

Section 4 | A ROOF OVER YOUR HEAD

OBJECTIVES

- Participants will understand the benefits and drawbacks of homeownership.
- Participants will understand the process of buying a home, from before house-hunting to closing and occupancy.
- Participants will understand the risks of speculating with money being saved toward a down payment and the risks presented by refinancing with predatory lenders.

MATERIALS

- Section 4 of the *Your Credit Counts Challenge* participant's guide.
- Transparencies or PowerPoint slides of Visuals 4.1 through 4.17.
- Duplicated copies of Handouts 4.1: Buy or Rent? and 4.2: Kelly and Heidi's Housing Priorities for all participants; two copies (for role-players) of Handout 4.3: The Predatory Lender Banana-Phone.

PROCEDURE

Overview

Display Visual 4.1: The Importance of Housing. Explain that housing is the biggest category of expenditure in most home budgets, and that a house is the typically family's largest purchase in a lifetime.

Tell the participants that homeownership is not for everybody; it has benefits and drawbacks that must be weighed. Also explain that there are two steps in buying a home:

1. Managing finances well enough to easily qualify for a loan.
2. Actually finding a house, negotiating a price, and pursuing the deal through closing.

The first of these steps is harder and takes longer. From there, an actual home purchase is easy.

Tell the participants that we'll close by looking at some of the risks homebuyers face in their search for a home, in the purchase itself, and afterward.

Presentation

1. **Display Visual 4.2:** Advantages of Home Ownership. Explain that owning a home has some major advantages:

- Having "your own roof" instead of living in someone else's building. An investment opportunity that comes from owning something that may increase in value.
- Having a predictable housing cost, subject only to increases in taxes and insurance — instead of being dependent on what a landlord will do. (Note: Housing costs may be less predictable for buyers who obtain adjustable rate mortgages.)
- Tax benefits, including deductible interest for those who itemize and a favored tax treatment of the money they make from reselling in the future.

2. **Display Visual 4.3:** Drawbacks of Homeownership. Explain that homeownership is not for everyone, because it has certain drawbacks. For some people at certain stages of life, those drawbacks make renting better than homeownership. These drawbacks include:

- Responsibility for upkeep and repair bills when you have "your own roof."
- Investment risk — the risk that a house may decline in value. (This is the flip-side of the investment opportunity that comes with home ownership.)
- Reduced mobility arising from the difficulty of selling a home in a short time, as compared with giving notice and moving out of a rental property.
- The high costs that can make homeownership more expensive than renting.

3. **Distribute Handout 4.1:** Buy or Rent? **Display the matching Visual 4.4.** Tell the participants that we have been asked to advise some potential homebuyers on whether to buy or rent. Ask them to collaborate in groups of three to four and to be prepared to give a recommendation after a few minutes.

4. Monitor the groups' discussions; after they seem to have reached agreement, ask for recommendations. Guide the discussion that follows. Here are some suggested answers:

- Raven likes being single for now, likes to travel, and doesn't enjoy yard work.
(*Definitely a renter, not a good candidate for homeownership now.*)

- Candace and Isaac like living in Louisville; they want to settle down there.
(Good candidates for homeownership as soon as they get their finances in order.)
- Esther and Derrick are newly married. They want to buy a house, but they're not sure that they have enough money.
(Not as easy a call here. If their discomfort comes from lack of information, they need to find out how much money it takes to own a home. If it comes from the high prices of single-family homes, they may consider a townhouse. But they shouldn't proceed as long as they're uncomfortable.)
- Jeremy is settled in the community and wants to have a workshop so that he can do picture framing and carpentry.
(Jeremy should buy, since he probably can't set up a workshop in a rental apartment.)
- Alexandria and Bryant have just moved to Atlanta, where Bryant will be working for three years before he is reassigned to another city.
(There's a definite risk in buying and then reselling in three years, so Alexandria and Bryant should consider renting. However, if they're fully aware of the risk that they might resell for less than they spend, they can go ahead and take that risk by buying.)
- Sabrina and Shawn don't feel like settling down yet, but they think they can make money buying a house and then reselling it after a year.
(They should rent. There's a substantial risk in reselling in a year, and they're not otherwise likely candidates for homeownership.)

5. **Display Visual 4.5:** Saving for a New Home (How Much Do I Need?). Remind the participants that the first step in homebuying is getting your finances in order. Those who don't yet own homes will wonder about how much money they have to save up first. Show them that the old rule of 20 percent down plus several percentage points more for closing costs no longer applies. No-down and low-down programs can get them into a house. But they should make this move only if they are confident that they can make the payments after moving in.

