Instructor Guide

FDIC Financial Education Curriculum

Your Own Home

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Getting Started

Use this guide to help you teach this module in an informative, engaging, and effective manner.

You can customize the information in *Money Smart* to meet the needs of your audience. The layering table beginning on pages 4 and 5 can help you choose the most relevant module sections. However, it is usually a good idea to include:

- **Introductions**. Allows you to "break the ice," create active instructor-participant dialogue, and set the tone for the session.
- **Agenda and Ground Rules**. Helps participants understand the subject matter and how the class will be conducted.
- **Expectations**. Gives participants the opportunity to tell you what they expect and want to learn from the module.
- **Objectives**. Helps participants place the information to be learned in the proper context and ensures that the content is consistent with their expectations.
- **Explanation of Participant's Guide Format and Contents**. Serves to keep participants on track with the instructor.
- **What Do You Know? Form and/or Pre-Test**. Helps you and participants determine what they already know or do not know so you can customize the presentation accordingly.
- **Module Content and Activities**. Helps participants to reinforce learning.
- **What Do You Know? Form and/or Post-Test**. Helps you and participants gauge how well they learned the content, what content to review, if any, and what additional materials participants may want to review on their own.

Module 10: Your Own Home Layering Table

Please read the Layering Table Instructions in the Guide to Presenting Money Smart for Adults.

Pages	Time (Min.)	Topic	Subtopic & Activities	Target Audiences
7-9	5	Checking In	• Introduction of instructor and materials	• Everyone
10-11, 55	5	Pre-Test and/or What Do You Know?		• Everyone
12-14	5	To Rent or to Own	• Advantages and disadvantages of both renting and owning a home	• Those deciding whether to rent or own
15	5	Steps Involved in Buying a Home	• Steps involved in buying a home • Meet Patricia	• Anyone who is considering buying a home
16-18	10	Am I Ready to Buy a Home?	• Step 1: Determine if you are ready to buy a house • Activity 1: Is Patricia Ready To Buy a House?	• Anyone who is considering buying a home
19-21	10	Homebuyer Assistance Programs	• Homebuyer assistance programs, characteristics of government programs, The Fair Housing Act • Activity 2: Does Patricia Have Enough Money for a Down Payment?	• Anyone needing assistance to purchase a home
22-23	5	Mortgage Terms	• Costs that make up a mortgage payment, taxes and insurance, four Cs of loan decision-making	• Anyone needing assistance to purchase a home • Those considering buying a home and those who own a home
24-29	15	Step 2: Determine How Much Mortgage You Can Afford	• Pre-qualification, pre-approval • Activity 3: How Much Mortgage Can Patricia Afford?	• Anyone who is considering buying a home
30-42	20	Mortgage Shopping	• Step 3: Determine which mortgage option is best for you, benefits/pitfalls of interest-only mortgages, biweekly payment mortgages, Good Faith Estimate (GFE), Mortgage Shopping Worksheet, Step 4: Qualify for a loan, when debt-to-income exceeds recommended rations • Activity 4: Does Patricia Qualify for a Loan?	• Those considering buying a home or those who own a home and want to refinance
43-44	5	Loan Settlement	• Step 5: Go through settlement, closing paperwork, what to do if you are having trouble making your payments	• Those considering buying a home or those who own a home and want to refinance
45-51	15	Tapping Into the	• Equity advantages, home equity products,	• Those who own a home and

Please read the Layering Table Instructions in the Guide to Presenting Money Smart for Adults.				
Pages	**Time (Min.)**	**Topic**	**Subtopic & Activities**	**Target Audiences**
		Equity of Your Home	refinancing options, reverse mortgages, predatory lending practices	are considering a home equity loan or refinancing option
52	5	Wrap-Up		• Everyone
53-55	5	Post-Test and/or What Do You Know?		• Everyone
56-57	5	Evaluation		• Everyone

Icons Guide

The following icons may be used throughout the Instructor Guide to indicate activity type.

Presentation

Present information or demonstrate an idea.

Review

Refer participants to and summarize material provided in the Participant Guide.

Activity

Guide participants through an activity to support their learning.

Assessment

Direct participants to take a short test.

Discussion

Facilitate a discussion about a topic as directed.

Ask a Question

Present a problem or question for discussion.

Module Overview

Purpose

The *Your Own Home* module provides information on renting versus owning a home, the home buying process, and financially protecting your home.

Objectives

After completing this module, **pre-homebuyers** will be able to:

- Explain the advantages and disadvantages of renting versus owning a home
- Identify questions to ask to determine their readiness to buy a home
- Identify the steps required to buy a home
- Identify basic terms and required disclosures used in a mortgage transaction
- Describe the advantages and disadvantages of different mortgage options
- Describe how interest rates affect the amount of house they can buy
- Explain how taxes and insurance affect a monthly payment and the amount of house they can buy

Homeowners will be able to:

- Describe the advantages and disadvantages of borrowing against a home
- Explain what to do if they are having trouble making payments
- Describe different types of refinancing options
- Explain the advantages and disadvantages of a reverse mortgage
- Identify predatory lending practices and loan scams

Presentation Time

Each topic has an approximate completion time listed in the *Your Own Home* Layering Table. Use the suggested times to personalize the module based on your participants' needs and the given time period. Allow extra time for activities and questions when teaching a larger group.

Completing the entire presentation may take two or more hours. Therefore, the class can be divided into two sessions taught on different days if this is more convenient for participants.

Materials and Equipment

The materials and equipment needed to present all of the *FDIC Money Smart: A Financial Education Curriculum* modules are listed in the *Guide to Presenting the Money Smart Program*. Review the guide thoroughly before presenting this module.

Module Activities

- Activity 1: Is Patricia Ready To Buy a House?
- Activity 2: Does Patricia Have Enough Money for a Down Payment?
- Activity 3: How Much Mortgage Can Patricia Afford?
- Activity 4: Does Patricia Qualify for a Loan?

Instructor Notes	Presentation

Checking In

5 minutes

Welcome

Welcome to *Your Own Home*. Owning your own home can be a major investment, but one that can also lead to financial security. This module will help you understand what is involved in buying a home.

Agenda and Ground Rules

Slide 2

We will discuss concepts, do group and individual activities, and have time for your questions. There will be at least one 10-minute break during the class.

If you have experience or knowledge in some aspect of the 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. If something is not clear, please ask questions!

Introductions

Record participants' expectations, questions, and concerns on chart paper. If there is anything you will not teach, tell participants where the information can be obtained (e.g., another module, a website). Check off their responses at the end of the training to show that the lesson content met their expectations.

Before we get started, I will share a little about myself and I would like to know a little bit about you.

[Introduce yourself and share a little of your background and experience.]

As you introduce yourself, state:

- Your expectations
- Questions and/or concerns about the training content

Objectives

After completing this module, if you are a **pre-homebuyer**, you will be able to:

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

Instructor Notes	Presentation

Objectives
- Pre-homebuyers:
  - Describe the advantages and disadvantages of different mortgage options
  - Describe how interest rates affect the amount of house you can buy
  - Explain how taxes and insurance affect a monthly payment and the amount of house you can buy

Objectives
- If you are a homeowner:
  - Describe the advantages and disadvantages of borrowing against a home
  - Explain what to do if you are having trouble making payments
  - Describe different types of refinancing options
  - Explain the advantages and disadvantages of a reverse mortgage
  - Identify predatory lending practices and loan scams

Slides 3–5

options
- Describe how interest rates affect the amount of house you can buy
- Explain how taxes and insurance affect a monthly payment and the amount of house you can buy

If you are a **homeowner**, you will be able to:
- Describe the advantages and disadvantages of borrowing against a home
- Explain what to do if you are having trouble making payments
- Describe different types of refinancing options
- Explain the advantages and disadvantages of a reverse mortgage
- Identify predatory lending practices and loan scams

Participant Materials

Review Participant Guide contents and organization with participants.

Each of you has a copy of the *Your Own Home* Participant Guide. It contains:
- Information and activities to help you learn the material
- Tools and instructions to complete the activities
- Checklists and tip sheets
- A glossary of the terms used in this module

What questions do you have about the module overview?

What Do You Know?

What Do You Know?

What do you know or want to learn about buying or owning a home?

Slide 6

Use the What Do You Know? form and/or the Pre-Test to gauge

Before we begin, we will see what you know about buying or owning a home.

[If using the What Do You Know? form]
The What Do You Know? form on page 30 of your Participant Guide lets you measure how much you know before the training and how much you learned after the training. Please take a few minutes now to complete the "Before the Training" column.

Which statements did you answer with "disagree" or "strongly disagree"? *[Note: If time is limited, make sure you cover these content areas.]*

Instructor Notes	Presentation
participants' prior knowledge of the content and customize your presentation, focusing on content with which they are least familiar.	We will complete the second column when we finish the training. ***[If using the Pre-Test]*** Take a few minutes to complete the Pre-Test on pages 4 and 5 of your Participant Guide. Which questions were you unable or unsure of how to answer? *[Note: If time is limited, make sure you cover these content areas.]* As we progress through the module and cover the related material, you will be able to determine whether you answered each question correctly.

