over the years, they paid $30,000 toward their mortgage principal, leaving them with a current loan balance of $150,000.
- ➡ According to an appraiser, their home is now worth $270,000.

➡ Margie and Antonio have $120,000 equity.

Open a discussion about building equity through improvements to the home. Caution participants against the temptation to invest in major upgrades, especially early on. Make the following points:

- Always perform all needed maintenance and repairs first. A well maintained home retains its value and should sell for more than one that is not.
- Spend your improvement dollars strategically to get the greatest return on your investment. The best improvements will depend on what other homes in your neighborhood offer. Some experts believe you shouldn’t put yourself in a position where your home would be priced for more than 20% more than comparable homes in the area. This means that if the homes in your area appraise at about $100,000, you might not want to undertake a home improvement project that would push your home’s selling price over $120,000.
- It’s a good idea to choose projects that will be universally appealing to future buyers, such as updating a kitchen, adding or remodeling a bathroom, adding a bedroom, and landscaping. Certain projects, such as installing a swimming pool, sometimes return less than they cost to complete.
- The best way to determine which improvements will provide the greatest return when you sell is to get the input of a real estate agent who is an expert in your neighborhood.

Preserving Your Equity (15 minutes)

➡SLIDE #11

Per slide notes, present each item in the list.

GROUP ACTIVITY: Making the Right Borrowing Choices (30 minutes)

➡SLIDE #12

Divide the class into small groups. (Due to time constraints, it’s best to not exceed three or four groups.) Give each group a copy of the two-page *Making the Right Borrowing Choices* worksheet. Instruct the class to take 15 minutes to answer the questions, basing their choices on the homeowner profiles and the knowledge they already have.

Direct each group to select a representative to explain why they made the choices they did. At the end of the work period, go over the questions one by one, asking each group to explain its choice(s) for that particular scenario.

Here are answers and talking points to guide you through each question/scenario:

1. Because Chris and Pat plan to sell the home before the variable interest rate adjusts (in 3 years) and principle payments begin (in 5 years), the couple may benefit from choosing the ARM. Their monthly payments will be lower while they are in the home, and they won’t have to worry about a jump in their mortgage payment as long as they sell the home within three years.

If, however, the couple thinks they may not sell the home as planned, they will have to weigh the initial benefits against the risk that they may have to make a significantly higher mortgage payment in the future. (If interest rates are higher in three years, their rate will adjust upwards. And in five years, the loan will start amortizing, which means that the principal balance will be divided so that it pays off in 300 months [25 years]. These monthly principal payments will be larger than they would be for a 30-year loan because the balance must be paid off in a shorter period of time.)

2. Since Jerome plans to stay put for the long term, he should seriously consider the fixed-rate loan and the opportunity to lock in his interest rate and monthly payment for 30 years. Knowing that he will not see his payments jump and that he won't have to worry about refinancing in the future may be worth the slightly higher interest rate and initial payments.

The lower payments he would have if he chose the interest-only ARM would make the first years of homeownership easier to manage, and might even allow Jerome to buy a more expensive home—but he would be taking a gamble. If interest rates jumped sharply in those first three years, Jerome could face unaffordable payments. Principal payments, when they started, would further increase his monthly obligation. And banking on the idea that he could refinance his current loan down the road would be a mistake, since there is no guarantee that Jerome would be in a position to qualify for a new loan or that the terms would be more favorable. If he could not manage the payments and could not refinance, Jerome would have to sell the home—but there is no guarantee that it would sell for enough to pay off all outstanding loans.

3. Since Lynette plans to stay in the home for the foreseeable future, installing a swimming pool is not necessarily a bad idea—though she should be aware that swimming pools typically do not return their full investment when the home is sold, and may even be unappealing to some buyers. The real issue with Lynette's plan is that she is borrowing about half her equity just a year after buying the home—and for a luxury that may not increase the value of her home. Tapping half her limited equity so soon after buying leaves Lynette in a risky position should she have to sell her home soon.