6. Tell the participants that they need to keep the house fund in a safe place. Although there are many ways to invest money and make gains over the long run, safety comes first with the house fund.

7. **Display Visual 4.6:** Playing the Market with the House Fund. Tell the participants to assume they have \$5,000 saved toward a first house. A pair of dice will circulate among the members of the workshop. Tell the participants:

- "You may 'play' or 'pass.' If you 'pass,' that's like keeping your house savings in a bank account, and you receive a sure \$5,050 at the end of six months because of the interest you have earned. If you play, however, you will get one roll of the dice."
- Use the table in Visual 4.7 (reproduced below) to show what will have happened to the house fund at the end of six months:

Visual 4.7 Payoffs from Playing the Market

If you roll:	Your \$5,000 becomes
2	\$1,062
3	\$1,805
4	\$2,348
5	\$2,529
6	\$3,027
7	\$4,262
8	\$5,377
9	\$6,943
10	\$8,260
11	\$10,520
12	\$16,103
PASS = \$5,050	

- Have each participant "play" or "pass." Congratulate those who "pass" on their good judgment. For those who "play," offer an appropriate response. This activity works best if there is only one pair of dice and everyone rolls in sequence.
- (These payoffs are based on past probabilities, from actually holding amazon.com stock for six months.)

8. Explain that the participants are doing the right thing by attending today's workshop:

- If they're thinking about home buying, they'll get some good information.
- If they're already homeowners, they can use what they learn today to counsel and support friends and family who are not homeowners.

9. Tell the participants that it's a good idea to visit a lender early in the process. That way they can get pre-qualified and will know about how much house they can afford.

10. **Display Visual 4.8:** Priorities in Housing. Explain that, for the purposes of a housing choice:

- Some features of a house are very important to a buyer — so important that the buyer might not move at all unless the most important features were present. These would rank as 5 on a scale of 1 to 5.
- Some features aren't as important. That's good to remember because not everything you want will be present in every house that you can afford.

11. **Display Visual 4.9:** Kelly and Heidi's Situation.

Explain that participants are being asked to advise a young couple, Kelly and Heidi, on their housing search. They both have jobs and they own one car. They are thinking of moving out of their rented three-bedroom, one-bathroom, 1,000 square-foot house. They have two children, Caleb (2 years old) and Shawna (4 years old). Right now, Kelly is keeping his sports equipment in one bedroom and the two kids share another bedroom. Kelly and Heidi now live in the best school district in town, and they very much want Caleb and Shawna to start school at Oakdale Elementary.

12. **Distribute Handout 4.2** and **display the matching Visual 4.10:** Kelly and Heidi's Housing Priorities. Now provide some time for individual and group discussion. Then ask the participants for their recommendations: On a scale of 1 to 5, where 1 is the lowest and 5 is the highest, what number would they recommend Kelly and Heidi assign to each feature? Are there any 5s — indicating highest possible priority?

Here are some suggested answers:

- Enough rooms for each child to have a separate room.
(Probably a 3 or a 4 right now, but as the children grow older, they'll probably classify it as a 4 or 5, especially since Caleb and Shawna are of the opposite gender. Note that they would already have three bedrooms in their rented house — if Kelly would move his sports equipment out of the bedroom.)
- An extra bathroom.
(They're getting along without it now, but it may be very important as they consider moving, possibly even a 5.)
- Location close to the bus line.
(Probably a 4 or 5, since they only have one car. This depends partly on participants' assumptions about their transportation situation.)
- Brick exterior for low maintenance.
(Many participants will rate this a low priority, perhaps 1 or 2, since other materials also have low maintenance.)
- Fenced back yard for the children.
(Some participants will classify this as high priority, 4 or 5, if neighborhood safety is a concern. Others will classify this as lower in priority.)
- A garage.
(Many participants will classify this as low priority, 1 or 2, for first-time homebuyers.)
- A safe neighborhood.
(Given Kelly and Heidi's concern for their children and the fact that they're currently renting in a safe neighborhood, this should be a 4 or 5.)
- Remaining in the Oakdale school district.
(This should be a 4 or 5, given Kelly and Heidi's preferences. They wouldn't move if they had to give up this school district.)

13. Tell the participants that homebuyers will do a better job of house-hunting if they make up and discuss a priority list first.

14. **Display Visual 4.11:** The Offer and the Deal. Explain that the single most important rule in home buying is this: Don't be in a hurry. Many things go wrong when people try to move too fast.

15. Explain that homebuyers will be using the services of many professionals, but they don't have to pay much of the expense for these services upfront. Most of the fees will be bundled into closing costs.