Pre-Test

Test your knowledge about owning a home before you go through the course.

1. What are the advantages of owning a home? Select all that apply.
   a. You are not responsible for property maintenance and upkeep
   b. You can reduce your income taxes by deducting mortgage interest and property taxes
   c. You will have costs (e.g., property taxes, maintenance expenses, homeowner's insurance, and homeowner/condominium association fees)
   d. You may be able to build equity

2. When renting an apartment or home:
   a. Your payment for rent may increase
   b. Homeowner's insurance will be required
   c. You are responsible for property taxes
   d. You are the owner of the property

3. Charles is thinking of buying a house. Which questions should he ask himself before buying? Select all that apply.
   a. Where do I want to live?
   b. What type of home do I want?
   c. How do I want to furnish the home?
   d. Am I financially ready and able to buy a house?

4. Below are four steps to buying a home. Which of the following is the final step to buying a home?
   a. Determining your readiness to buy a house
   b. Going through settlement or closing
   c. Determining which mortgage option is best for you
   d. Qualifying for a mortgage

5. Mary has a steady job. She feels ready to move into her own space and has $1,000 in savings. Which is the best choice for her?
   a. Renting, because she does not have enough saved to buy a house
   b. Buying a house, because she can build equity very quickly
   c. Renting, because she heard she can save on taxes
   d. Buying, because she can play her stereo as loud as she wants

6. Which of the following disclosures are you required by law to receive within three days of applying for a mortgage?
   a. Notice of approval or denial and reason for denial
   b. Good Faith Estimate (GFE) of Closing Costs
   c. HUD-1 Settlement Statement
   d. HUD-1A Settlement Statement

7. With a home-equity loan:
   a. You typically receive a lower rate of interest than a credit card
   b. Your home serves as collateral for the loan
   c. You risk losing your home if you have difficulties making your payments
   d. All of the above are correct

8. How can interest rates and different types of mortgages affect the amount of house you can buy? Select all that apply.
   a. Fixed-rate mortgage payments will help you determine how much house you can realistically afford if you plan to own the home for a long time period (e.g., 5+ years)
   b. Interest-only and adjustable-rate mortgages (ARMs) will help you determine how much house you can realistically afford if you plan to own the home for a long time period (e.g., 5+ years)
   c. Fixed-rate mortgages may allow you to buy more house if you plan to own the home for a short time period (e.g., 2–5 years)
   d. **Interest-only and ARMs may allow you to buy more house if you are sure you will only own the home for a short time period (e.g., 2–5 years)**

9. Which of the following reasons may discourage a homeowner from refinancing? Select all that apply.
   a. Having to pay for closing costs
   b. Getting a lower interest rate
   c. Expecting to move from the home and sell it next year

10. What should you do if you are having trouble making monthly mortgage payments? Select all that apply.
    a. Pay what you can without contacting the lender
    b. Submit a late payment when you get the money
    c. Contact your lender to discuss options and establish a plan
    d. **Get help from a reputable housing counselor**

11. Which of the following is a FALSE statement regarding reverse mortgages?
    a. You generally do not have to pay back money you borrow for as long as you live in the home
    b. Reverse mortgages are a good way for people starting out in their careers to be able to afford to buy a home
    c. You are responsible for paying property taxes and insurance, and if you fail to pay them, you may be required to immediately repay the loan in full
    d. Expect to pay origination fees, mortgage insurance fees, and closing costs when you obtain a reverse mortgage.

12. Which of the following are signs of predatory lending practices and loan scams? Select all that apply.
    a. Demand for up-front fees
    b. Verbal promise documented in writing
    c. Contracts/documents with blank lines or spaces
    a. An unsolicited offer that you are told is only valid for a few hours so you need to “act now”

Instructor Notes	Presentation

To Rent or To Own?

5 minutes

Renting a Home
- Advantages:
  - No property maintenance
  - Rental contract 1 year or less
  - No homeowner associated costs
- Disadvantages:
  - You are not the owner
  - Your rent might increase
  - You might not be able to renew your contract

Slide 7

Have participants respond before clicking the space bar, right arrow, or mouse to reveal the advantages. ***Note:*** *Answers are listed on page 6 of the Participant Guide. You do not want them to open to that page until you have completed the section.*

Renting a Home

There are advantages and disadvantages of renting and owning a home. What are some advantages or benefits of renting?

Answers:

- **Property maintenance is the responsibility of the landlord.**
- **You can move or change homes once you have met the terms of the rental contract (e.g., rented for one year).**
- **You do not have the costs associated with owning a home (e.g., property taxes, homeowner's insurance, or homeowner/ condominium association fees).**

Renters insurance, while not required, can be obtained from many insurance companies. Some landlords may require you to obtain coverage when you move in. Renters insurance:

- Protects you against the loss or destruction of your possessions in the event your property is stolen or damaged (e.g., burglary or fire)
- Covers your living expenses if you are unable to live in your apartment because of a fire or other covered disaster; earthquake or flood insurance may be available at an additional cost
- Provides liability protection if, for example, someone is injured at your home while visiting
- Is generally cheaper than homeowners insurance

Have participants respond before clicking the space bar, right arrow, or mouse to reveal the disadvantages on Slide 7.

What are some disadvantages of renting?

Answer: When you rent:

- **You do not own your home or apartment or receive the benefits of being a homeowner.**
- **Your rent might increase or cost more than a mortgage payment.**
- **You might be unable to renew your rental contract and then have to find a new place to live.**

Instructor Notes	Presentation

Owning a Home

Owning a Home
- Advantages:
  - Building equity and borrowing against it
  - Good investment
  - Tax-deductible mortgage interest
  - Asset you can pass on to family members
- Disadvantages:
  - Property maintenance and upkeep
  - Not as easy to move as renting
  - Risk of losing your home

Slide 8

Explain the advantages of owning your home.

Some of the advantages of owning your home are:

- You can build equity. *Equity* is the value of the home minus the amount you owe on it. In other words, as your mortgage balance decreases (and you pay down the loan amount) your equity increases, assuming that the value of your home does not fall. For example, if your home is appraised at $200,000 and you owe $125,000 on your mortgage, your equity is $75,000.
- You can borrow against the equity for many purposes, usually at a relatively low interest rate. It is good to remember that your home is a long-term asset, and borrowing against equity in your home should be used to purchase or improve another long-term asset. For example, you can pay for home improvements or 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 for the long term.
- The home is yours once your mortgage is paid in full. A mortgage is a loan to purchase a home. We will talk more about mortgages later in the module.
- Homeownership may reduce the amount of income tax you pay, since mortgage interest and property taxes are tax deductible.
- You can pass your home on to family members.

Ask participants to identify disadvantages of owning a home. Record responses on chart paper. Click the space bar, right arrow, or mouse to display the points on slide 8.

What are some other advantages of owning a home?

What are some of the disadvantages of owning your home?

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**
- **Other types of insurance if required by the lender (e.g., flood or earthquake insurance)**
- **Real estate taxes**
- **Homeowner's association fees, if applicable, to 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 may have to sell or rent your home before you can afford to buy or rent another one.

Instructor Notes	Presentation
Answer any questions. Then introduce the next topic.	**It is also important to understand you can lose your home, and your investment in it, if you do not make timely mortgage payments.** What questions do you have about the advantages and disadvantages of renting versus owning your home? Now we will look at the steps involved in buying a home.

Instructor Notes	Presentation

Steps Involved in Buying a Home

5 minutes

Slide 9

What Are 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

We are also going to review each step in more detail using Patricia as our example.

Meet Patricia

Slide 10

Refer participants to Meet Patricia on page 7 of their Participant Guide.

Patricia is trying to decide if she is ready to buy a house. After completing her job training program, Patricia got her first 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.

Instructor Notes	Presentation

Am I Ready To Buy a Home?

Step 1: Determine If You Are Ready to Buy a House

10 minutes

Refer participants to the Am I Ready to Buy a Home? Checklist on page 7 of their Participant Guide.

Step 1: Readiness to Buy A House
- Do you have:
  - A steady source of income?
  - Good credit history?
  - Ability to pay debts, mortgage, and other additional costs?
  - Plans to move within 2 to 3 years?
  - Money for a down payment and closing costs?

Slide 11

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. You can also 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 received this income on a regular basis for at least the last 2 or 3 years?
- 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 unexpected repairs?
- Do I anticipate moving to another community within the next two or three years?
- Do I have money saved for a down payment and closing costs?

If you answered yes to these questions, you might be ready to buy a home. Taking a homebuyer education class in your area can help you prepare for home ownership. If you answered no to any questions, concentrate on strengthening those areas first.

