MODULE 12
Preserving Homeownership
INSTRUCTOR GUIDE

CreditSmart®
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CreditSmart® Module 12: Preserving Homeownership

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Welcome to Freddie Mac’s CreditSmart® Initiative

This consumer financial education and outreach initiative is designed to help consumers build and maintain better credit, make sound financial decisions, and understand the steps to successful long-term homeownership.

In this guide, you’ll find everything you need to lead participants through real-life scenarios, group discussions and activities that will encourage them to apply these lessons to their daily lives.

By sharing the CreditSmart resources with others, you’ll help them increase their financial understanding, gain life-long money management skills, and show them how to avoid costly mistakes.

Program Structure

The CreditSmart Curriculum includes 12 complete financial education modules that can be completed in two ways – self-paced online or in a classroom setting.

<table>
<thead>
<tr>
<th>Module</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Your Credit and Why It Is Important</td>
</tr>
<tr>
<td>2</td>
<td>Managing Your Money</td>
</tr>
<tr>
<td>3</td>
<td>Goal Setting</td>
</tr>
<tr>
<td>4</td>
<td>Banking Services: An Important Step</td>
</tr>
<tr>
<td>5</td>
<td>Establishing and Maintaining Credit</td>
</tr>
<tr>
<td>6</td>
<td>Understanding Credit Scoring</td>
</tr>
<tr>
<td>7</td>
<td>Thinking Like a Lender</td>
</tr>
<tr>
<td>8</td>
<td>Avoiding Credit Traps</td>
</tr>
<tr>
<td>9</td>
<td>Restoring Your Credit</td>
</tr>
<tr>
<td>10</td>
<td>Planning For Your Future</td>
</tr>
<tr>
<td>11</td>
<td>Becoming a Homeowner</td>
</tr>
<tr>
<td>12</td>
<td>Preserving Homeownership: Protecting Your Home Investment</td>
</tr>
</tbody>
</table>
Welcome to Freddie Mac’s CreditSmart® Initiative, Continued

Using the Instructor Guides

The Instructor Guides can be used alone or as an adjunct to the Web-Based Training (WBT) program. Even if participants choose not to experience the program online, gaining familiarity with the WBT will help you present the material more effectively. The most up-to-date content can always be found online at www.freddiemac.com/creditsmart/consumer_training.html.

Each of the twelve CreditSmart modules has its own Instructor Guide which follows the organization of the Web-Based Training (WBT) available online, and includes much of the same content. Each Instructor Guide includes:

- A glossary of all the relevant terms introduced in the module
- A module introduction which includes
  - An overview
  - Learning objectives
  - Sample discussion questions to start the lesson
  - “The Basics” – a list of bullet points outlining the key concepts of the lesson
- A lesson summary of all the key concepts in the lesson
- Activities, knowledge checks, discussion questions, and handouts
Lesson Concepts and Icons

Each module topic will present several key concepts. These concepts are introduced to your participants in a variety of ways described in the table below.

<table>
<thead>
<tr>
<th>Activity</th>
<th>An activity usually involves class participation, whether it is a game, exercise, or worksheet completion. Typically after an activity you will have the opportunity to lead a discussion.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussion</td>
<td>Discussions allow you to introduce key concepts while involving your participants in the conversation and making the information relevant to them. Sample questions are included in each lesson to help you guide the discussion.</td>
</tr>
<tr>
<td>Knowledge Check</td>
<td>There are short knowledge checks throughout each topic designed to start discussions or quickly test participants’ knowledge of certain concepts.</td>
</tr>
</tbody>
</table>

How to Access the WBT

The CreditSmart Web-Based Training (WBT) is available free of charge in both English and Spanish and can be accessed online at www.freddiemac.com/creditsmart/consumer_training.html.
Tips for Instructors

The following tips and suggestions will help to ensure the successful delivery of the CreditSmart curriculum.

**Workshop Preparation Tips**

- Select handouts and exercises for each topic in advance to help enhance your presentation and discussion with participants.
- Determine if you will need other instructional materials such as overhead transparencies, slides, flip charts, handouts, and videos.
- Arrive at the workshop location early to set up.
- Decide how the room should be set up (e.g., classroom style, lecture).
- Make sure that all of the necessary equipment, such as a computer and projector is available and working.
- Provide a sign-in sheet and allow space (e.g., side table, counter, etc.) for handouts and resource materials.
- Set up refreshments, if provided.
- Provide adequate signs directing participants to the workshop location.
- Greet and welcome participants individually as they arrive.
- Begin the workshop promptly.
- Distribute and collect evaluation forms before the end of each workshop.
- Confirm that all participants have signed the sign-in sheet to ensure credit for attending the workshop.