To be safe, Lynette should wait a while to buy her pool—at least until she has mastered her budget as a homeowner and has had time to build more equity. Better yet, she should set a goal to save up for the pool rather than borrow for it. By doing so, she will preserve her home equity for important future needs, such as her child's college expenses, a new business, retirement, or a financial emergency.

4. It can be a good idea to apply for a home equity loan so that it will be available when you need it. This is especially true if there's the possibility that you could lose your source of income (through a layoff or retirement, for example) and would have difficulty qualifying for a home equity loan then.

Since George and Athena do not plan to use the loan proceeds immediately, they should opt for a home equity line of credit (HELOC) rather than a lump-sum home equity loan. While a lump-sum loan sometimes offers a slightly lower interest rate, you are required to pay interest on the full amount immediately. With a HELOC, you only pay interest on the amount you use—however much or little—and you pay no interest if you do not have a balance (though you may have to pay a small annual maintenance fee).

Just because you have access to your home's equity does not mean you have to—or should—tap it. If you don't have a very good reason to borrow on your available credit line, just let it sit unused.5. There are many factors to consider when deciding how to best use extra funds, such as:

- Putting additional funds towards principal allows you to build equity faster and to get out of debt sooner. That can be a priceless benefit for those who are eager to be mortgage-free. On the other hand, money you pay towards principal is not tax deductible. And, as you pay off your loan, the principal portion of your payment increases while the interest portion of your monthly payment gets smaller and smaller, reducing your tax deduction for mortgage interest every year.

- A 15-year mortgage typically carries a lower interest rate than a 30-year mortgage, saving you significant money over the life of the loan. For example, a $200,000 loan at 6% for 30 years will cost you $231,676.38 in interest, while that same loan for 15 years will cost just $103,788.46 in interest. The objection some advisors have to 15-year loans, despite the overall interest savings, is that they lock you into a higher payment. If your financial picture changes and you can no longer make those higher payments, you do not have the option to pay less. On the other hand, they point out, with a 30-year loan you can pay additional money toward principal whenever you are able without committing to having to do it for the life of the loan.
- Before directing extra money to your mortgage, pay off higher-interest debt, such as credit card balances. Some experts also encourage homeowners to, instead, invest additional funds in stocks or other types of investments, particularly if your mortgage interest rate is relatively low and it is reasonable to assume you could earn a greater return on your money.

6. Every situation is different, but here are some things homeowners having money troubles should consider:

- Refinancing can be a solution if you are able to refinance into a loan that requires lower monthly payments. This is a possibility if your new interest rate will be significantly lower than your current rate, or if you have paid down your old loan significantly and your new loan would be for a much smaller amount. Keep in mind that refinancing costs money—points, fees, appraisals and other costs can really add up. If your current loan carries a prepayment penalty, that will add to your costs. Also, it can be difficult or impossible to refinance at a competitive rate—or at all—if your money troubles have already resulted in damage to your credit score. Beware of loans that promise an immediate solution but will put you in a difficult position down the road (negative amortization loans, where the monthly payment does not even cover the interest owed and the loan actually grows larger over time, for example).
- Taking out a home equity loan may not be an option if money troubles have already resulted in damage to your credit score. If it is an option, consider it only if you see a long-term solution to your money troubles. For example, if you know that in six months you will receive a large bonus or tax refund, or you are about to be laid off but are confident that you will start a new job within a year, then a home equity loan/line of credit might be a reasonable solution. However, if you cannot predict an improvement in your finances, living off your home's equity could put you in an even worse situation, leaving you with not even enough equity to pay the real estate commissions and outstanding loan balances if you have to sell.
- If you have enough equity to pay off all outstanding loans and liens, as well as the real estate agent's sales commission and any other sales costs, then selling your home may be an option. This is a better option than being foreclosed—the result is the same (you no longer own the property), but a foreclosure severely damages your credit score and your ability to get credit in the future, wipes out all your equity in the home, and could leave you owing a "deficiency" between the sales price and the mortgage balance. (Some states have anti-deficiency laws. In those states, you may still be liable for taxes on the forgiven debt.)
- It's always a good idea to contact a housing counselor as soon as you foresee or experience money troubles that jeopardize your ability to make your mortgage, property tax and insurance payments. Counseling is free or low cost. A counselor can give you a detailed