Down Payment and Other Expenses
- Down payment:
  - Typically 20% of the purchase price
  - Smaller down payment options may be available (e.g., 3% of purchase price)
- Other expenses:
  - Household emergencies, repairs, and other expenses
  - Private Mortgage Insurance (PMI)

Slide 12

Encourage prospective homeowners to save for a down payment. Identify other expenses associated with buying and owning a home.

Down Payment

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 money you will need to borrow and the less money you will pay in interest over the life of the loan.
- Lenders prefer that you have 20 percent of the purchase price for a down payment (e.g., 20 percent of a $100,000 mortgage is $20,000).
- If you have difficulties saving 20 percent, there are mortgage options that make it possible to buy a home with a smaller down payment (e.g., only 3 percent).

Instructor Notes	Presentation

Other Expenses

It is important to save for a down payment. However, once the down payment is taken care of, it is a good idea to continue to save money in a special savings account that you can turn to for household emergencies, repairs, and other expenses.

- *Private Mortgage Insurance (PMI)* is extra insurance that lenders require from most homebuyers who obtain loans that are more than 80 percent of their new home's value.
- If you finance more than 80 percent of the home's value, you likely will have to pay this insurance every month until you make enough payments that the insurance can be canceled.

Slide 13

Explain mortgage payments considerations.

Mortgage Payments Considerations

The monthly mortgage payment should be no more than 28 percent of your monthly income, and should include:

- A partial repayment of principal
- Interest and PMI (if required)
- Homeowner association dues (if you live in a condominium or other association)
- Property taxes if you include them with your monthly payment (We will see later that this is generally a good idea.)

While you may be able to borrow a higher percentage of your income, it is a good idea to keep your mortgage payment as affordable as possible.

Slide 14

Identify some of the questions prospective homeowners should ask themselves.

Other Questions to Ask Yourself

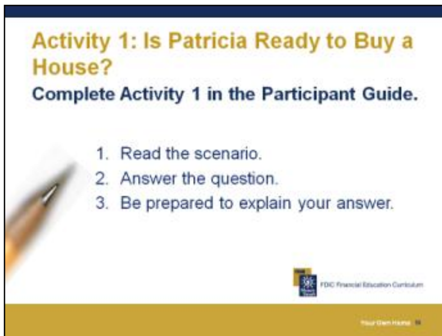
There are many other questions to answer when you decide to explore home ownership. For example:

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

While we do not have time to discuss some of these topics in more detail, they are important to consider when buying a home.

Instructor Notes	Presentation

Activity 1: Is Patricia Ready To Buy a House?



Slide 15

Direct participants to Activity 1: Is Patricia Ready to Buy a House? on page 8 of their Participant Guide. Complete the activity as a class or have participants discuss their responses in pairs. Allow several participants to share their responses. Then reveal the answer.

Answer any questions.

Based on what you know so far about Patricia and the factors to consider when determining if you are ready to buy a home, do you think she is ready to buy a house? Why or why not?

Answer: We do not have enough information at this time. We know that Patricia has a steady source of reliable income. However, she has not been working long and may not qualify for a mortgage until she has a little more work history.

We also do not know if she can afford her mortgage payment, in addition to her other bills and expenses, and whether she has enough money for a down payment.

Patricia realizes she needs to learn more and decides to check with her local bank to see what programs might help her.

What questions do you have before we learn about homebuyer assistance programs?

Instructor Notes	Presentation

Homebuyers Assistance Programs

5 minutes

Refer participants to Homebuyer Assistance Programs beginning on page 8 of their Participant Guide.

Homebuyer Assistance Programs
- For programs in your area, check with:
  - Your lender, real estate agent, or local government about homebuyer assistance programs
  - A local Housing and Urban Development (HUD)-approved homeownership counseling agency

Slide 16

What Are 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 *Pay Yourself First* module.

Many cities and local governments offer homebuyer assistance programs, especially for people with lower incomes. Financial institutions may also offer special loan products to help you become a homeowner.

- Ask your lender or local government about the homebuyer assistance programs they offer.
- Ask local real estate agents about special programs.
- Check with a local Housing and Urban Development (HUD)-approved homeownership counseling agency.

Characteristics of Government Programs
- Low down payment requirements
- Flexible underwriting standards
- Longer payment terms
- Homeowner education requirement

Slide 17

Explain that the debt-to-income ratio will be discussed later in the module.

Characteristics of Government Programs

Federal, state, and local governments offer many types of home loan programs. Federal Housing Administration (FHA) and Veteran Affairs (VA) are just a few of the many home loan programs offered by the Federal Government. Each home loan program has specific eligibility requirements, and not everyone will be eligible.

Benefits of these programs vary, but may include:

- Low down payment requirements
- More flexible underwriting standards in which the lender will consider non-traditional forms of credit history (e.g., rent or utility payments), and higher ratios of debt compared to your income
- Longer payment terms than typical mortgage loans
  - Note: your monthly payment will be lower, but the mortgage will take longer to repay and you will pay more in interest over the life of the loan.
- Homeowner education requirement
  - Homeowner education programs help you understand the home buying process, budgeting, finding a home, getting a

Instructor Notes	Presentation

loan, and maintaining a home. Many HUD-approved homeownership counseling agencies offer these classes.

Some restrictions to these programs may include purchase price limitations, service charges, and higher loan origination fees.

Additional information on homebuyer assistance programs can be found in Homebuyer Assistance Programs beginning on page 8 of your Participant Guide. Take some time to look it over after the class.

The Fair Housing Act

Slide 18
Briefly describe the Fair Housing Act.

Before we discuss guidelines for determining 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 status in housing-related transactions.

This law protects you from discrimination throughout the loan process, from the time you submit a loan application until you receive the final loan approval.

Activity 2: Does Patricia Have Enough Money for a Down Payment?

Slide 19
Direct participants to Activity 2: Does Patricia Have Enough Money for a Down Payment? on page 9 of their Participant Guide. Complete the activity as a class or have participants

Patricia talked to a non-profit organization and found an IDA program that will match the money she saves for the down payment and closing costs of her first home. She learned that the program requires her to attend a home ownership counseling class and 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 a month to have more money for a down payment.

What can Patricia do to save an extra $50 a month toward her down payment?

Instructor Notes	Presentation
work in small groups. Write participants' responses on chart paper.	**Answer: We do not know that much about Patricia, but accept any plausible answer. For example, Patricia could save money by reducing her spending on personal items, packing a lunch or eating at home rather than going out to eat, cutting additional expenses (e.g., memberships she does not use, lowering her cable or cell phone packages), etc.**
	If Patricia is able to save $50 a month for 30 months, she will have $1,500 of her own money. The organization will matched her funds 3 to 1, so combined with the $1,500 she saved over 30 months she will have a total savings of $6,000 ($1,500 x $3 = $4,500 + $1,500 = $6,000) in the IDA program. She has already saved $2,500 prior to beginning the IDA program. This means she will have a total of $8,500 ($6,000 + $2,500) to use for down payment and closing costs.
	What questions do you have about what Patricia did to save for her down payment?
Answer any questions. Then introduce the next topic.	Next we will talk about some of the information Patricia found out about mortgage terms.

Instructor Notes	Presentation

Mortgage Terms

5 minutes

Slide 20

Refer participants to Mortgage Terms on page 9 of their Participant Guide.

What Costs Make Up a Mortgage Payment?

Before determining how much you can afford to spend on a house (Step 2), you should be familiar with the following mortgage terms.

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

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

How Taxes and Insurance are Paid

Slide 21

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.

An escrow account is a special type of bank account.

- You would pay 1/12 of your estimated annual property tax bill and insurance premium to your lender each month, and the lender would put these funds in the escrow account.
- The lender would then use the funds in the escrow account to pay the tax and insurance bills on your behalf when they come due.
- In certain states, the escrow account will earn interest.

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.

Instructor Notes	Presentation

- Requires the lender to provide initial and annual escrow account statements.

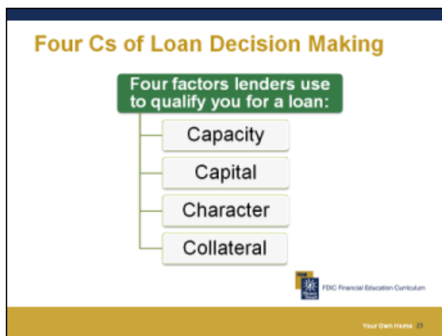
Explain the advantages and disadvantages of paying taxes and insurance separately.

Even if it is not required by the lender, it can be a good idea to have your property taxes and insurance included in your monthly payment (escrowed) so you do not have to worry about saving money each month yourself to pay them when they come due (usually once or twice a year).

If you decide to pay the taxes and insurance separately, you will be responsible for paying your property tax bill, either once or twice a year, and insurance premium, usually paid annually.

- You may prefer to do this because it allows you to keep the money under your own control in your savings or investment accounts where it can 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 do not have to worry about having the money available when it is needed. It is very costly if you cannot pay the tax or insurance bill when it is due.

The Four Cs of Loan Decision Making



Slide 22
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* covers more information about the importance of credit reports.

Answer any questions. Then introduce the next topic.