**Before the Workshop Begins**

- Welcome participants and introduce yourself.
- Review logistics (session length, restroom location, breaks, etc.).
- Provide a brief history of the CreditSmart curriculum, which you can find at [www.freddiemac.com/creditsmart](http://www.freddiemac.com/creditsmart).
- Provide an overview of workshop materials.
Tips for Instructors, Continued

Adult Learning Tips

- Adults learn in different ways; therefore, you will want to use different techniques, vary your presentation style, and be sensitive to how your students are responding.

- Relate the content to what your students already know. Doing so will make your workshop more effective and will help to ensure participants retain more information.

- Be sensitive to those with special needs and/or learning disabilities.

- Use ice breakers, activities, exercises, and/or videos to break up the flow of your presentation.

- Supply handouts and local and/or national articles that highlight the topic being presented.

- Poll the audience to gauge participants’ level of knowledge of the topic being presented.

- Research available community credit counseling resources in advance to ensure that consumers have access to appropriate referrals, as necessary.

Instructor Training

Freddie Mac provides CreditSmart instructor training for anyone who is interested in teaching the CreditSmart curriculum. Select one of the options below:

- Contact Freddie Mac by emailing: creditsmart_training@freddiemac.com.

- Attend a CreditSmart Train-the-Trainer workshop hosted by Freddie Mac. This instructor training series includes a comprehensive review of the CreditSmart curriculum, plus instruction on best practices in conducting effective classroom training. Visit http://www.freddiemac.com/creditsmart/ for more information.
Introduction to Module 12: Preserving Homeownership – Protecting Your Home Investment

Module Overview
This module will help reinforce the skills required to become a homeowner and will explain how to handle financial difficulty, prepare for emergencies, and steer clear of pitfalls along the way.

Learning Objectives
After completing this module, participants should be able to:

- Describe the responsibilities of homeownership.
- Compare the differences between a home equity loan and home equity line of credit.
- List steps to take and actions to avoid when repairing your home.
- Identify ways to prepare for unexpected emergencies.
- Describe four financial traps.
- List five ways foreclosure can negatively impact your future.

Module Topic:

- Responsibilities of Homeownership
- Spend and Save Wisely
- Borrowing Against Your Home Equity
- Maintaining, Repairing, and Improving Your Home
- Emergency Preparedness
- Homeowner Beware – Avoiding Financial Traps
- Foreclosure Prevention

This topic includes activities to help simulate real-world scenarios with your participants.

Glossary
A Glossary is included in Appendix A of this guide, and contains definitions and descriptions of terms and phrases related to this module. A Glossary is also included in the Participant Presentation. Encourage your participants to use the Glossary during and after the class to become more familiar with the terminology.
Topic 1: Responsibilities of Homeownership

Overview
This topic provides an overview of the steps to take to achieve financial success.

Time
10 minutes

Responsibilities of Homeownership

The Basics
- 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.

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

- Planning is key to successful homeownership. In addition to ensuring you make timely mortgage payments, know your variable expenses and plan for large or periodic expenses.

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

- Home equity is the difference between what your home is worth and the total amount you still owe.

- Keeping your home in good repair can help prevent costly problems from occurring.

- By implementing basic safety precautions and by preparing for emergencies, you can have some peace of mind that you’re doing what you can to prevent injury to your family and minimize damage to your home.

Continued on next page
Topic 1: Responsibilities of Homeownership, Continued

Start the Discussion
To start the discussion with your participants, ask some open-ended questions. Here are some examples to get you started:

- What are some important steps you need to take to maintain your home?
- What can happen to cause someone to lose their home or experience foreclosure?
- What steps can you take to avoid financial traps?

