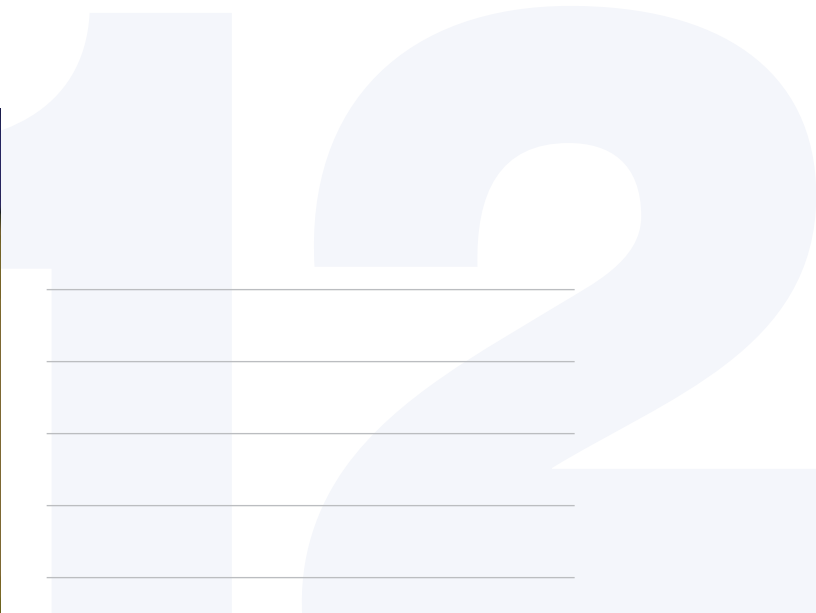


Module 12

Preserving Homeownership: Protecting Your Home Investment





Responsibilities for Homeownership

Along with the many advantages of homeownership you also have responsibilities. Understanding these responsibilities and avoiding things that pose a risk will help to ensure your long-term success.



Module 12: Preserving Homeownership

Spend Wisely. Save Wisely.

As soon as you buy a house, lenders and credit card companies will be eager to lend you even more money, using your home as collateral.

- Don't give in to the urge to assume debt.
- Re-evaluate your wants and needs.
- Update your monthly spending plan.
- Save money.



Module 12: Preserving Homeownership

Spend Wisely

Planning is key to successful homeownership. In addition to ensuring you make timely mortgage payments:

- Know your variable expenses.
- Plan for large or periodic expenses.
- Set priorities, goals, and limits that make paying your mortgage your highest priority.



Module 12: Preserving Homeownership

12

Save Wisely

- Plan to save and pay yourself first.
- Plan ahead for major purchases and home improvements.
- Build an emergency fund.
- Consider making additional payments on your mortgage to save money.

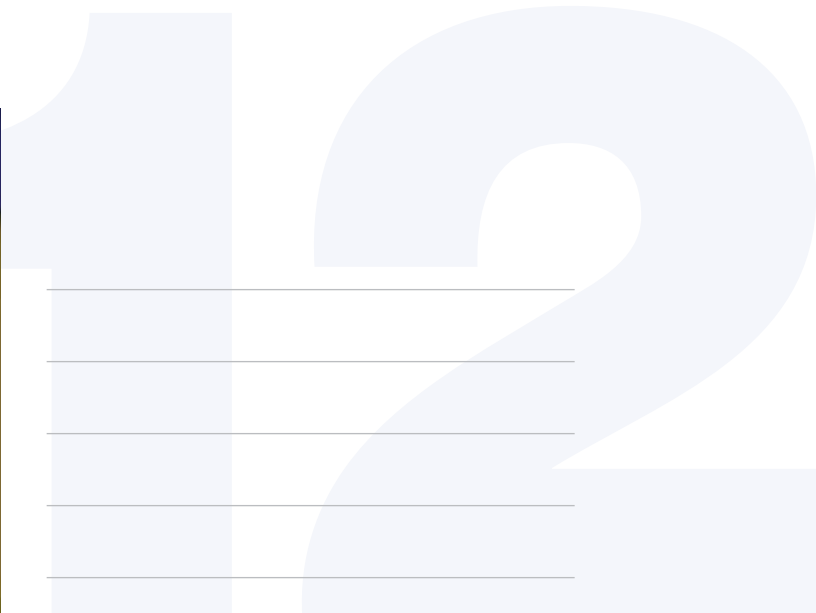
Borrowing Against Your Home Equity

Borrowing and using your house as collateral can mean money for major financial events; but carelessly borrowing can endanger your financial security.