What questions do you have about the mortgage terms?

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

Instructor Notes	Presentation

Step 2: Determine How Much Mortgage You Can Afford

15 minutes

Slide 23

Define pre-qualification.

Pre-Qualification

A good way to find out how much money you can borrow is to go through a process called pre-qualification. *Pre-qualification* is an informal way to find out how much money you can borrow.

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

- 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.

Pre-Approval

Refer participants to Pre-Approval on page 10 of their Participant Guide.

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 two or three months
- W-2 forms for the last two years
- Tax returns for the last two 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

You can find a copy of a sample pre-approval letter on page 11 of your Participant Guide. According to this letter, Jim and Mary Jones qualify for a $120,000 mortgage with a 5 percent down payment.

Instructor Notes	Presentation

Refer participants to the Sample Pre-approval Letter on page 11 of their Participant Guide.

Sample Mortgage Company
123 Elm Street
Denver, Colorado 80216
(303) 123-0000
(303) 456-6666 FAX

March 3, 2010

According to the income and expense information provided, along with a review of past credit history, Jim and Mary Jones have been pre-approved to purchase the property located at:

1490 West 104th Avenue
Northglenn, CO 80229

This statement is subject to closing underwriting conditions and an acceptable review of the subject property, to include a complete residential appraisal and full title policy.

APPROVAL REPORT

Purchase Price: $120,000
Down Payment: 5%
Term of Loan: 30 year fixed FHA

If any further information is needed please contact Lisa Jones at 1-303-123-0000.

Sincerely,

John Doe, Loan Officer
Sample Mortgage Company

Patricia's Pre-Qualification

Patricia's Pre-Qualification
- Pre-qualified for $165,000
- Rule of thumb estimate:
  - 2 to 3 times their household income:
    $49,200 x 2 = $ 98,400
    $49,200 x 2.5 = $123,000
    $49,200 x 3 = $147,600
- Consider what you can afford if you qualify for more!

Slide 24

In the middle of her home ownership training, a banker works with Patricia and pre-qualifies her for a maximum mortgage amount of $165,000.

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, so 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

Instructor Notes	Presentation

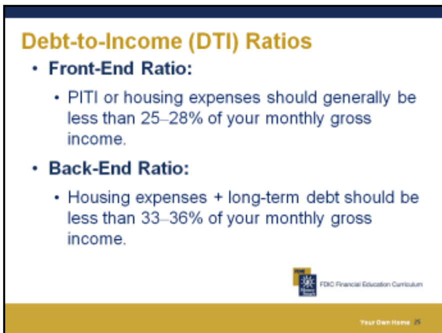
Refer participants to Step 2: How Much Mortgage Can I Afford? on page 12 of their Participant Guide. They can use this tool for themselves later.

Keep in mind that if you qualify for a higher amount, that does not mean you can afford, or will be comfortable with, those monthly payments. Consider your own circumstances and your future financial needs and goals.

Let us talk about how lenders came up with a pre-qualification figure and factors that may affect how much mortgage you can afford.

Lenders look at *debt-to-income (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.



Slide 25

Introduce debt-to-income ratios.

Front-End Ratio

Lenders usually require the principal, interest, taxes, and insurance (PITI) or your total housing expenses to be less than or equal to 25 to 28 percent of your monthly gross income. Lenders call this the *front-end ratio*.

Back-End Ratio

Lenders usually require housing expenses, plus long-term debt, to be less than or equal to 33 to 36 percent of your monthly gross income. Lenders call this the *back-end ratio*.

Long-term debt is outstanding debt with a remaining term of at least one year. It can include student loans, credit cards, car loans, other loans, and other non-housing expenses.

If your debt-to-income ratios exceed the totals for the front-end and back-end ratios, talk to your lender about your options.

Instructor Notes	Presentation

Activity 3: How Much Mortgage Can Patricia Afford?

Slide 26

Refer participants to Activity 3: How Much Mortgage Can Patricia Afford? beginning on page 13 of their Participant Guide. Complete the activity as a class.

Since Patricia's monthly gross income is $4,100, her maximum monthly mortgage payment including escrow should be $1,148 or less.

Front-End Ratio:
$4,100 x 28 percent = $1,148

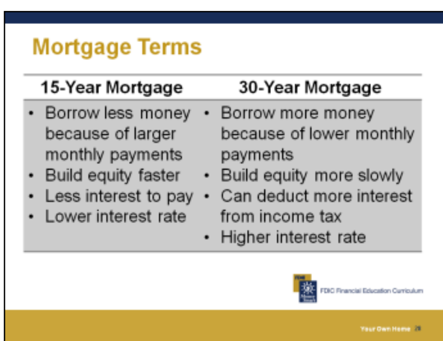
Patricia's monthly gross income is $4,100, so the combination of her mortgage, $1,148, and her other long-term debt should be no more than $1,476.

Back-End Ratio:
$4,100 x 36 percent = $1,476

Based on the difference between the back-end and front-end ratios, how much can Patricia's remaining debts (e.g., car loan payments, monthly credit card bills) be?

Answer: No more than $328 [$1,476 (max. total debt) – $1,148 (max. monthly housing costs) = $328].

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- to 50-year terms. See the following table for the most typical mortgage products: 15- and 30-year terms.



Slide 27

15-Year Mortgage	30-Year Mortgage
• Borrow less money because of larger monthly payments • Build equity faster • Less interest to pay • 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 because of lower monthly payments • Build equity more slowly • Pay more in interest over the life of the loan, so you can deduct more interest on your income taxes • Higher interest rate • **For example, if you borrowed $75,000 for 30 years at 8%, your monthly principal and interest payment would be $550.**

Instructor Notes	Presentation

Mortgage Type

Fixed-Rate Mortgage	Adjustable-Rate Mortgage
• Interest rate cannot increase • Payments are predictable • Interest rates could go below your set rate	• Interest rate can increase or decrease • Rates may be low for only an initial period • Monthly payments may initially be lower than fixed-rate loans, but can increase significantly

FDIC Financial Education Curriculum

Your Own Home

Slide 28

Whether her mortgage has a fixed or adjustable interest rate will also affect the mortgage amount that 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 may initially be lower than fixed-rate loans. • The interest rate and your payment can increase significantly throughout the term of the loan. • If interest rates rise, do not count on being able to refinance into a lower rate fixed-rate loan, as your financial situation could change (e.g., due to a job loss)—and still, refinancing to a rate lower than the going rate may not be possible.

Note: Make sure you compare loan offers based on annual percentage rate (APR), and not the interest rate. The *APR* is the cost of the loan expressed as a yearly rate, including interest and certain fees.

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?

Answer: There is no right or wrong answer since we do not have enough information about Patricia other than the maximum mortgage amount she can afford. It is only important that participants understand the advantages and disadvantages of these traditional mortgages.

- **A 30-year mortgage has a higher interest rate, but her monthly payment would be lower.**

Instructor Notes	Presentation

- **A 15-year mortgage has a lower interest rate, and she could build equity faster than with a 30-year mortgage.**
- **A traditional fixed-rate mortgage might be a good choice if Patricia wants her payments to be predictable and easier to budget. It may be the safest because she does not have to worry about her mortgage payments increasing—possibly significantly —if interest rates increase.**
- **An ARM might be an option if she is sure that she could afford increases in the monthly payment, even at the maximum amount (sometimes as much as double the initial payment amount), 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.

Answer any questions. Then introduce the next topic. Note: Now may be a good time to break or stop if you are dividing the class into two sessions.

What questions do you have about pre-qualification and the factors affecting how much mortgage Patricia can afford?

Let us talk about how she might shop for the best deal.

Instructor Notes	Presentation

Mortgage Shopping

20 minutes

Step 3: Which Mortgage Option Is Best for You
- Fixed-rate mortgage
- Adjustable-rate mortgage (ARM)
- Interest-only mortgage
- Biweekly payment mortgage

Slide 29

Step 3: Determine Which Mortgage Option Is Best for You

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

However, there are other types of mortgages available:

- Interest-only mortgage
- Biweekly payment mortgage

Interest-Only Mortgages
- Pay only the interest, not the principal, for a fixed term (e.g., 5 to 7 years)
- After the fixed term, you can:
  - Refinance
  - Pay the balance in a lump sum
  - Start monthly mortgage payments toward the principal

Slide 30

Interest-Only Mortgage Loans

Interest-only mortgage loans are mortgages in which you pay only the interest (not the principal) on the mortgage in monthly payments for a fixed term.

After the end of the term, which is generally 5 to 7 years (depending on the terms and conditions of the loan), you can:

- Refinance
- Pay the balance in a lump sum
- Start monthly mortgage payments toward the principal

Be very careful with these mortgages because you generally are not paying down the principal, and the interest rate is typically adjustable, meaning the mortgage payments will likely increase over time.