Instructor note:
Define the following terms:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreclosure</td>
<td>A legal process in which collateral property is sold in an attempt to satisfy the outstanding debt of a mortgage.</td>
</tr>
</tbody>
</table>
# Topic 2: Spend and Save Wisely

**Overview**
This topic discusses ways to spend and save wisely after moving into your home.

**Time**
15 minutes

## Secure Your Future

<table>
<thead>
<tr>
<th>The Basics</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ As soon as you buy a home, lenders and credit card companies will be eager to lend you more money, using your home as collateral.</td>
</tr>
<tr>
<td>▪ Don’t give into the urge to assume debt.</td>
</tr>
<tr>
<td>▪ Re-evaluate your wants and needs.</td>
</tr>
<tr>
<td>▪ While homeownership does bring responsibility of additional expenses, it is more manageable if you plan ahead.</td>
</tr>
<tr>
<td>▪ The very first thing you should do as a homeowner is reconsider your goals and update your monthly spending and savings plans.</td>
</tr>
<tr>
<td>▪ Plan to save and pay yourself first.</td>
</tr>
<tr>
<td>▪ Plan ahead for major purchases or home improvement. Try to accomplish this over the next 12 months by setting aside at least one percent of your home’s purchase price (for example 1% of a $120,000 home over 12 months is $100 per month).</td>
</tr>
</tbody>
</table>

## Start the Discussion
To start the discussion with your participants, ask some open-ended questions. Here are some examples to get you started:

- Why do you think you should have a written plan for how you will spend your money?
- Do you consider a spending plan to be something that can help you or a hindrance?
Start the Discussion (continued)

Topic 2: Spend and Save Wisely, Continued

Instructor note:

Define the following term:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending Plan</td>
<td>A spending plan is an itemized list of all of one's expenses. Spending plans are tools commonly used to measure or gauge expenses against income.</td>
</tr>
</tbody>
</table>
# Topic 3: Borrowing Against Your Home Equity

## Overview
This topic discusses borrowing against your home equity.

## Time
12 minutes

### Borrowing Against Your Home Equity

**The Basics**
- Equity is the difference between how much your house is worth and how much you still owe on your mortgage. This means you may be able to borrow money using your home as security.
- Owning a home is an investment because homes generally increase or appreciate in value.
- You can build equity by paying down your loan balance through regular monthly mortgage payments or by the value of your home increasing.
- People most often borrow against their home equity to make home improvements, pay for education, consolidate debt or make investments.
- There are a variety of ways to borrow against the equity in your home.

## Start the Discussion
To start the discussion with your participants, ask some open-ended questions. Here are some examples to get you started:
- What do you think the difference is between a home equity loan and a line of credit?
- Which one do you think has more advantages? Why?

*Continued on next page*
**Instructor note:**

Define the following terms:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan</td>
<td>Money you borrow from a financial institution with a written promise to pay it back later. With a loan, financial institutions will charge you fees and interest to borrow the money.</td>
</tr>
<tr>
<td>Line of Credit</td>
<td>A line of credit is a preauthorized amount of credit offered to an individual, business, or institution. A line of credit is commonly secured against an asset such as a home (real estate).</td>
</tr>
</tbody>
</table>
**Topic 3: Borrowing Against Your Home Equity, Continued**

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral</td>
<td>Collateral is the borrower’s pledge of property to a lender to secure repayment of a loan. Relative to home mortgages, collateral is the property the borrower wishes to purchase. If the debtor fails to pay the loan, the creditor may force the debtor to sell the collateral to satisfy the debt or may foreclose and repossess the property to satisfy the debt.</td>
</tr>
<tr>
<td>Equity</td>
<td>Equity is the value in your home above the total amount of the liens against your home. If you owe $100,000 on your house, but it is worth $130,000, you have $30,000 of equity.</td>
</tr>
</tbody>
</table>

**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:

- By paying down your loan balance through regular mortgage payments
- By having your home’s value increase

If you have built enough equity in your home, you can borrow against it (using your home as collateral).

People most often borrow against their home equity to make home improvements, pay for education, consolidate debt, invest, etc.
# Topic 3: Borrowing Against Your Home Equity, Continued

### What is Home Equity (continued)

Instructor note:
Define the following term:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>What is owed to a person or institution for obtaining merchandise or services without immediately paying for them. Usually, a debt is acquired through a loan or the use of credit.</td>
</tr>
</tbody>
</table>

### Ways to Borrow Against Your Home Equity

Instructor note:
Define the following term:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>A mortgage is a document that is signed by a borrower when a home loan is obtained and gives the lender the right to take possession of the property if the borrower fails to make loan payments.</td>
</tr>
</tbody>
</table>
Look Before You Leap

Before borrowing against your home equity, make sure you have a good reason. These loans can be structured as 10-, 15-, or even 30-year loans - that’s a long time to pay it back!