16. Emphasize that an offer is not casual, but may become a legally binding contract. Explain what contingencies are. Emphasize the point that when the contingencies are satisfied, people who have signed the offer must do what they have offered to do.

17. **Display Visual 4.12:** Between the Deal and the Closing. Describe the steps that will occur between the offer and the closing:

- Appraisal, to determine the fair market value.
- Inspections, to make sure the property doesn't have major problems that require new negotiations.
- Title commitment, when it's determined that the property and seller check out.
- Completion of loan processing.
- Survey, if required, to determine the boundaries and any problems with them.

18. **Display Visual 4.13:** A Real Estate Closing. Explain that the last step in home buying is a closing. Prepare participants for the idea that they will be signing their names many times at a closing. Explain to participants: When the closing is done, you are the legal owner of the property and you're obligated to make payments on the loan.

19. **Display Visual 4.14:** Maintaining and Improving a Home. Discuss the importance of maintaining or improving the home.

20. **Display Visual 4.15:** If You Get Behind. Explain the importance of communicating with lenders if payments fall behind. Stress that things will only get worse if the homeowner says nothing to the lender.

21. Explain that refinancing to get a lower interest rate can be very much in a homeowner's interest. But warn participants about lenders who try to pressure homeowners into refinancing without adequate disclosures. These lenders are called predatory lenders.

22. In this activity, two participants role-play a telephone conversation between a predatory lender and a vulnerable homeowner. To add a touch of humor, both actors hold a

banana as though it were a telephone.

23. Have two participants read the script (reproduced below) from duplicated copies of Handout 4.3: The Predatory Lender Banana-Phone, while you **display the matching Visual 4.16** so that everyone can see the words:

Ring, ring (simulate a telephone sound).

Predator: Hello, may I speak with Mr. Kyles?

Victim: This is Tim Kyles.

Predator: Mr. Kyles, I'm calling from Predatory Credit, Incorporated, because we know that many people like you are feeling stretched by credit-card bills and other high-interest payments. Do you ever feel like that?

Victim: Well, yes, but...

Predator: A debt consolidation loan may be just what you need. You can pay off all your bills, save money, and have spending cash to spare. Doesn't that sound good?

Victim: Yeah, but how does it work?

Predator: Here at Predatory Credit, we recognize that responsible homeowners like yourself are good credit risks. We can combine your current bills for one low monthly payment. Can I start taking your application?

Victim: Can you send me something in the mail so I can think about it?

Predator: We could, but you'll miss out on the best deal if you wait. If you apply by 5 p.m. today, we're having a special that will save you \$150 on loan origination fees. We could all use \$150, couldn't we?

Victim: Well, uh...

Predator: I'll just start getting your information, simple stuff about your address and your property. We can get you a check by the end of the week! Now, if you'll just verify your full name for me, we can get started...

24. After the role-play, ask participants:

- How far does such a telephone solicitation usually get with you?
(*Participants usually say "not very far."*)
- What are the danger signals in the telephone pitch that comes from Predatory Credit?
(*High pressure, unwillingness to send printed information, insistence on applying today.*)

- Do you think a predatory lender would actually choose the name Predatory Credit? If not, what kind of name would a predatory lender choose?

(No, they wouldn't advertise the fact that they're predators; they would choose a more solid or friendly-sounding name.)

REVIEW

Display Visual 4.17: Review. Summarize by saying that homeownership isn't for everybody, since it has both benefits and some drawbacks. Remind the participants that good housing choices can help them a lot financially, since housing is often a household's largest single expenditure category.

Ask:

1. Is it true that renting housing is a waste, since you don't get anything but a pile of rent receipts?
(Not really. You get a place to live in return for your money, and homeownership isn't for everybody.)
2. What would be a better place for money being saved for a housing purchase planned for a year from now — a bank account or the stock market? Why?
(A bank account, because there's a substantial risk of losing money in the stock market over a period as short as a year.)
3. If you had a neighbor with a low-interest government-subsidized mortgage and you knew a lender was pressuring your neighbor to refinance, what would you do?
(Some would not feel comfortable saying anything, but others would try to get the neighbor to slow down and compare terms. This could turn out to be a big favor for the neighbor.)

**HANDOUT 4.1: BUY OR RENT?**

Buy	Rent	
		1. Raven likes being single for now, likes to travel and doesn't enjoy yard work.
		2. Candace and Isaac like living in Louisville and they want to settle down there.
		3. Esther and Derrick have just gotten married and they want to buy a house, but they're not sure that they have enough money.
		4. Jeremy is settled in the community and wants to have a workshop so that he can do picture framing and carpentry.
		5. Alexandria and Bryant have just moved to Atlanta, where Bryant will be working for three years before being assigned somewhere else.
		6. Sabrina and Shawn don't feel like settling down yet, but they think they can make money buying a house and then reselling it after a year.