explanation of all your options and the advantages and disadvantages of each one. He or she can also help you prepare for a discussion with your lender, which is a key step in resolving your mortgage issues. And, he or she will be aware of any special assistance programs. For help, call 888-995-HOPE or visit www.hopenow.com. Hope Now is an alliance of government agencies, investors, lenders and counselors helping homeowners keep their homes.

Avoiding Foreclosure (15 minutes)

Ask participants how they can avoid foreclosure. If you like, jot down responses. After a few moments, reveal the next slide.

➡SLIDE #13

Per slide notes, present each item in list.

INDIVIDUAL ACTIVITY: Crossword Puzzle (15)

Have participants take out the *Successful Homeownership Crossword Puzzle* from their packets. Let them know that all answers to the puzzle are words they've heard during the seminar. Allow 10 minutes to complete the puzzle.

Spend up to five minutes going over answers to the puzzle, using the *Successful Homeownership Crossword Puzzle Solution* as your guide.

Questions & Answers (20 minutes)

Open the floor to questions. The Leader's Guide is written in Q&A format to help you answer frequently asked questions.

Wrap-up and Evaluation (5 minutes)

➡SLIDE #14

Congratulate attendees on their participation in the seminar and wish them success in achieving their goal of successful homeownership. Ask them to fill out the Seminar Evaluation Form and leave it on a table or in a large envelope you provide.

Monthly Budget Worksheet

INCOME SOURCE	CURRENT	PROJECTED
Job (net)	$	$
Spouse's job (net)	$	$
Other employment	$	$
Interest/investment income	$	$
Government benefits	$	$
Child support & alimony	$	$
Rent received	$	$
Tax refunds	$	$
Other income	$	$
SPENDABLE INCOME	$	$

ESSENTIAL EXPENSES	CURRENT	PROJECTED
Housing (rent/mortgage)	$	$
Second mortgage/HELOC	$	$
HOA (association dues)	$	$
Property taxes	$	$
Renter's/homeowner's insurance	$	$
Home maintenance	$	$
Gas/electricity/oil	$	$
Water & garbage	$	$
Phone (landline & mobile)	$	$
Car payments	$	$
Gasoline	$	$
Auto insurance	$	$
Auto registration	$	$
Auto maintenance	$	$
Other transportation costs (parking, tolls, taxi, bus, etc.)	$	$
Groceries & supplies	$	$
Pet care/supplies	$	$
Health insurance	$	$
MD/chiropractor/dentist	$	$
Glasses/contact lenses	$	$
Childcare	$	$
Tuition	$	$
Alimony/child support	$	$
Postage, banking fees, etc.	$	$
Laundry/dry cleaning	$	$
Other insurance (life, disability, etc.)	$	$
Essential clothing	$	$
Credit card payments	$	$
Other debt payments	$	$
Long-term savings	$	$
Short-term savings	$	$
*Other:	$	$
Other:	$	$
Other:	$	$
Other:	$	$
TOTAL	$	$

*Examples of "other" essential expenses:
Payments on a previous year's tax bill, union dues, storage fees, student loan payments, monitored alarm system, etc.

DISCRETIONARY EXPENSES	CURRENT	PROJECTED
Internet	$	$
Cable	$	$
Beauty/barber	$	$
Restaurant meals/takeout food/vending machines	$	$
Entertainment	$	$
Coffee	$	$
Sports, gym, hobbies	$	$
Vacations/travel	$	$
Books, music, etc.	$	$
Gifts	$	$
Religious/charity	$	$
Cigarettes/alcohol	$	$
Nonessential clothing	$	$
**Other:	$	$
Other:	$	$
Other:	$	$
Other:	$	$
TOTAL	$	$

BOTTOM LINE	CURRENT	PROJECTED
Total monthly income	$	$
Total monthly expenses	$	$
NET (+/-)	$	$

Add essential and discretionary expenses. Then subtract total expenses from income to get net positive or negative monthly figure.