What Is Home Equity?

Home equity is the difference between what your home is worth and the total amount you still owe. You can build equity in two ways:

- You can pay down your loan balance so you owe less.
- In a favorable housing market, the value of your home can increase.



Why People Borrow Against Their Home Equity

- Make home improvements.
- Pay for education.
- Consolidate debt.
- Invest in a small business, other real estate, or stocks and bonds.

Module 12.01
Preserving Homeownership

Ways to Borrow Against Your Equity

- *Refinance* loan
- Home equity loan
- *Home equity line of credit*
- *Home Equity Conversion Mortgage (HECM)*

Module 12.01
Preserving Homeownership

Look Before You Leap

Before selecting a lender or loan product:

- Get quotes from at least three lenders.
- Shop around to compare interest rates, points, closing costs, fees, mortgages, etc.
- Compare the annual percentage rates (APRs).
- Know the terms and whether there are *prepayment penalties*.

Module 12.01
Preserving Homeownership

Get Help to Find the Right Product

Find a trusted advisor, one who is reputable and impartial. Consider these resources:

- National Foundation for Credit Counseling (www.nfcc.org)
- NeighborWorks® America (www.nw.org)
- HUD-approved housing counseling agencies (www.hud.gov)



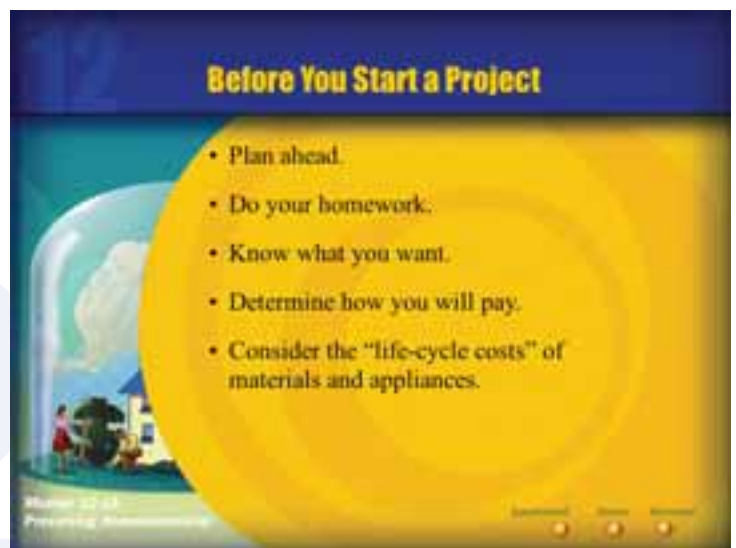
Maintaining, Repairing and Improving Your Home

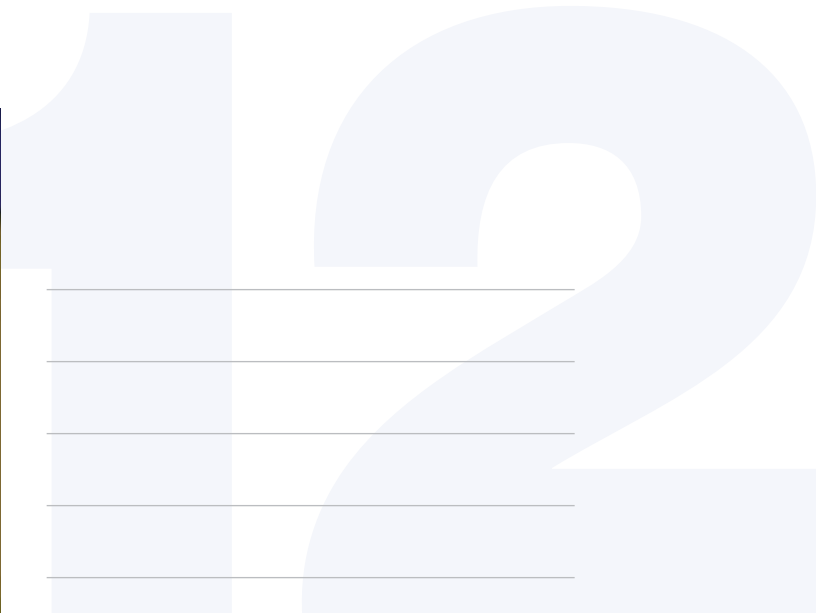
Maintaining a safe and attractive home is good for your family. It can prevent costly future problems, make mechanical systems run longer and more efficiently and have a positive impact on your house's market value.