Benefits of Interest-Only Loans
- A good choice if you:
  - Do not plan to live in your home for more than the interest-only period
  - Have modest current income that will go up in the future
  - Are trying to resolve credit issues so that you can refinance into a lower fixed rate

Slide 31

Benefits of Interest-Only Loans

Interest-only loans can be a good choice if you:

- Are certain that you will not live in your home for more than the interest-only period
- Have modest current income, but are reasonably certain that your income will go up in the future (for example, if you are finishing your degree or training program)
- Are trying to resolve some credit issues so that you can refinance into a lower fixed rate

Instructor Notes	Presentation

Pitfalls of Interest-Only Loans

Slide 32

Share the pitfalls of interest-only loans.

Some of the many pitfalls of interest-only loans include the following:

- Your payments may not cover all of the interest owed. The unpaid interest is added to your mortgage balance so that you will end up owing more on your mortgage than you originally borrowed.
- None of the original loan amount is being paid. If for any reason you need to sell your home, then you will have built no equity from owning the home unless real estate prices have increased in your area. This means that you would have to put up money when you sell the home to cover your real estate agent's fees and closing costs.
- The payment may double or triple and not be affordable after the interest-only period. This means you could lose your home.
- You may incur the costs of refinancing your mortgage into a lower fixed interest rate. After the interest-only period, most interest-only mortgages become ARMs and your interest rates will rise.

Biweekly Payment Mortgage

Slide 33

Describe biweekly payment mortgages.

While normally you would pay a mortgage monthly, some lenders allow you to instead pay biweekly. *Biweekly payment mortgages* are usually fixed-rate conventional mortgages with payment due every two weeks.

- You can pay your mortgage faster because every year, you pay 26 smaller biweekly payments instead of 12 monthly payments.
- Many borrowers who receive biweekly wages find this mortgage option easier to manage than a monthly payment.
- 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 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, make sure your lender does not charge extra fees for this option. That could cancel out the benefits of being able to pay your loan faster.

Answer any questions. Introduce the next topic.

What questions do you have about these mortgage options?

Next we will look at some tips for finding the best price for your mortgage.

Instructor Notes	Presentation

Shop, Compare, Negotiate

Refer participants to Shop, Compare, Negotiate on page 15 of their Participant Guide.

Shop, Compare, Negotiate

- Check newspapers and the Internet for terms and rates
- Negotiate your best price
- Let lenders compete for your business
- Get costs in writing
- Use the APR and GFE to compare all costs

Slide 34

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. Do not be afraid to let lenders compete for your business by letting them know you are shopping for the best deal.
- 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* (a small percentage of upfront interest), and make sure the lender does not lower one fee and raise another in its place.
- Make sure the lender gives you all the costs of the loan in writing.
- Use the APR and good faith estimate (GFE) of closing costs to compare all costs.

Good Faith Estimate (GFE) of Closing Costs

Refer participants to the GFE form beginning on page 16 of their Participant Guide. A copy is included on page 34 of this Instructor Guide.

Slide 35

Be sure to get a GFE of settlement service charges you will likely have to pay.

- A *GFE* is an itemized list of the costs and fees associated with your loan, given to you in good faith by your lender or broker. It must be provided to you within three business days of applying for a loan. A copy of this form can be found on page 16 of your Participant Guide.
- Loan terms, called *disclosures*, must also be delivered to you, at least seven days before you complete (close) your loan. Disclosures include the maximum change (increase or decrease) in the loan interest rate each month, year, or over the life of the loan; the index rate for changes; cost estimates of the loan; the APR; and the GFE.

You can use the GFE to shop mortgage lenders and save hundreds of dollars. Be aware that the amounts listed on the GFE are only estimates. Actual costs may vary and changing market conditions can affect prices.

Instructor Notes	Presentation
	If the APR increases by a certain margin above what was previously disclosed, you must receive a corrected disclosure at least three business days before the loan closing.
	Keep your GFE so you can compare it with the final settlement costs and ask the lender questions about any changes.
Answer any questions participants have.	What questions do you have about shopping for the best mortgage?
	For additional guidance, see *Looking for the Best Mortgage* in the Consumer Resources Section of www.fdic.gov.

Instructor Notes	Presentation

OMB Approval No. 2502-0265

Good Faith Estimate (GFE)

Name of Originator	Borrower
Originator Address	Property Address
Originator Phone Number	
Originator Email	Date of GFE

Purpose

This GFE gives you an estimate of your settlement charges and loan terms if you are approved for this loan. For more information, see HUD's *Special Information Booklet* on settlement charges, your *Truth-in-Lending Disclosures*, and other consumer information at www.hud.gov/respa. If you decide you would like to proceed with this loan, contact us.

Shopping for your loan

Only you can shop for the best loan for you. Compare this GFE with other loan offers, so you can find the best loan. Use the shopping chart on page 3 to compare all the offers you receive.

Important dates

1. The interest rate for this GFE is available through ______. After this time, the interest rate, some of your loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
2. This estimate for all other settlement charges is available through ______.
3. After you lock your interest rate, you must go to settlement within ___ days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least ___ days before settlement.

Summary of your loan

Your initial loan amount is	$
Your loan term is	years
Your initial interest rate is	%
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	$ per month
Can your interest rate rise?	☐ No ☐ Yes, it can rise to a maximum of %. The first change will be in .
Even if you make payments on time, can your loan balance rise?	☐ No ☐ Yes, it can rise to a maximum of $
Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?	☐ No ☐ Yes, the first increase can be in and the monthly amount owed can rise to $. The maximum it can ever rise to is $.
Does your loan have a prepayment penalty?	☐ No ☐ Yes, your maximum prepayment penalty is $.
Does your loan have a balloon payment?	☐ No ☐ Yes, you have a balloon payment of $ due in years.

Escrow account information

Some lenders require an escrow account to hold funds for paying property taxes or other property-related charges in addition to your monthly amount owed of $______.
Do we require you to have an escrow account for your loan?
☐ No, you do not have an escrow account. You must pay these charges directly when due.
☐ Yes, you have an escrow account. It may or may not cover all of these charges. Ask us.

Summary of your settlement charges

A	Your Adjusted Origination Charges *(See page 2.)*	$
B	Your Charges for All Other Settlement Services *(See page 2.)*	$
A + B	Total Estimated Settlement Charges	$

Good Faith Estimate (HUD-GFE) 1

Instructor Notes	Presentation

Understanding your estimated settlement charges

Your Adjusted Origination Charges

1. **Our origination charge** This charge is for getting this loan for you.	
2. **Your credit or charge (points) for the specific interest rate chosen** ☐ The credit or charge for the interest rate of ___ % is included in "Our origination charge." (See item 1 above.) ☐ You receive a credit of $___ for this interest rate of ___ %. This credit **reduces** your settlement charges. ☐ You pay a charge of $___ for this interest rate of ___ %. This charge (points) **increases** your total settlement charges. The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.	
A Your Adjusted Origination Charges	$

Some of these charges can change at settlement. See the top of page 3 for more information.

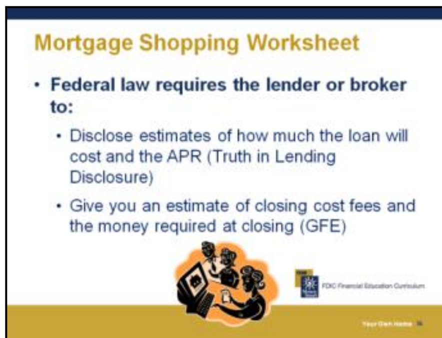
Your Charges for All Other Settlement Services

3. **Required services that we select** These charges are for services we require to complete your settlement. We will choose the providers of these services. *Service* — *Charge*	
4. **Title services and lender's title insurance** This charge includes the services of a title or settlement agent, for example, and title insurance to protect the lender, if required.	
5. **Owner's title insurance** You may purchase an owner's title insurance policy to protect your interest in the property.	
6. **Required services that you can shop for** These charges are for other services that are required to complete your settlement. We can identify providers of these services or you can shop for them yourself. Our estimates for providing these services are below. *Service* — *Charge*	
7. **Government recording charges** These charges are for state and local fees to record your loan and title documents.	
8. **Transfer taxes** These charges are for state and local fees on mortgages and home sales.	
9. **Initial deposit for your escrow account** This charge is held in an escrow account to pay future recurring charges on your property and includes ☐ all property taxes, ☐ all insurance, and ☐ other ___.	
10. **Daily interest charges** This charge is for the daily interest on your loan from the day of your settlement until the first day of the next month or the first day of your normal mortgage payment cycle. This amount is $___ per day for ___ days (if your settlement is ___).	
11. **Homeowner's insurance** This charge is for the insurance you must buy for the property to protect from a loss, such as fire. *Policy* — *Charge*	
B Your Charges for All Other Settlement Services	$
A + B Total Estimated Settlement Charges	$

Good Faith Estimate (HUD-GFE) 2

Instructor Notes	Presentation

Mortgage Shopping Worksheet



Slide 36

Refer participants to the Mortgage Shopping Worksheet beginning on page 18 of their Participant Guide. Summarize each section.