TIPS FOR SUCCESSFUL BUDGETING

- Even "essential" expenses can be reduced.
- Don't forget to include occasional expenses, such as gifts, food and decorations for the holidays, and school supplies in the fall.
- Add up what you spend in a year for occasional, annual, semi-annual and quarterly expenses and divide them by 12 to get the monthly cost. Set aside the money for these expenses so it is there when you need it.
- Make building an emergency fund a priority—savings for that and other goals should be considered "essential" expenses.
- Make adjustments to your budget when expenses, income and priorities change.

CENT TRACKER

MONDAY		TUESDAY		WEDNESDAY		THURSDAY		FRIDAY		SATURDAY		SUNDAY	
Purchase	Cost	Purchase	Cost	Purchase	Cost	Purchase	Cost	Purchase	Cost	Purchase	Cost	Purchase	Cost
Daily Total:		Daily Total:		Daily Total:		Daily Total:		Daily Total:		Daily Total:		Daily Total:	
												Weekly Total:	

The Cent Tracker will help you answer the age-old question, “Where does all my money go?” For at least one week, carry the Cent Tracker with you and record all your small purchases—vending machine snacks, coffee and lattes, magazines, lottery tickets and so on. At the end of each day, total what you spent. At the end of the week, add up all the days’ totals. Are there other ways you’d rather use your money, such as paying off debt or saving for a special goal? If so, adjust your spending accordingly.

If you think you’d like to track your spending for more than one week, or if you want to share the Cent Tracker with someone, make one or more copies of the form before you use it.

Making the Right Borrowing Choices

1. Chris and Pat are purchasing their first home. They have two loan options:

- a 30-year interest only adjustable rate mortgage (ARM) with an initial rate of 5.5%—the interest rate adjusts (resets) in three years and principal payments begin in five years
- a 30-year fixed rate mortgage at 5.875%

The couple expects to stay in this home for between two and three years, until Pat completes law school in Boston and they can move back to Nebraska to be near family.

Which loan do you think Chris and Pat should choose? ________________________________

What are the advantages and disadvantages of your choice? ___________________________

____

____

2. After much searching, Jerome has found his dream home—a two-bedroom condominium that's just minutes from his office. He plans to stay here for the foreseeable future. He has the same two loan options as Chris and Pat.

- a 30-year interest only adjustable rate mortgage (ARM) with an initial rate of 5.5%—the interest rate adjusts (resets) in three years and principal payments begin in five years
- a 30-year fixed rate mortgage at 5.875%

Which loan do you think would be the best choice for Jerome? __________________________

Why? ____

____

____

3. Lynette purchased a home last year. Now, she would like to install an in-ground swimming pool in her backyard that she can enjoy in the coming years. The cost will be about $10,000, but she doesn't have the cash to pay for the project, so Lynette is considering taking out a home equity loan to pay for it. She has about $20,000 equity in the property.

Do you think Lynette should go ahead with her plans? _________________________________

Why or why not? ____

____

____

Under what circumstances might borrowing against your equity be a reasonable choice? ____

____

____

____

4. George and Athena have lived in their home for 15 years and have approximately $150,000 equity in the property. The couple doesn't have any immediate plans for the money, but they will be retiring soon and are considering applying for a home equity loan now so that they will have access to the money if they should need it in the future.

Do you think this is a good idea? ____

Why or why not? ____

____

____

Which would be a better choice for George and Athena—a home equity loan or a home equity line of credit (HELOC)? Why? ____

____

____

5. Antonio has taken a higher-paying job and can now afford to pay a few hundred dollars extra each month toward his 30-year mortgage. Do you think he should make the additional principal payments? Should he refinance to a lower-rate 15-year mortgage? Or should he just continue to make his regular monthly payments? Explain what Antonio, and other homeowners, must consider in a similar situation.