Before You Start a Project

- Plan ahead.
- Do your homework.
- Know what you want.
- Determine how you will pay.
- Consider the "life-cycle costs" of materials and appliances.





Working With Contractors

- Shop around to find a reliable contractor with good credentials.
- Bid the job competitively to ensure that you ultimately pay a fair price.
- Hire a professional who is licensed, registered and has adequate insurance.
- Read the contract.
- Don't pay in advance and never pay in cash.
- Keep a written record of all activity, including payments and any plan changes.
- Know how to settle a dispute. Beware of **binding mandatory arbitration**.

Module 12.14
Preserving Homeownership

Emergency Preparedness

Emergencies and disasters strike unexpectedly. The best defense is plan ahead.

- Develop an emergency plan.
- Stock emergency supplies.
- Keep a first aid kit in a convenient place.
- Post emergency phone numbers and program them into your cell phones.
- Inventory your household possessions.
- Protect valuable records.
- Have adequate insurance coverage.

*Source: University of Florida
<http://extension.gif.ufl.edu/efhshh.htm>

Module 12.17
Preserving Homeownership

Disaster Recovery

Steps to take to recover from disaster:

- Ensure your safety.
- Find family members.
- Get food and water.
- Find a place to stay.
- Return home safely.
- File an insurance claim.
- Apply for assistance.
- Cope with stress.
- Clean up the damage.
- Rebuild smarter and stronger.

*Source: Federal Emergency Management Agency (FEMA)
<http://www.fema.gov>

Module 12.18
Preserving Homeownership



Beware of Financial Traps

Unfortunately, there are unscrupulous lenders out there, looking to take advantage of homeowners through a variety of traps or scams.

Some traps or scams to avoid:

- Home title scams.
- Home improvement scams.
- Post-disaster insurance scams.
- Equity-stripping foreclosure "rescue" scams.
- Predatory or abusive lending practices.

Module 12.01
Preserving Homeownership

Foreclosure Prevention

Foreclosure is a legal process in which the lender takes back ownership of your home because you are delinquent in your mortgage payments.

Depending on the state, foreclosure can take as little as 32 days. Therefore, it's important to take preventative steps immediately.

Module 12.01
Preserving Homeownership

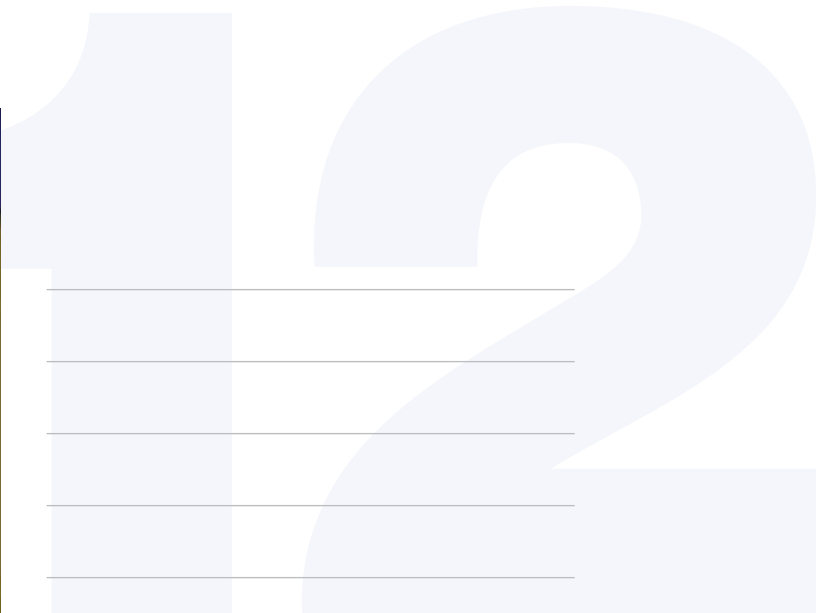
How Do Homeowners Get into Financial Trouble?