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 (GFE)

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 Mortgage Shopping Worksheet located in your Participant Guide beginning on page 18. This tool will help you shop for the best mortgage. Since lenders may have multiple options for you, there are two columns for options from each lender. For example, Lender 1 might offer a fixed-rate and a variable-rate loan. You can fill in the details to help you decide which is best for you.

- In **Section A**, you will 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 (e.g., 10 or 11 percent).
- 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.

Some of the terms you will see in Section E include:

- A *prepayment penalty*, a fee that some mortgages charge if you pay the loan off within a few years. A prepayment penalty may be a sign

Instructor Notes	Presentation

of predatory lending.

- 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.
- *Adjustable-rate loan,* requires additional disclosures that contain the listed items (e.g., 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,* 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 insurance,* insurance that may make your loan payments if you die, become ill, or unemployed. This coverage is optional and costs an additional fee. Make sure you take time to understand exactly what is covered and what is not. Determine if you already have, or would be better off with, traditional insurance that could protect you or your family in the event you become disabled or die.

	Lender 1		Lender 2	
Name of Lender:				
Name of Contact:				
Date of Contact:				
Mortgage Amount:				
	Mortgage 1	Mortgage 2	Mortgage 1	Mortgage 2
A. Basic Information on the Loans Type of Mortgage: fixed rate, adjustable rate, conventional, FHA, other? If adjustable, see below				
Minimum down payment required				
Loan term (length of loan)				
Contract interest rate				
APR				

Instructor Notes	Presentation			
Points (may be called loan discount points)				
Monthly PMI premiums				
How long must you keep PMI?				
Estimated monthly escrow for taxes and hazard insurance				
Estimated monthly payment (PITI, PMI)				
B. Fees Different institutions may have different names for some fees and may charge different fees. We have listed some typical fees you may see on loan documents. Application fee or Loan processing fee				
Origination fee or Underwriting fee				
Lender fee or Funding fee				
Appraisal fee				
Attorney fees				
Document preparation and recording fees				
Broker fees (may be quoted as points, origination fees, or interest rate add-on)				
Credit report fee				
Other fees				
C. Other Costs at Closing/Settlement Title search/Title insurance For lender				
Title search/Title insurance For you				
Estimated prepaid amounts for interest, taxes, hazard insurance, payments to escrow				
State and local taxes, stamp taxes, transfer taxes				
Flood determination				
Prepaid PMI				

Instructor Notes	Presentation

Surveys and home inspections				
D. Total Fees and Other Closing/Settlement Cost Estimates				
	Lender 1		Lender 2	
Name of Lender:				
	Mortgage 1	Mortgage 2	Mortgage 1	Mortgage 2
E. Other Questions and Considerations about the Loan Are any of the fees or costs waivable?				
Prepayment penalties Is there a prepayment penalty?				
If so, how much is it?				
How long does the penalty period last? (For example, 3 years? 5 years?)				
Are extra principal payments allowed?				
Lock-ins Is the lock-in agreement in writing?				
Is there a fee to lock-in?				
When does the lock-in occur—at application, approval, or another time?				
How long will the lock-in last?				
If the rate drops before closing, can you lock-in at a lower rate?				
If the loan is an ARM: What is the initial rate?				
What is the maximum the rate could be next year?				
What are the rate and payment caps each year and over the life of the loan?				
What is the frequency of rate change and of any changes to the monthly payment?				
What is the index that the lender will use?				

Instructor Notes	Presentation			
What margin will the lender add to the index?				
Credit life insurance Does the monthly amount quoted to you include a charge for credit life insurance?				
If so, does the lender require credit life insurance as a condition of the loan?				
How much does the credit life insurance cost?				
How much lower would your monthly payment be without the credit life insurance?				
If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers?				

Answer any questions. Then introduce the next topic.

What questions do you have about the Mortgage Shopping Worksheet?

Now we will talk about Step 4: Qualify for a loan.

Slide 37

Step 4: Qualify For a Loan

Lenders use certain criteria to qualify you for a loan, including your income, debt, and credit history. You already learned that before you start looking for a house you should become pre-qualified by a lender.

Once you find the house you can get a pre-approval. In some circumstances, it is advisable to get pre-approved before you buy, for example, in housing markets or areas in which houses stay on the market only a short time before they are purchased.

Instructor Notes	Presentation

Activity 4: Does Patricia Qualify for a Loan?

Slide 38

Direct participants to Activity 4: Qualify for a Loan on page 21 of their Participant Guide. Review the mortgage terms. Allow participants to share their response to the question. Then provide the answer to supplement the discussion.

Thanks to the Mortgage Shopping 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 PMI 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 $127,000.
- Her monthly principal and interest payment is $761 and her estimated taxes and insurance payments are $125.
- Patricia wants to buy a townhouse so she does not have to worry about outside maintenance and upkeep. However, this convenience will cost her $105 a month in homeowner's association dues. She may also have to pay a special charge, known as an assessment, for any major repairs.
- Patricia's total monthly housing expenses are $1,061, or 26 percent of her monthly income of $4,100.
- The total of Patricia's monthly housing expenses and long-term debt is $1,161, or 28 percent of her monthly income.

Patricia's Mortgage

Cost of Townhouse	$127,000
5% Down payment	$6,350
30 year mortgage @ 6%	**$120,650**
Monthly P & I	$761
Monthly T & I	$125
Mortgage Insurance	$70
Homeowner's Association Dues	$105
Total Housing Expenses (26% of $4,100 monthly income)	**$1,061**
Total Long-Term Debt	$100
Total Housing and Long-Term Debt (28% of $4,100 monthly income)	**$1,161**

Do Patricia's debt-to-income ratios fall within most lenders' guidelines?

Instructor Notes	Presentation

Answer: Yes. Patricia's front-end ratio is within the industry standards of 25 to 28 percent of her monthly gross income and her back-end ratio is less than 33 to 36 percent of her monthly gross income. Therefore, Patricia would most likely qualify for a loan.

When Debt-to-Income Exceeds Recommended Ratios

Debt-to-Income (DTI) Exceeds Recommended Ratios
- You might still qualify for a loan if you:
  - Have ability to pay more toward housing expenses
  - Show evidence of sustained, good credit history
  - Make larger down payment
  - Have cash reserves

Slide 39

Refer participants to When Debt-to-Income Exceeds Recommended Ratios on page 22 of their Participant Guide.

If you do not meet the lender's DTI ratio, you may qualify for the loan if you:

- Show that you currently pay more in rent than what your mortgage payment would be
- Have a good credit history or limited credit use
- Make a larger down payment
- Have cash reserves (e.g., savings and investment accounts)

You also might want to consider looking for a less expensive home. This can help prevent you from taking on too much in debt.

Answer any questions.

What questions do you have about qualifying for a loan?

We have one final step—go through settlement.

Instructor Notes	Presentation

Loan Settlement

5 minutes

Slide 40

Refer participants to Step 5: Go Through Settlement on page 22 of their Participant Guide.

Step 5: Go Through Settlement

The final step in the home buying process is to 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 you 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 you and your lender agreed on.
- You have a right to review the settlement statement at least one day before closing.
- Compare the costs on the HUD Settlement Statement with the Good Faith Estimate (GFE) you received when you applied for the loan.

More information on the home buying process can be found at hud.gov.

Closing Paperwork

It is easy to be overwhelmed by the paperwork at closing. Make sure you take your time to review the paperwork and do **not** sign anything you do not understand.

Answer any questions.

Most importantly, know that you can ask for a copy of your settlement statement a day before closing. This gives you time to compare it with the GFE you received, and determine if there are any big price increases in fees the lender charged. If so, point them out and ask for an explanation.

What questions do you have about settlement?

What to Do If You Are Having Trouble Making Your Mortgage Payments

Refer participants to What To Do If You Are Having Trouble Making Your

Here are some tips if you are having trouble making your mortgage payments:

- Consider actions that can enable you to make your payments. Look for ways to cut expenses. If possible, pay your bills using funds in your checking or savings accounts, and avoid withdrawing or borrowing money from your retirement savings.
- Stay current on loans, credit cards, and other bill payments to help

Instructor Notes	Presentation

Mortgage Payments on page 22 of their Participant Guide.

Slide 41
Explain what one can do if they have trouble making their payments.

minimize damage to your credit score, which is important if your financial difficulties are because of a job loss. This is important because as you apply for new jobs, employers may review your credit report.

- Contact your lenders immediately if you anticipate payment problems. If you are unable to make your mortgage payment or minimum monthly credit card payments, contact your lenders to work out a plan. If you wait until you are unable to make the payments you can damage your credit rating, and have fewer options available for getting help.
- Be proactive if your payment problems have already started. If you are unable to make your loan payments, seek help quickly by discussing your options with your lender or loan servicer (the company that collects payments and performs other work for the lender, including negotiating new payment plans with borrowers who are late or delinquent on their loan payments).