If you use the funds 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.

While consolidating debt is also an attractive option, it’s only worthwhile if you can change your spending habits to avoid taking on new consumer debt.

Activity

Instructor note:

Divide the class into two groups and ask participants to turn to page 11 of the Participant Presentation. Ask the first group to answer each question related to home equity and a line of credit. Once they have finished, use the key points in the table below on the next page to compare and contrast the differences between a home equity loan and a line of credit. See instructor copy on the next page.

Continued on next page
### Topic 3: Borrowing Against Your Home Equity, Continued

<table>
<thead>
<tr>
<th></th>
<th>Home Equity Loan (Second Mortgage)</th>
<th>Home Equity Line of Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What do you get?</strong></td>
<td>Revolving credit, with a specific credit limit of up to 100 percent of the value of your home (its value minus all debts against it). Some lenders will allow you to borrow up to 125 percent of the value of your home.</td>
<td>A fixed amount of money, up to 100 percent of your equity in your home (its value minus your first mortgage debt and other debts). Some lenders will allow you to borrow up to 125 percent of the value of your home.</td>
</tr>
<tr>
<td><strong>How do you qualify?</strong></td>
<td>You typically need to provide proof of your income, home ownership, your mortgage and how much equity you have in your home. An appraisal is usually required as well.</td>
<td>You typically need to provide proof of your income and home ownership, and proof that at least 20 percent of the value of your home is paid off. An appraisal is usually required as well.</td>
</tr>
<tr>
<td><strong>How do you repay it?</strong></td>
<td>Minimum payments (as little as interest only) each month; eventually you have to repay the entire sum borrowed plus interest.</td>
<td>Fixed payments of interest and principal over a fixed period of time.</td>
</tr>
<tr>
<td><strong>How long does it last?</strong></td>
<td>You have a 10- to 20-year period when you can draw on the line (up to the credit limit), after which you have a fixed period to pay off the outstanding balance plus interest.</td>
<td>The term of the mortgage can be as short as a year or as long as 30 years.</td>
</tr>
<tr>
<td><strong>What are the costs and fees?</strong></td>
<td>Usually no closing costs, but may have an annual fee.</td>
<td>Closing costs that are lower than for a first mortgage.</td>
</tr>
<tr>
<td><strong>How do you receive the money?</strong></td>
<td>You draw funds as needed, typically using special checks.</td>
<td>You receive one up-front lump sum.</td>
</tr>
<tr>
<td><strong>What are the interest rates?</strong></td>
<td>The prime interest rate plus a margin (which can vary from one institution to another).</td>
<td>A fixed or adjustable interest rate.</td>
</tr>
<tr>
<td><strong>Is the interest tax-deductible?</strong></td>
<td>Interest may be tax-deductible (consult a tax advisor).</td>
<td>Interest may be tax-deductible (consult a tax advisor).</td>
</tr>
</tbody>
</table>

*Source: Home Equity Advice & Articles, Lendingtree*
Topic 4: Maintaining, Repairing, and Improving Your Home

Overview
This topic discusses ways to keep your home in good repair to prevent costly problems from occurring.

Time
10 minutes

Maintaining and Improving Your Home

The Basics
- Periodic maintenance can help mechanical systems run more efficiently and last longer, and can have an impact on a home’s market value.
- Before you start a home improvement project, complete your homework to understand your home’s maintenance, repair or improvement needs.
- Before you select a contractor, check with the Better Business Bureau, state Contractors Licensing Bureau, or the Attorney General’s office to see if any complaints have been filed against the company.
- Never pay the full amount to a contractor in advance. Hold up to 30% for the final payment to ensure your satisfaction.
- Sign a work contract before you know the terms of your financing and are certain about how you will pay.

Start the Discussion
To start the discussion with your participants, ask some open-ended questions. Here are some examples to get you started:
- What are some important steps you should take to maintain your home?
- What are some things to consider when selecting a contractor to make repairs or improvements to your home?

Continued on next page
Before You Start a Home Repair or Improvement Project

Do . . .

- Complete 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. Investigate their references before choosing one.
- Before selecting a contractor, check with the Better Business Bureau or the state Contractors Licensing Bureau or Attorney General’s office to see if any complaints have been filed against the company.
- Determine how you will pay for the services. If your contractor offers a financing option, scrutinize the deal very carefully. Make sure that the terms 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.