Reasons homeowners aren't able to pay mortgage:

- Unemployment or curtailment of income
- Illness or death in the family
- Excessive obligation
- Marital difficulties
- Property problem or casualty loss
- Inability to sell or rent property
- Extreme hardship
- Employment transfer or military service
- Other reasons

*Source: Freddie Mac's Workday Perspective, 2008. Data excludes delinquent loans in Louisiana and Mississippi.

Module 12.01
Preserving Homeownership



What Should You Do if You Get Into Trouble?

- Call your lender immediately!
- Contact a nonprofit for advice.
- Beware of scam artists.

Module 12.02
Preserving Homeownership

Why Don't Homeowners Seek Help?

- Homeowners think they can handle the situation on their own.
- Homeowners think the lender benefits by taking ownership of the home. (Actually, lenders typically lose money in a foreclosure.)
- Homeowners are embarrassed or scared.
- Homeowners don't know that lenders can help.

Module 12.03
Preserving Homeownership

What Are the Alternatives to Foreclosure?

Lenders have access to a variety of options:

- **Reinstatement**
- **Forbearance**
- **Repayment Plan**
- **Loan Modification**
- **Refinancing**

Module 12.04
Preserving Homeownership

Alternatives to Foreclosure (Selling Your Home)

If you no longer desire, or can no longer afford, to keep your house, there are other alternatives:

- **Assumption**
- **Short Payoff**
- **Deed in Lieu of Foreclosure**

What Can We Learn from Those in "Good Standing"?

- Always pay your mortgage, and always pay on time.
- Live by your monthly spending plan.
- Make more money.
- Invest for the long-term.
- Maintain your good credit.

*Source: Freddie Mac, 2008 Mortgage Lender's Book

SUMMARY

Buying a home is a huge accomplishment but also a big responsibility. By taking this responsibility seriously, you can reap the many benefits of homeownership and live in your home with confidence and pride.



► **Ways to Borrow Against Your Home Equity**

Home equity is the difference between what your home is worth and the total amount you still owe. People most often borrow against their home's equity to make home improvements, pay for education, consolidate debt, invest, etc. While borrowing against home equity gives you access to money for major financial events, it could endanger your financial security if you don't borrow prudently.

There are a variety of ways to borrow against your home equity.

- **Refinance**—Refinancing is when you get a new mortgage and use some or all of the proceeds to pay off the old mortgage. When you refinance, you complete many of the same steps you did when you received the first mortgage to buy a home. Since refinancing represents a replacement to your mortgage, borrowers use it a number of ways:
 1. **Refinancing to save money on your interest rate.** If interest rates are lower than when you received your current mortgage, you could reduce your monthly payments and the total amount of interest that you pay over the life of the loan by refinancing at a lower rate. When considering this option, you will want to take into consideration how long it would take you to recapture all of the costs of refinancing through savings from the new mortgage payment.
 2. **Refinancing to lower your monthly payment.** If you would like to reduce your payment, you could either extend the term of your loan or switch to another loan product with a lower interest rate. If you choose to lengthen your loan term, it will take you longer to own your home and cost you more in overall interest charges and total costs associated with your loan.
 3. **Refinancing to convert one type of mortgage to another.** If your current mortgage is no longer the right fit, you can refinance to obtain a different loan type. For example, if you currently have an adjustable-rate mortgage and wish to switch from an interest rate and monthly payment that will likely increase, you could change to a fixed-rate mortgage.
 4. **Refinancing to build equity faster.** If your financial situation has improved since you bought your home, you may want to get a mortgage with a shorter term. Your monthly payments will most likely be higher, but this will help you own your home sooner and pay less in total interest charges.
 5. **Refinancing to take cash out.** This loan replaces your old mortgage with a larger one, and you keep the difference between the loan amounts to use for your intended goals. While the cash-out refinance is attractive, the interest rate could be higher than the rate would be if you were simply changing the terms of your loan. And remember that your total loan amount will be higher because you do need to pay back the “cash out.”