If you think you need assistance working with your lender, get help from a trained reputable housing counselor who can help you for no charge or a small fee. Find one through **NeighborWorks America** (www.nw.org), or by calling **1-888-995-HOPE (4673)**. Or, for a referral to a local counseling agency certified by **HUD**, visit www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm or call **1-800-569-4287**.

Answer any questions. Then introduce the next topic.

What questions do you have?

Now we will talk about how you can tap into the equity of your home as it grows.

Instructor Notes	Presentation

Tapping Into Your Home's Equity

15 minutes

Tapping Into Your Home's Equity
- Home equity loans
- Home equity lines of credit (HELOC)
- Refinancing and cash-out refinancing
- Reverse mortgages

Slide 42

Acknowledge participants' responses. Then refer participants to the equation printed on page 22 of their Participant Guide.

Equity Advantages

You can take advantage of equity by borrowing against your home, or taking out a loan that is secured by your home. Do you remember what equity is?

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

Value of home =	$250,000
minus debt =	- 200,000
Equity =	$ 50,000

There are several ways you can take advantage of rising equity:

- Home equity loans
- Home equity line of credit (HELOC)
- Refinancing and cash-out refinancing
- Reverse mortgages

Home Equity Loans and Lines of Credit

Home Equity Loans
- One-time loan for a lump sum
- Typically at a fixed interest rate
- Equal monthly payments over a set period of time

Slide 43

Describe home equity loans.

Home Equity Lines of Credit
- Works like a credit card:
  - Draw from the line of credit as needed
  - Repay the principal and available credit goes up again
- Interest rates are typically variable

Slide 44

Describe HELOCs.

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

A 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

Instructor Notes	Presentation

Advantages of Home Equity Options
- Flexibility to finance major expenses
- Lower interest rate than credit cards
- Tax-deductible interest

Slide 45

Explain the advantages of using home equity.

Home Equity Options Risks
- Home is collateral
- Housing values can decrease
- Rates/payment may increase
- Temptation to use the money for unwise investments or purchases
  - Use caution and self-discipline

Slide 46

Explain the risks of using home equity.

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. If this happens, you could owe more than your home is worth.
- HELOCs often come with extra-low interest rates for an introductory period (e.g., six months), but these are variable rates that could go up during the life of the loan.
  - Ask yourself if you can afford the increased monthly payments after the introductory period ends, or when interest rates rise.
  - 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 (e.g., 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.

Your Rights

You have specific rights if you are using your home as security for a home equity loan or line of credit.

Your Rights Under Federal Law
- You have 3 business days after signing loan papers to cancel the deal without penalty.
  - Must cancel the deal in writing
  - Lender must return any fees or finance charges you paid
  - Does not apply if you are buying a home or refinancing without borrowing additional money

Slide 47

Explain homebuyer's rights.

- Federal law gives you three 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 Federal Deposit Insurance Corporation (FDIC) website at www.fdic.gov/consumers/consumer/predatorylending.

Instructor Notes	Presentation

Refinancing Options

Slide 48

Explain refinancing and cash-out refinancing.

Refinancing is a process by which an existing home loan is paid off and replaced with a new loan.

A *cash out refinance loan* allows you to borrow more money than owed on the loan to be replaced. 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.

1. 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.
2. The interest rates on a cash-out refinancing loan are usually, but not always, lower than the interest rate on a home equity loan.
3. 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.
4. 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.

Slides 49

Share the cash-out refinancing example.

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.

Here is an example of a couple who own a home. They took out a $100,000 mortgage on a $130,000 house. Their interest rate was 9.95 percent, making their monthly payment $873.88 (plus taxes, insurance, and other extras).

Option 1

- For 13 years, they never bothered refinancing. Now it is spring, and they qualify for a rate of 6.02 percent.

Instructor Notes

Cash-Out Refinance Example

Option 1:
- Refinance $107,000 ($87,000 + 20,000)
- Interest rate: 6.02%
- Monthly payment: $642.90 x 30 years
- Total = $231,442.40

Option 2:
- Refinance $87,000 at $522.73 x 30 years
- Home equity loan: $20,000 at 7.36% x 20 years
- Total = $226,440.75

FDIC Financial Education Curriculum

Your Own Home

Slide 50

Share option 1. Then click the space bar, right arrow, or mouse to show option 2.

Presentation

- 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.

Option 2

- Or they could refinance the $87,000 at a cost of $522.73 a month, and 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 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- 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, a 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 off.
- 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

Instructor Notes	Presentation

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.

Reverse Mortgage

Slide 51

Explain reverse mortgages and the eligibility requirements.

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
- 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
- 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.

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

Lenders generally charge origination fees, mortgage insurance premium fees, and closing costs when you get a reverse mortgage.

Homes that are eligible for a reverse mortgage are:

- Single family, one-unit dwellings
- Two-to-four unit, owner-occupied dwellings
- Some condominiums, planned unit developments, and manufactured homes
- **Note:** Cooperatives and most mobile homes are **not** eligible

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.
- 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 may

Instructor Notes	Presentation

Slide 52
Explain how reverse mortgages are paid.

be able to use the loan to make payments or may even require you to immediately repay the loan in full.

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

A reverse mortgage usually makes more sense the longer you plan to stay in the home.

- The expensive up-front cost make the first years of the loan relatively expensive. For example, a borrower who uses a reverse mortgage for only a couple of years can have an annual loan cost several times greater than a similar borrower using the reverse mortgage for a decade or more.
- It is very important to have a realistic understanding of not just your life expectancy but also how long you can afford the expenses related to your home, including: utilities, property taxes, insurance, maintenance and repairs, and how long you are physically able to keep living in the house.

There are different types of reverse mortgages. Most reverse mortgages are made under an FHA program.

- Most people get a Home Equity Conversion Mortgage (HECM), which has government insurance that protects not only the lender but also the borrower.
- If the lender becomes unwilling or unable to make the payments that are due to the borrower, the government steps in to make them.

Reverse mortgage products that are not FHA-insured may not offer the same guarantees and protections as an FHA-insured HECM.

Depending on your circumstances, there may be other, less expensive options available to you. If you decide a reverse mortgage makes sense, contact several lenders and compare the costs and benefits of their products.

To understand the potential pros and cons of a reverse mortgage, talk to a HUD-approved housing counseling agency. HUD sponsors housing counseling agencies throughout the country to provide free or low cost advice. To find one, call 1-800-569-4287 or visit www.hud.gov.

Now we will talk about how to identify predatory lending practices and loan scams.

Instructor Notes	Presentation

Beware of Predatory Lenders, Foreclosure Rescue, and Loan Modification Scams

Slide 53

Explain predatory lending.

Refer participants to Beware of Predatory Lenders, Foreclosure Rescue, and Loan Modification Scams on page 24 of their Participant Guide.

Slide 54

Describe HUD's post-home ownership course.

Answer any questions.

Predatory lending has become a serious problem. It occurs when companies offer loan products (e.g., home equity loans or cash-out refinancing) using marketing tactics, collection practices, and loan terms that deceive and exploit borrowers.

Be careful of any company that does the following:

- Demands a fee in advance; no legitimate organization that works with borrowers to avoid foreclosure will ever ask for money up front
- Makes unsolicited offers or lofty advertisements claiming they can help save your home
- Offers to negotiate a loan modification for a fee
- Recommends you break off contact with your current lender or counselor
- Advises you to stop making mortgage payments
- Tells you to send your mortgage payment to anyone other than your loan servicer
- Instructs you to transfer ownership of your property
- Makes verbal promises that it will not put in writing
- Asks you to sign a document that has blank lines or spaces

The *Loan to Own* module provides detailed information on predatory lending practices.

We recommend that you take a home ownership course, whether you are considering buying or already own a home. HUD funds housing counseling agencies that can give you advice on buying or owning a home, renting, defaults, foreclosures, credit issues, and reverse mortgages. You may contact HUD at **1-800-569-4287** or visit www.hud.gov to find a list of HUD-approved housing counseling agencies.

What questions do you have about tapping into your home's equity?

Let us look at what we have learned today.

Instructor Notes	Presentation

Wrap-Up

10 minutes

Slide 55
Answer any final questions. Have participants complete the Post-Test and/or What Do You Know? form along with the evaluation form

Summary and Post-Test

We have covered a lot of information today about buying a house. What final questions do you have?

Now we will see what you have learned by completing *[a short Post-Test beginning on page 25 of your Participant Guide and/or the "After the Training" column of the What Do You Know? form that you completed earlier]*.

Who would like to share one thing they learned from this training?

To improve the training we need your feedback. Please complete the Evaluation Form on pages 31 and 32 of your Participant Guide.

Slide 56
Review what was covered and ensure participants' expectations, questions, and concerns have been covered.

Conclusion

Congratulations! You have completed the *Your Own Home* module. 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
- Pitfalls and dangers of unwise mortgage refinancing

You should know be familiar with how to buy and finance a home.

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

Post-Test

Now that you have gone through the course, see what you have learned.