Before You Start a Home Repair or Improvement Project

Continued on next page
Topic 4: Maintaining, Repairing, and Improving Your Home, Continued

Before You Start a Home Repair or Improvement Project (cont.)

Never...

- Pay the full amount in advance. Held up to 30 percent for the final payment to ensure your satisfaction.
- Give in to high-pressure sales tactics.
- Pay in cash.
- Sign a work contract before you know the terms of your financing and are certain about how you will pay.
**Topic 5: Emergency Preparedness**

**Overview**
This topic discusses ways to prepare for unexpected emergencies.

**Time**
8 minutes

**Emergency Preparedness**

<table>
<thead>
<tr>
<th>The Basics</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Check your insurance coverage.</td>
</tr>
<tr>
<td>▪ Plan ahead for emergencies by implementing basic safety precautions and prepare for emergencies.</td>
</tr>
<tr>
<td>▪ Develop an emergency plan with your family. Decide in advance what you will do, how you will communicate, and how you will find one another in case of an emergency.</td>
</tr>
<tr>
<td>▪ Keep an up-to-date inventory of household possessions. In order to recover from a disaster, it’s important to have a thorough household inventory, including descriptions of your possessions, serial numbers, proof of your purchases, and photos, if possible.</td>
</tr>
</tbody>
</table>

**Start the Discussion**
To start the discussion with your participants, ask some open-ended questions. Here are some examples to get you started:

▪ What are some ways you can prepare for an emergency?
For Example...

A basic emergency supply kit could include the following FEMA-recommended items:

- 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 non-perishable food
- Battery-powered or hand crank radio and a NOAA Weather Radio with tone alert and extra batteries for both
- Flashlight and extra batteries
- First aid kit
- Whistle to signal for help
- Dust mask to help filter contaminated air and plastic sheeting and duct tape to shelter in place
- Moist towelettes, garbage bags and plastic ties for personal sanitation
- Wrench or pliers to turn off utilities
- Manual can opener for food
- Local maps
- Cell phone with chargers, inverter or solar charger

Source: [http://www.ready.gov/disaster-supplies-kit](http://www.ready.gov/disaster-supplies-kit)
Topic 6: Homeowner Beware – Avoiding Financial Traps

Overview
This topic discusses ways to avoid financial traps and scams.

Time
15 minutes

Avoiding Financial Traps

The Basics
- If you find that you are experiencing difficulties paying your mortgage, work directly with your lender to discuss options. It is important to contact them immediately if you think you will not be able to make the scheduled payment.
- Beware of some common predatory scams that are often indistinguishable from legitimate lenders.
- Some homeowners have been cheated out of their ownership interest (i.e., titles) to their homes.
- Home improvement scams come in various forms including when a contractor asks for money up front and leaves after completing little or no repair work.
- Even in the wake of a disaster, homeowners must be on the alert and try to avoid insurance scams.
- For most of us, taking advantage of someone in trouble is unthinkable, but the equity stripping foreclosure “rescue” scam does just that.

Start the Discussion
To start the discussion with your participants, ask some open-ended questions. Here are some examples to get you started:
- What are some common predatory scams to watch out for?
- How can you protect yourself and your family from predatory scams?

Continued on next page
Homeowner Beware – Avoiding Financial Traps

Instructor term:
Define the following terms:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>Borrower is the term for the person or entity using someone else's money or funds to purchase something. The term borrower can generally be used interchangeably with the term debtor.</td>
</tr>
<tr>
<td>Lender</td>
<td>Lender is the term used for the person or entity that is providing credit or a loan to a borrower at specific terms and conditions. The term lender can generally be used interchangeably with the term creditor.</td>
</tr>
</tbody>
</table>
Home Title Scam

Some homeowners have been cheated out of their ownership interest (i.e., titles) to their homes.

Here are a few examples of how a title scam could occur:

- Someone offers to give you a loan or helps 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 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.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
<td>The right to, and the ownership of, land by the owner. Title is sometimes used to mean the evidence or proof of ownership of land; although another term used for that is &quot;deed.&quot;</td>
</tr>
</tbody>
</table>
Topic 6: Homeowner Beware – Avoiding Financial Traps, Continued

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 exceed 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 the work, 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 rate loans. While they may give you some short-term relief, the long-term costs could be devastating.
Topic 6: Homeowner Beware – Avoiding Financial Traps, Continued

Equity-Stripping Foreclosure

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 homes. In exchange for their assistance, the scam artists may:

• Require the homeowner to sign the title to their home to them.