- **Home Equity Loan**—A second mortgage, or junior lien, secured against your home. A home equity loan usually has fixed interest rates that are higher than the first mortgage. They are often structured as 10- or 15-year loans, which is a long time to pay back. If you use your home equity loan for a new car or vacation, the car will likely need to be replaced and most of your vacation memories will be long gone before you finish paying off your loan, so think carefully before you do that.
- **Home Equity Line of Credit**—A specialized form of a second lien that consists of a revolving line of credit secured against your home, similar to a credit card. You can borrow money (up to the amount that is approved) and pay it back as many times you need during the term of the loan.
- **Home Equity Conversion Mortgage (HECM)**—A type of reverse mortgage that is an option for homeowners who can actually turn their equity into income. With the Department of Housing and Urban Development's (HUD's) government-insured HECM, instead of making their monthly mortgage payments, seniors with HECMs can choose to receive monthly payments or access a line of credit. The borrowing homeowner must be at least 62 years old, live in the home, be willing to receive counseling before obtaining the loan to ensure a good fit, and either own the home or have a really low balance. For more information and conditions, please visit www.hud.gov.

Before You Borrow Against Your Home Equity

Before you select the lender and loan product for you, you'll need to understand what different lenders are offering to you.

- Get quotes from at least three lenders. Compare what they have to offer. Start with your current lender (if you've had a good experience with them). Your existing lender may even offer some incentives or discounts to keep your business. Negotiate to get the best deal. Don't be persuaded by high-pressure sales tactics to make a quick or uninformed decision.
- Shop around. Compare similar combinations of interest rates, points, closing costs, fees, and the monthly mortgage expected by each lender.
- Compare the annual percentage rate (APR), which is the total annual cost of borrowing money based on the loan amount, interest rate, added fees, and term.
- Before you accept any offer, make sure you know the terms and whether there are prepayment penalties.

► **Maintaining, Repairing, and Improving Your Home**

Keeping your home in good repair is good for your family and contributes to the attractiveness of your neighborhood. It can help mechanical systems run more efficiently and last longer, and it can make a positive impact on your home's market value. In fact, regular maintenance can help prevent costly problems from occurring.

Before You Start a Home Repair or Improvement Project

Do's . . .

- Do your homework to understand your home's maintenance, repair, or improvement needs.
- Consider the "life-cycle costs" of materials or appliances. Over time, for example, hardwood floors are a better investment than carpet.
- Bid the job competitively with at least three contractors who are licensed, registered with the state, and adequately insured. Speak to their references before choosing one.
- Before selecting a contractor, check with the Better Business Bureau or the state Attorney General's office to see if any complaints have been filed against the company.
- Determine how you will pay. If your contractor offers a financing option, scrutinize the deal very carefully. Make sure that the term and payments fit within your spending plan.
- Read the contract carefully. Make sure that it accurately reflects your expectations.
- Keep a record of all progress, payments, changes, etc.
- Know how to settle a dispute. Beware of binding mandatory arbitration, in which a third party arbitrator would decide the outcome of your dispute, eliminating your right to present your case in court.

Don'ts . . .

- **NEVER** pay in advance. Hold up to 30 percent for the final payment to ensure your satisfaction.
- **NEVER** give in to high-pressure sales tactics.
- **NEVER** pay in cash.
- **NEVER** sign a work contract before you know the terms of your financing and are certain about how you will pay.

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► **Emergency Preparedness**

Emergencies and disasters strike unexpectedly and can cause chaos in your life. Though you can rarely control or prevent disasters, you can certainly plan ahead to be prepared.