____

____

____

____

6. Samantha and Rocco are having trouble making their mortgage payments. Their options are to refinance their loan, take out home equity loan, sell the property, contact their lender and a housing counselor, or do nothing?

List the possible consequences/results of each course of action (or inaction). What are some of the considerations homeowners need to make when deciding how to resolve financial issues?

____

____

____

____

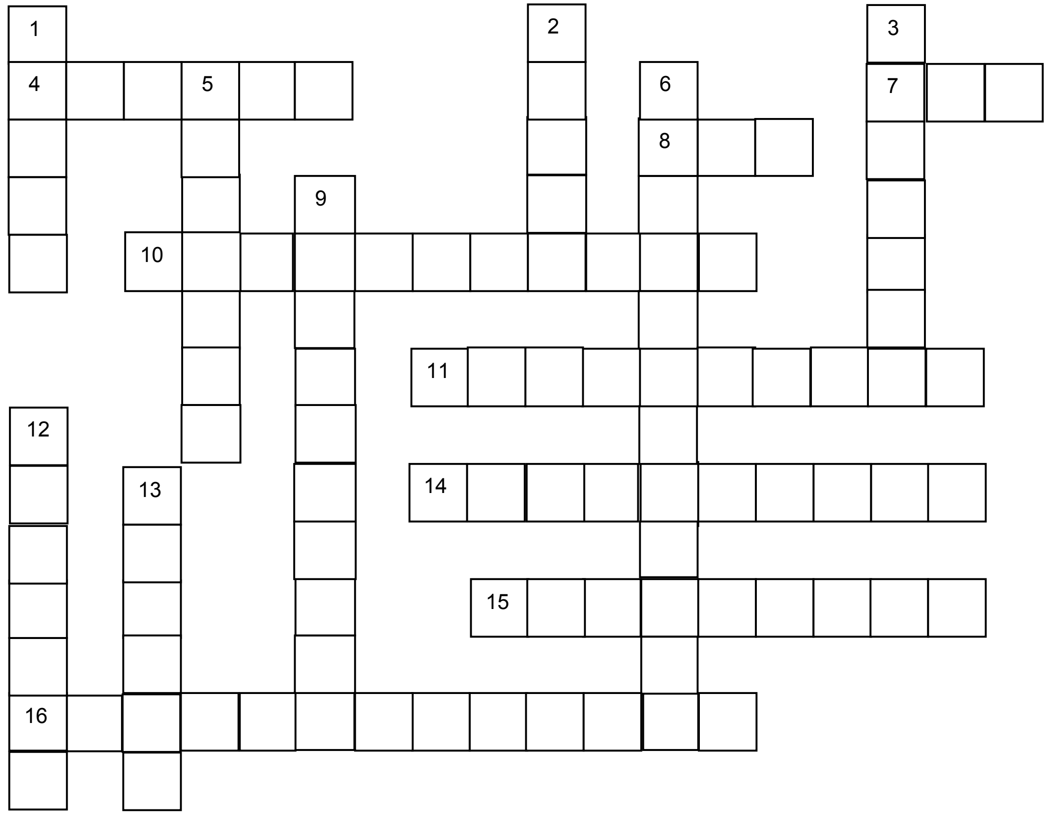
____

____

____

____

SUCCESSFUL HOMEOWNERSHIP CROSSWORD PUZZLE



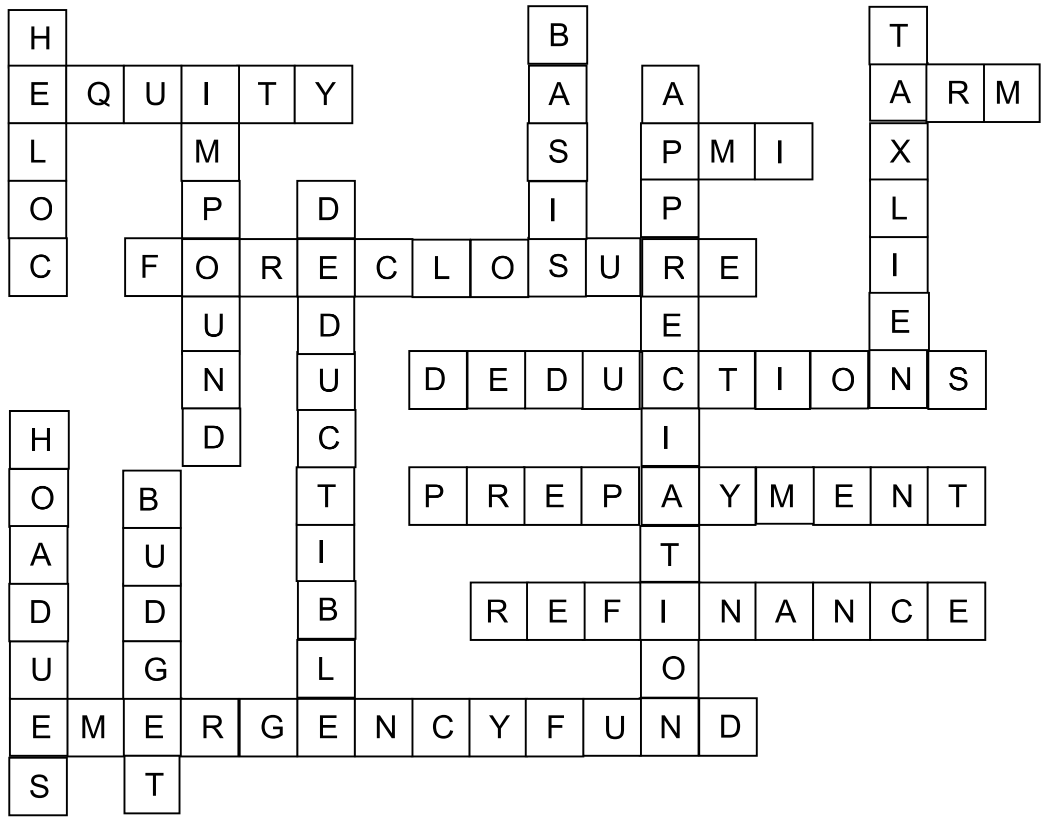
ACROSS

4 Your ownership in a property
7 Adjustable rate mortgage
8 Protects the lender if a buyer defaults
10 Lender's recourse if you don't meet the terms of your mortgage
11 You can subtract these from your taxable income
14 The lender might impose this penalty if you refinance too soon
15 Replace an old mortgage with a new one
16 Save 3 to 6 months' expenses here

DOWN

1 Home equity line of credit
2 Your total investment in your property, for tax purposes
3 A claim against your property for unpaid taxes
5 Also known as an escrow account
6 An increase in property value
9 Points, interest, PMI premiums and property taxes are all tax-______
12 Additional monthly expense if you buy a condo
13 Spending plan

SUCCESSFUL HOMEOWNERSHIP CROSSWORD PUZZLE SOLUTION



Evaluation of the MoneyWi$e *Successful Homeownership* Seminar

Before you leave, please help us improve future presentations by giving us your opinion of today's MoneyWi$e seminar.

Circle the number that reflects your feelings about each statement:

1 = Strongly Agree 2 = Agree 3 = Disagree 4 = Strongly Disagree

I have a better understanding of the costs and responsibilities of homeownership.

1 2 3 4

I feel more prepared to achieve my goal of successful homeownership.

1 2 3 4

I have confidence that I know how to make wise decisions related to buying and owning home.

1 2 3 4

The instructor was well informed.

1 2 3 4

The materials I was given are easy to read and understand.

1 2 3 4

The activities contributed to my learning.

1 2 3 4

I would like to attend another class like this.

1 2 3 4

What else would you like to tell us about how we could improve future seminars?

____

____

____

Thank you for sharing your thoughts.