• Ask the homeowner to sign a stack of unfamiliar documents, which may include a deed to transfer the title to them.

• Charge the homeowner rent to stay in their home, and may promise that the homeowner can purchase the home back when their financial situation improves.

What the homeowner doesn’t realize is that in the process, they’re signing away the ownership interest in their house and the equity, as well. They get to stay in their houses, but suddenly they’re just tenants!

Knowledge Check

Instructor note:

Ask participants to turn to page 23 of the Participant Presentation. Ask them to draw a line from the term on the left to the matching description on the right.

Knowledge Check 1
Topic 7: Foreclosure Prevention

Overview
This topic discusses ways to prevent foreclosure.

Time
20 minutes

Foreclosure Prevention

The Basics

- Once you own a home, you need to protect your investment by managing your finances effectively, keeping your home in good condition, and being prepared to handle unexpected expenses.

- Foreclosure is a legal process by which the lender takes back ownership of a mortgaged property and sells it to pay off the loan because the mortgage loan is in default.

- There are many reasons why homeowners find themselves in trouble including unemployment, illness, excessive obligations, marital difficulties, etc.

- As soon as you think you might fall behind on a payment, call your lender.

- If you cannot or do not want to keep your home any longer, there are other options to avoid foreclosure. These options are typically less damaging to your credit rating.

- With a foreclosure on your credit history, you may have difficulty borrowing money for a few years and it may affect your ability to rent an apartment or even get a job.

- Even the most reliable borrowers sometimes fail to meet every payment on the due date.

- Don’t be intimidated or embarrassed to call your lender. It’s essential that you call them when experiencing financial difficulties. Be sure to call the company to whom you currently send your loan payment.

Continued on next page
To start the discussion with your participants, ask some open-ended questions. Here are some examples to get you started:

- What issues could happen to cause someone to lose their home or experience foreclosure?
- What are some ways to avoid foreclosure?

Start the Discussion

Instructor note:
Define the following term:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Default</td>
<td>A default is a failure to meet a payment or fulfill a credit obligation.</td>
</tr>
</tbody>
</table>
How Do Homeowners Get Into Trouble?

So how is it that after all the hard work, planning, and saving it takes to buy a house, some people end up losing their homes to foreclosure?

There are many reasons why homeowners find themselves in trouble, including:

- Unemployment or curtailing 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
Topic 7: Foreclosure Prevention, Continued

What to Do If You Have Trouble Paying Your Mortgage

What Should You Do if You Have Trouble Paying Your Mortgage?

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

Call your lender!
As soon as you think you might fall behind on a payment, call your lender (also known as your servicer, or company where you send your mortgage payments). Describe your situation, and you will be transferred to the appropriate department. It is a widely held myth that lenders want to foreclose on homes. In reality, your lender would much prefer that you pay your mortgage regularly and be a good customer for life. In fact, lenders typically lose money in the foreclosure process, so they are increasingly looking for ways to help homeowners avoid foreclosure.

Contact a non-profit housing counseling agency.
The national HOPE Hotline, for example, is dedicated to helping homeowners facing foreclosure. Spanish-speaking counselors are also available. You can call the hotline at (888) 995-HOPE. This hotline is free and available 24 hours every day. If you are looking for services close to your area, go to www.fha.gov and click on the link for "Talk to a Housing Counselor" to find an agency close to you.

Avoid scam artists!
Be on the lookout for predators who would take advantage of your misfortune.

Alternatives to Foreclosure

Alternatives to Foreclosure for Keeping Your Home

Your lender has access to several options to assist you 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 reducing the monthly payment amount, 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.

Continued on next page
Alternatives to Foreclosure (continued)

Instructor note:
Define the following terms:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustable-Rate Mortgage</td>
<td>Also known as a variable-rate loan, ARMs usually offer a lower initial rate than fixed-rate loans. The interest rate can change at specified time periods based on changes in an interest rate index that reflects current finance market conditions, such as the LIBOR index or the Treasury index. The ARM promissory note states maximum and minimum rates. When the interest rate on an ARM increases, the monthly payments will increase and when the interest rate on an ARM decreases, the monthly payments will be lower.</td>
</tr>
<tr>
<td>Fixed-Rate Mortgage</td>
<td>A mortgage with an interest rate that does not change during the entire term of the loan.</td>
</tr>
<tr>
<td>Credit History</td>
<td>A credit history is a record of credit use. It is comprised of a list of individual consumer debts and an indication as to whether or not these debts were paid back in a timely fashion or &quot;as agreed.&quot; Credit institutions have developed a complex recording system of documenting your credit history. This is called a credit report.</td>
</tr>
</tbody>
</table>
**Exit Strategies**