Some tips from FEMA to consider when preparing for an emergency:

- Develop an emergency plan with your family.
- Stock emergency supplies. (See Emergency Supply Checklist)
- Keep a first aid kit in a convenient location.
- Post emergency phone numbers near phones, and program them into your cell phones.
- Keep an up-to-date inventory of household possessions.
- Protect valuable household records.
- Maintain enough insurance coverage to adequately cover the cost of rebuilding or replacing your home.

Emergency Supply Checklist

- Water: One gallon of water per person per day for at least three days, for drinking and sanitation
- Food: At least a three-day supply of nonperishable food
- Battery-powered radio (or hand crank radio plus NOAA Weather Radio with tone alert) and extra batteries
- Flashlight and extra batteries
- First aid kit
- Whistle to signal for help
- Filter mask or cotton t-shirt, to help filter the air
- Moist towelettes for sanitation
- Wrench or pliers to turn off utilities
- Manual can opener for food
- Plastic sheeting and duct tape for shelter-in-place
- Garbage bags and plastic ties for personal sanitation
- Unique family needs, such as daily prescriptions and medications, infant formula, diapers, and important family documents
- Local maps

Source: US Department of Homeland Security brochure, "Preparing Makes Sense. Get Ready Now."

Visit FEMA's Web site for an online manual on preparing for and recovering from disasters at www.fema.gov.

► **Homeowner Beware—Avoiding Financial Traps**

Because lending transactions often seem complicated, it's not unusual for borrowers to rely on the expertise of professionals for guidance through the process. But what if your "professional" is actually a scam artist or predator looking to push you into a costly or risky situation? Below are some of the common types of scams and examples on how they are carried out.

Home Title Scam

There are homeowners who have actually been cheated out of the titles to their homes. While these "deals" sound good because they provide brief, short-term relief in a cash crunch, the long-term effect usually tells a different story. Homeowners receive a fraction of what the home was worth, and they stand to lose all their hard-earned equity in the process. Here are a few examples of how a title scam could occur:

- Someone offers to give you a loan or help you finance much-needed repairs, and tells you that in order to secure financing, you must transfer your property deed or title so that someone with a better credit rating can obtain the repair loan on your behalf. Unfortunately, once you transfer the deed, the home is no longer yours.
- Someone offers you fast cash for the title to your home, but leaves you saddled with the mortgage obligation.
- Someone offers to take over your mortgage and your title (allowing you to remain in your home as a renter) so that you can buy the house back when you get on your feet. Consequently, there's no guarantee that you'll ever own the home again.



Home Improvement Loan Scam

Home improvement scams come in various forms, including the two most common:

- The contractor asks for money up front and leaves after completing little or no repair work.
- The contractor helps you get a loan to finance repair costs that then grow beyond the original estimate and agreement. The repair costs, plus exorbitant hidden fees and high interest rates, become so expensive they're ultimately unaffordable.

Post-Disaster Insurance Scam

Even in the wake of a disaster, homeowners must be on the alert. Insurance scams can happen in a number of ways:

- You're waiting for your insurance claim to be processed when someone offers you a lump-sum payment in exchange for the right to your insurance money. You end up getting much less than the insurance company eventually pays out.
- Your contractor asks you to sign a "direction to pay form" that allows your insurance company to pay the contractor directly, even before the repair work is completed. Don't do this until all work is completed, you've inspected it, and you are satisfied with the final product.

- Someone offers to loan you money for home repairs while you wait for your insurance money. In return, they ask for a post-dated check, your auto title, or your tax refund. These scams are almost always high-interest loans. While they may give you some short-term relief, the long-term cost could be devastating.