1. What are the two main costs of owning a home? Select all that apply.
    a. **Homeowner's insurance**
    b. Borrowing against equity
    c. **Real estate taxes**
    d. Increasing income tax burdens

2. You are ready to buy a house when:
    a. You are tired of living in a rental unit or with family
    b. **You have determined that you have the financial ability to buy a house**
    c. You have just started a new job
    d. You have your first child

3. For most conventional loans, lenders usually require the principal, interest, taxes, and insurance (PITI) or your total housing expenses (front-end ratio) be less than or equal to what percentage of your monthly gross income?
    a. 3% to 20%
    b. **25% to 28%**
    c. 33% to 36%
    d. 44% to 49%

4. Match each mortgage payment term with the correct definition.

Principal: __**b**__	a. The amount of the charge for borrowing money
Interest: __**a**__	b. The amount applied to the outstanding balance of the loan

5. Which of the following are risks to using a home equity product to tap into your home's equity? Select all that apply.
    a. There is no risk as long as the homeowner stays in the home for five years
    b. **Your home is collateral for the loan. If you run into repayment difficulties, you could lose your home**
    c. **The real estate values in your area may drop**
    d. Federal and state taxes may impact your loan

6. Which document are you required by law to receive one day before settlement?
    a. Notice of approval or denial and reason for denial
    b. Good Faith Estimate (GFE)
    c. **HUD Settlement Statement**
    d. Pre-approval letter

7. Private mortgage insurance (PMI) is:
   a. The amount of the charge for borrowing money
   b. **Often required from homebuyers who obtain loans that are more than 80 percent of their new home's value**
   c. The amount applied to the outstanding balance of the loan
   d. Equal to 1/12th of the annual homeowner's insurance premium

8. Identify the five steps to owning a home by placing the letter for each step in the appropriate order.

Step 1 __**c**___	a. Qualify for a Loan
Step 2 __**d**___	b. Go Through Settlement
Step 3 __**e**___	c. Determine If You Are Ready to Buy a House
Step 4 __**a**___	d. Determine How Much Mortgage You Can Afford
Step 5 __**b**___	e. Determine Which Mortgage Option Is Best for You

9. Which loan would allow you to pay off your mortgage faster?
   a. Traditional fixed-rate mortgage
   b. **Biweekly payment mortgage**
   c. Interest-only mortgage
   d. Adjustable-rate mortgage (ARM)

10. Which mortgage allows you to borrow more money than owed on the loan to be replaced?
    a. Home equity line of credit (HELOC)
    b. Refinance loan
    c. **Cash-out refinancing**
    d. Reverse mortgage

What Do You Know? – Your Own Home

Instructor: ________________________________ Date: __________________

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

	Before the Training				After the Training			
I can:	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. Explain the advantages and disadvantages of renting versus owning a home	1	2	3	4	1	2	3	4
2. Identify questions to ask to determine my readiness to buy a home	1	2	3	4	1	2	3	4
3. Identify the steps required to buy a home	1	2	3	4	1	2	3	4
4. Identify basic terms and required disclosures used in a mortgage transaction	1	2	3	4	1	2	3	4
5. Describe the advantages and disadvantages of different mortgage options	1	2	3	4	1	2	3	4
6. Describe how interest rates affects the amount of house I can buy	1	2	3	4	1	2	3	4
7. Explain how taxes and insurance affect a monthly payment and the amount of house I can buy	1	2	3	4	1	2	3	4
8. Describe the advantages and disadvantages of borrowing against a home	1	2	3	4	1	2	3	4
9. Explain what to do if I am having trouble making payments	1	2	3	4	1	2	3	4
10. Describe the different types of refinancing options	1	2	3	4	1	2	3	4
11. Explain the advantages and disadvantages of a reverse mortgage	1	2	3	4	1	2	3	4
12. Identify predatory lending practices and loan scams	1	2	3	4	1	2	3	4

Evaluation Form

This evaluation will enable 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.

1. Overall, I felt the module was: [ ] Excellent [ ] Very Good [ ] Good [ ] Fair [ ] Poor	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2. I achieved the training objectives.	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 participants 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.	1	2	3	4	5
13. My knowledge/skill level of the subject matter upon completion of the module.	1	2	3	4	5
14. Name of Instructor: 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**				
Objectives were clear & attainable	1	2	3	4	5
Made the subject understandable	1	2	3	4	5
Encouraged questions	1	2	3	4	5
Had technical knowledge	1	2	3	4	5

What was the most useful part of the training?

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What was the least useful part of the training and how could it be improved?

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Glossary

Adjustable-rate Mortgage (ARM): A mortgage in which the interest rate can increase or decrease during the term of the loan.

Annual Percentage Rate (APR): The cost of credit as a yearly rate. The APR includes the interest rate, points, broker fees, and certain other credit charges that the borrower is required to pay.

Back-end Ratio: A ratio in which your housing expenses plus long-term debt should be less than or equal to 33 to 36 percent of your monthly gross income.

Biweekly Mortgage: A fixed-rate conventional mortgage with payment due every 2 weeks.

Cash-out Refinancing: A refinancing option in which you refinance your mortgage for more than you currently owe and pocket the difference.

Collateral: Property or assets offered to secure the loan.

Credit Insurance: A form of insurance that covers your loan payments if you die, become ill, or unemployed.

Debt-to-income ratio (DTI): Your monthly expenses compared to your monthly gross income.

Escrow Account: An account to hold money and pay for taxes and insurance as part of your mortgage payment.

Equity: The value of the home minus the amount you owe on it.

Fair Housing Act: An act that 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 status in housing-related transactions.

Fixed-rate Mortgage: A mortgage in which the interest rate stays the same for the term of the loan.

Front-end Ratio: A ratio in which the principal, interest, taxes, and insurance (PITI) or your total housing expenses should be less than or equal to 25 to 28 percent of your monthly gross income.

Good Faith Estimate (GFE): The law requires that lenders/brokers give you an estimate of the settlement service charges within three days of application.

Home Equity Line of Credit (HELOC): A line of credit from which you can draw money.

Home Equity Loan: A one-time loan for a lump sum that is typically at a fixed interest rate.

Index: A base interest rate used to calculate the interest rate that will be charged on a variable-rate loan.

Interest: The charge for, or cost of, borrowing money.

Interest-Only Mortgage: A mortgage in which you pay only the interest (not the principal) on the mortgage in monthly payments for a fixed term.

Lock-in: 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.

Mortgage: A loan to finance the purchase of real estate, usually with specified payment periods and interest rates.

Mortgage Insurance: An amount equal to 1/12th of the annual homeowner's insurance premium.

Points: Charges paid by the borrower at settlement or added to the mortgage amount. One point equals 1 percent of the loan amount.

Pre-approval: A commitment from the lender to lend you money.

Pre-qualification: An informal way to find out how much mortgage you can obtain.

Predatory Lending: A practice of using certain marketing tactics, collection practices, and loan terms that deceive and exploit borrowers.

Prepayment Penalty: A penalty for adding additional money to required payment.

Principal: The amount applied to the outstanding balance of the loan.

Real Estate Settlement Procedures Act (RESPA): An act that limits the amount of money a lender may require a borrower to hold in an escrow account for payment of taxes, insurance, etc.

Refinance: A process by which an existing home loan is paid off and replaced with a new loan.

Reverse Mortgage: A home loan that you do not have to pay back for as long as you live in your home.

Settlement: 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.

Taxes: An amount equal to 1/12th of the estimated annual real estate taxes on the home.

Traditional Mortgage: A 15- or 30-year mortgage with a fixed or variable interest rate.

For Further Information

Federal Deposit Insurance Corporation (FDIC)
www.fdic.gov/consumer
Division of Supervision & Consumer Protection
2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108
1-877-ASK-FDIC (275-3342)
Email: consumeralerts@fdic.gov

Visit the FDIC's website for additional information and resources on consumer issues. For example, every issue of the quarterly *FDIC Consumer News* provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

Additional FDIC Resources:

- Interest-only Mortgage Payments and Option-Payment ARMs - www.fdic.gov/consumers/consumer/interest-only/
- FDIC Launches Foreclosure Prevention Initiative - www.fdic.gov/news/news/press/2009/pr09171.html
- Putting Your Home on the Loan Line Is a Risky Business - www.fdic.gov/consumers/consumer/predatorylending

U.S. Financial Literacy and Education Commission
www.mymoney.gov
1-888-My-Money (696-6639)
MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education. Whether you are planning to buy a home, balance your checkbook, or invest in your 401k, the resources on MyMoney.gov can help you. Throughout the site, you will find important information from federal agencies.

Federal Trade Commission
www.ftc.gov/credit
1-877-FTC-HELP (382-4357)
The Federal Trade Commission's (FTC) website offers practical information on a variety of consumer topics, including privacy, credit, and identity theft. The FTC also provides guidance and information on how to select a credit counselor.

Department of Housing and Urban Development
www.hud.gov
1-800-669-9777
The Department of Housing and Urban Development (HUD) website offers educational resources on buying and renting homes.