Instructor note:

Define the following terms:

<table>
<thead>
<tr>
<th>Term</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Short Sale</td>
<td>If a home is sold (as an alternative to foreclosure) for less than what is owed to the lender, the lender may accept this lesser amount as a &quot;short sale&quot; or a &quot;short payoff.&quot;</td>
</tr>
<tr>
<td>Died in Lieu of Foreclosure</td>
<td>Alternative to foreclosure that allows the voluntary transfer of the title back to the lender in exchange for cancellation of the mortgage debt.</td>
</tr>
<tr>
<td>Assumption</td>
<td>Alternative to foreclosure that permits a qualified buyer to take over a mortgage debt and payments from the delinquent homeowner.</td>
</tr>
</tbody>
</table>

**Knowledge Check 2**

Instructor note:

Ask participants to turn to page 29 of the Participant Presentation. Ask them to draw a line from the term on the left to the matching description on the right.
Topic 7: Foreclosure Prevention, Continued

Don’t Walk Away

Try to Avoid Foreclosure and Its Negative Consequences

The results of foreclosure can be devastating for homeowners and their families, both emotionally and financially, so it’s worth avoiding these negative consequences as much as possible by avoiding foreclosure. Here are just a few ways that a foreclosure can negatively impact your future:

- Your **credit score** would drop dramatically. With a foreclosure on your credit history, you may have difficulty borrowing money for a few years and it may affect your ability to rent an apartment or even get a job because landlords and employers may be reviewing your credit history.

- **Finding a new home could be costlier.** If you go through foreclosure, you will need to find a new home that’s affordable and if it’s an apartment, they will require a rental deposit. Many landlords will charge a higher rental deposit for tenants with weak credit ratings.

- **The interest rate on your credit cards could increase.** The interest rates on your credit cards could increase as the credit card companies identify you as an increased repayment risk and charge you higher fees to offset that risk.

- **Lost equity on your home.** If your home has increased in value since you purchased it, a foreclosure could mean the loss of thousands of dollars in equity.

- **Negative impacts on your family.** A home provides great stability to families. Many studies have documented the positive impacts of a stable home on families and communities. Conversely, recent studies have also shown many negative impacts of foreclosures on family stability.

Instructor note:

Define the following terms:

<table>
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<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Score</td>
<td>A credit score is a numerical value determined by a statistical model based upon past credit behaviors, which predicts the likelihood of future loan default.</td>
</tr>
<tr>
<td>Fees</td>
<td>Fees are the money a financial institution charges, such as a monthly maintenance fee, for providing various services.</td>
</tr>
</tbody>
</table>
Take Action to Get Results

In today’s challenging economy, even small financial problems can grow into large ones that can, if left unresolved, destroy your credit and even lead to foreclosure.

If you’re having trouble making your mortgage payments, contact your lender or a reputable housing counseling organization immediately, and find a solution that works for you.
Module Conclusion

Summarize this module by reviewing the key points below with your participants.

Key points from Module 12: Preserving Homeownership:

Congratulations! You have completed the Preserving Homeownership - Protecting Your Home Investment module of the CreditSmart Online Training Program.

Before you purchased your home, you talked about your goals, prepared a spending plan, paid close attention to how your behavior affected your credit, and maybe even attended homebuyer education classes.

Lots of work went into the process that landed you in your home. Ultimately, these same things - spending wisely, planning ahead, and avoiding financial traps - will help to keep you there. While you can't control all of the ups and downs of life, you can and should take steps to be as prepared for them as possible.