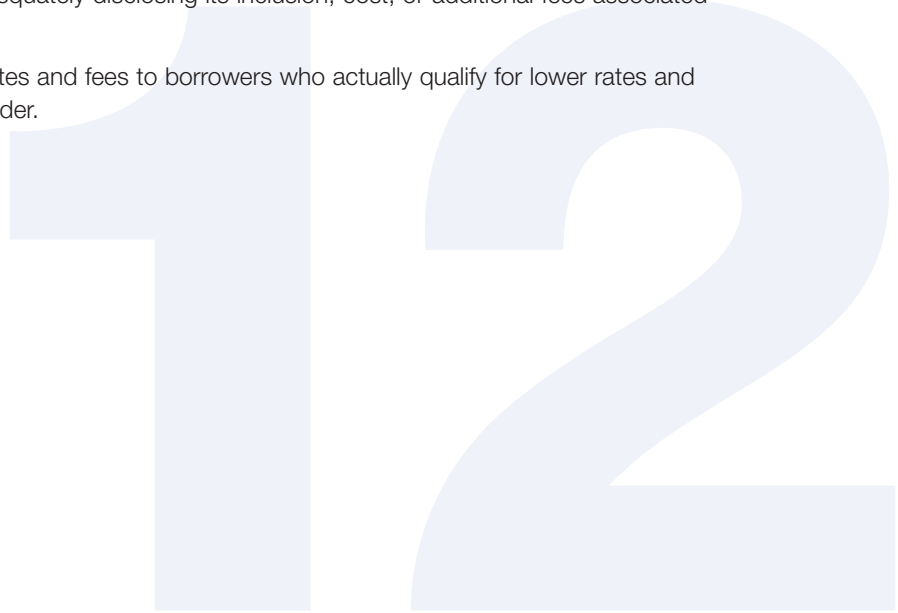
Equity-Stripping Foreclosure “Rescue” Scam

For most of us, taking advantage of someone in trouble is unthinkable, but the equity-stripping (or equity-skimming) foreclosure “rescue” scam does just that. Scam artists seek out homeowners near foreclosure and offer them what they think is a way to stay in their home. What the homeowner doesn’t realize is that in the process, they’re signing away the house and the equity. They get to stay in their house, but suddenly they’re just tenants.

Predatory or Abusive Lending Practices

When unscrupulous lenders are at work, they are capable of many forms of predatory or abusive lending practices:

- Repeatedly encouraging you to refinance your loan within a short period of time, and charging high points and fees with each refinance. They may claim that you’re getting better rates each time, but be sure to consider how much you’re paying in additional fees and interest with each new loan transaction.
- “Packing” a loan with single premium credit insurance products, such as credit life insurance, and not adequately disclosing its inclusion, cost, or additional fees associated with the insurance.
- Charging excessive rates and fees to borrowers who actually qualify for lower rates and fees offered by the lender.



► **How Do Homeowners Get into Trouble?**

There are many reasons why homeowners find themselves in trouble. According to a 2006 study Freddie Mac conducted, unemployment or curtailment of income (36.3%) and illness or death in the family (25%) are the primary reasons homeowners get into trouble.

Job Loss is the Most Cited Reason for Borrower Delinquency

Reason for Delinquency	2006
Unemployment or curtailment of income	36.3%
Illness or death in the family	25%
Excessive obligation	13.6%
Marital difficulties	6%
Property problem or casualty loss	2.8%
Inability to sell or rent property	1.4%
Extreme hardship	.9%
Employment transfer or military service	.6%
All other reasons	13.3%

Source: Freddie Mac's Workout Prospector. 2006 data exclude delinquent loans in Louisiana and Mississippi due to hurricane effects.

Warning Signs of Excessive Obligation

- You don't have any savings.
- Your credit card balances are rising every month.
- You only make minimum payments on your credit cards.
- You're juggling bills and don't know which one is most important to pay.
- You write a check on one credit card to pay another credit card.
- You have more credit cards than can fit in your wallet.
- You are at the limit of most of your credit cards.
- You don't know how much you owe.
- You are receiving phone calls or letters about delinquent payments.
- You are dipping into your retirement account to pay your monthly bills.
- You are hiding your debts and credit card purchases from your spouse or partner.
- You are hoping to catch up on all your debts when you "win the lottery."

► **What To Do if You Find Yourself in Trouble**

If you experience a change in your financial situation and think you might fall behind on your mortgage payments, there are some things you can do.