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 for a long time.
## Appendix A: Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>“A” Loan</td>
<td>An “A” loan is the credit industry term used to describe a loan that reflects the best possible interest rate, terms, and conditions. Consumers need to demonstrate good credit in order to secure an “A” loan.</td>
</tr>
<tr>
<td>Adjustable-Rate Mortgage (ARM)</td>
<td>Also known as a variable-rate loan, ARMs usually offer a lower initial rate than fixed-rate loans. The interest rate can change at specified time periods based on changes in an interest rate index that reflects current finance market conditions. The ARM promissory note states the index that is used to determine your interest rate (for example, the Treasury index). The promissory note also states maximum and minimum rates. When the interest rate on an ARM increases, the monthly payments will increase and when the interest rate on an ARM decreases, the monthly payments will be lower.</td>
</tr>
<tr>
<td>Assumption</td>
<td>Alternative to foreclosure that permits a qualified buyer to take over a mortgage debt and payments from the delinquent homeowner.</td>
</tr>
<tr>
<td>Borrower</td>
<td>Borrower is the term for the person or entity using someone else’s money or funds to purchase something. The term borrower can generally be used interchangeably with the term debtor.</td>
</tr>
<tr>
<td>Collateral</td>
<td>Collateral is the borrower’s pledge of property to a lender to secure repayment of a loan. Relative to home mortgages, collateral is the property the borrower wishes to purchase. If the debtor fails to pay the loan, the creditor may force the debtor to sell the collateral to satisfy the debt or may foreclose and repossess the property to satisfy the debt.</td>
</tr>
<tr>
<td>Credit History</td>
<td>A credit history is a record of credit use. It is comprised of a list of individual consumer debts and an indication as to whether or not these debts were paid back in a timely fashion or &quot;as agreed.&quot; Credit institutions have developed a complex recording system of documenting your credit history. This is called a credit report.</td>
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<tr>
<td>Credit Score</td>
<td>A credit score is a numerical value determined by a statistical model based upon past credit behaviors, which predicts the likelihood of future loan default.</td>
</tr>
<tr>
<td>Debt</td>
<td>What is owed to a person or institution for obtaining merchandise or services without immediately paying for them. Usually, a debt is acquired through a loan or the use of credit.</td>
</tr>
</tbody>
</table>
## Appendix A: Glossary, Continued

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deed in Lieu of Foreclosure</td>
<td>Alternative to foreclosure that allows the voluntary transfer of the title back to the lender in exchange for cancellation of the mortgage debt.</td>
</tr>
<tr>
<td>Default</td>
<td>A default is a failure to meet a payment or fulfill a credit obligation.</td>
</tr>
<tr>
<td>Equity</td>
<td>Equity is the value in your home above the total amount of the liens against your home. If you owe $100,000 on your house, but it is worth $130,000, you have $30,000 of equity.</td>
</tr>
<tr>
<td>Fees</td>
<td>Fees are the money a financial institution charges, such as a monthly maintenance fee, for providing various services.</td>
</tr>
<tr>
<td>Fixed-Rate Mortgage</td>
<td>A mortgage with an interest rate that does not change during the entire term of the loan.</td>
</tr>
<tr>
<td>Foreclosure</td>
<td>A legal process in which collateral property is sold in an attempt to satisfy the outstanding debt of a mortgage.</td>
</tr>
<tr>
<td>Lender</td>
<td>Lender is the term used for the person or entity that is providing credit or a loan to a borrower at specific terms and conditions. The term lender can generally be used interchangeably with the term creditor.</td>
</tr>
<tr>
<td>Line of Credit</td>
<td>A line of credit is a preauthorized amount of credit offered to an individual, business, or institution. A line of credit is commonly secured against an asset such as a home (real estate).</td>
</tr>
<tr>
<td>Loan</td>
<td>Money you borrow from a financial institution with a written promise to pay it back later. With a loan, financial institutions will charge you fees and interest to borrow the money.</td>
</tr>
<tr>
<td>Mortgage</td>
<td>A mortgage is a document that is signed by a borrower when a home loan is obtained and gives the lender the right to take possession of the property if the borrower fails to make loan payments.</td>
</tr>
<tr>
<td>Short Sale</td>
<td>If a home is sold (as an alternative to foreclosure) for less than what is owed to the lender, the lender may accept this lesser amount as a &quot;short sale&quot; or a &quot;short payoff.&quot;</td>
</tr>
</tbody>
</table>
### Appendix A: Glossary, Continued

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending Plan</td>
<td>A spending plan is an itemized list of all of one's expenses. Spending plans are tools commonly used to measure or gauge expenses against income.</td>
</tr>
<tr>
<td>Title</td>
<td>The right to, and the ownership of, land by the owner. Title is sometimes used to mean the evidence or proof of ownership of land; although another term used for that is &quot;deed.&quot;</td>
</tr>
</tbody>
</table>