- **Call your lender! The most important step is to immediately talk to your lender.** Call your lender or talk to them if they call you. Ask to speak with someone in Default Management. Explain your situation and ask for help. Many lenders have special assistance they can offer to consumers in trouble to help them catch up on their mortgage payments. Considering that some foreclosures can occur in as little as one month, you must act immediately to prevent foreclosure and to minimize the impact on your credit.
- **Contact a housing nonprofit for advice.** The HOPE National Hotline, for example, is an independent, third party resource that is part of a HUD-certified, not-for-profit network dedicated to helping homeowners who are facing foreclosure. These counselors are trained to help you develop an action plan to address your situation. Spanish-speaking counselors are also available. You can call the hotline at (888) 995-HOPE. It is completely free to consumers and is available 24 hours a day, seven days a week. (See module 11 for additional resources.)
- **Avoid scam artists!** Be on the lookout for predators who would take advantage of your misfortune.

Why Don't Homeowners Seek Help?

In 2005, Freddie Mac conducted foreclosure avoidance research to find out more about delinquent borrowers. They found that more than half of the borrowers in foreclosure proceedings (in their study) had not made contact with their lenders.

A Sense of Having the Situation Under Control is Top Reason Delinquent Homeowners Give for not Contacting Their Lender	
Reasons	
Don't need to/No reason to	20%
Can take care of the situation without involving lender	17%
There's nothing the lender can do to help	8%
Don't have the money to pay now	7%
Never had difficulty paying mortgage	6%
Embarrassed	6%
Didn't know who to call	5%
Scared	5%
Don't know/Refuse	12%

Source: Freddie Mac; Foreclosure Avoidance Research, 2005.

► **Foreclosure Prevention**

Foreclosure is a legal process by which the lender takes back ownership of mortgaged property (for example, a home) and sells it because a loan is in default, or in other words, because the owner is delinquent with their mortgage payments. The process of foreclosure is different in every state. In some states, a non-litigated foreclosure can take as little as 32 days. In other states, it's a process that could take more than a year. In either case, the results can be devastating to your credit, making it far more difficult and more expensive to borrow in the future.

Alternatives to Foreclosure for Keeping Your Home

Your lender has access to several options to help work out your situation if you get into financial trouble. Workout options vary from lender to lender depending on the type of mortgage, your credit history, etc:

- **Reinstatement** is when you are behind in your mortgage payments but you can make a lump sum payment to catch up by a specific date (including any late fees or attorney fees). Some homeowners borrow funds from family or friends to make these payments. A reinstatement is often combined with forbearance.
- A **forbearance** agreement allows you to pay less than the full amount of your mortgage, or pay nothing, for a short period, with the understanding that another option will be used afterwards to bring the account current. Mortgage companies may consider forbearance when you can show that a bonus, tax refund, or other source will let you bring the mortgage current at a specific time in the future.
- A **repayment plan** may be in order if your mortgage is past due, but you can now afford to make payments. The lender may agree to let you catch up by setting up a schedule of repayments over six to 12 months by adding a portion of the overdue amount on top of each monthly payment.
- With a **loan modification**, the lender modifies or restructures your mortgage. Common loan modifications include adding missed payments to the existing loan balance, making an adjustable-rate mortgage into a fixed-rate mortgage, and extending the number of years you have to repay.
- **Refinancing** may also be an option. If you have enough equity in your home, your new mortgage could pay off the old loan along with any late fees and attorney fees. Be aware that if your credit history is poor, you may be forced to pay a higher interest rate or a higher monthly payment for the new mortgage.



Alternatives to Foreclosure for Selling Your Home

If catching up on delinquent payments is not possible, or you no longer desire to keep your home, there are still more options:

- If **selling your home** is a good option, the lender might agree to put the foreclosure on hold to give you some time to do so. This also gives you an opportunity to walk away with your equity.
- An **assumption** permits a qualified buyer to take over your mortgage debt and the mortgage payments, even if the mortgage was originally non-assumable.
- In cases where you sell your home for less than what you owe to the lender, the lender may accept this lesser amount as a **“short sale”** or a **“short payoff.”**
- With a **deed in lieu of foreclosure**, the lender accepts the voluntary transfer of the title of the home back to them in exchange for cancellation of your mortgage debt. This approach may have tax implications for you, and may not be possible if there are other liens against the home.



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