**HANDOUT 4.2: KELLY AND HEIDI'S HOUSING PRIORITIES**

Priority (1-5)	
	1. Enough rooms for each child to have a separate room
	2. An extra bathroom
	3. Location close to the bus line
	4. Brick exterior for low maintenance
	5. Fenced back yard for the children
	6. A garage
	7. Safe neighborhood
	8. Remaining in the Oakdale school district

**HANDOUT 4.3: THE PREDATORY LENDER BANANA-PHONE**

Predator: Hello, may I speak with Mr. Kyles?

Victim: This is Tim Kyles.

Predator: Mr. Kyles, I'm calling from Predatory Credit, Incorporated, because we know that many people like you are feeling stretched by credit-card bills and other high-interest payments. Do you ever feel like that?

Victim: Well, yes, but...

Predator: A debt-consolidation loan may be just what you need. You can pay off all your bills, save money, and have spending cash to spare. Doesn't that sound good?

Victim: Yeah, but how does it work?

Predator: Here at Predatory Credit, we recognize that responsible homeowners like yourself are good credit risks. We can combine your current bills for one low monthly payment. Can I start taking your application?

Victim: Can you send me something in the mail so I can think about it?

Predator: We could, but you'll miss out on the best deal if you wait. If you apply by 5 p.m. today, we're having a special that will save you \$150 on loan origination fees. We could all use \$150, couldn't we?

Victim: Well, uh...

Predator: I'll just start getting your information, simple stuff about your address and your property. We can get you a check by the end of the week! Now, if you'll just verify your full name for me, we can get started...



Visual 4.1: The Importance of Housing

Housing is:

- The largest expenditure category in most home budgets.
- The largest single purchase most people will ever make.

Two steps in homeownership:

- Manage finances well enough to easily qualify for financing.
- Actually purchase the home, all the way through to closing.

***Buying a home isn't where you start,
it's where you end up.***



Visual 4.2: Advantages of Homeownership

- “Your own roof”
- Investment opportunity
- Predictable housing cost
(assuming no adjustable rate mortgage)
- Tax benefits



Visual 4.3: Drawbacks of Homeownership

- “Your own repair bills”
- Investment risk
- Reduced mobility
- High costs



Visual 4.4: Buy or Rent?

Buy	Rent	
		1. Raven likes being single for now, likes to travel, and doesn't enjoy yard work.
		2. Candace and Isaac like living in Louisville and they want to settle down there.
		3. Esther and Derrick have just gotten married and they want to buy a house, but they're not sure that they have enough money.
		4. Jeremy is settled in the community and wants to have a workshop so that he can relax with his picture framing and carpentry hobby.
		5. Alexandria and Bryant have just moved to Atlanta, where Bryant will be working for three years before being assigned somewhere else.
		6. Sabrina and Shawn don't feel like settling down yet, but they think they can make money buying a house and then reselling it after a year.



Visual 4.5: Saving for a Home (How Much Do I Need?)

The general rule used to be “20 percent down plus closing costs.” For most people this meant years of saving.

Today, low-down and no-down loans mean you don’t need much up-front money...

- but you need to be sure you can make the payments
- a typical payment is \$530 per month (assumes an \$80,000 house, 6 percent interest, 5 percent down, typical taxes and insurance)
- one main source of variation in cost across locations is taxes and insurance

**Visual 4.6: Playing the Market with the House Fund**

1. You have \$5,000 saved toward a first house.
2. You may play or pass.
 - If you pass, you get a sure \$5,050 at the end of six months (money in the bank, with interest).
 - If you play, you will get one roll of the dice.



Visual 4.7: Payoffs from Playing the Market

If you roll:	Your \$5,000 becomes
2	\$1,062
3	\$1,805
4	\$2,348
5	\$2,529
6	\$3,027
7	\$4,262
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10	\$8,260
11	\$10,520
12	\$16,103
PASS = \$5,050	



Visual 4.8: Priorities in Housing

- Some things about a house are very important to you and have high priority (5 on a scale of 1 to 5).
Example: for some people, being close to a pharmacy.
- Some things are not as important.
Example: for some people, having a fireplace.
- All the things you want will not be present in a house that you can afford.
- Location, location, location: The only thing you can't change about a house.



Visual 4.9: Kelly and Heidi's Situation

- Both have jobs and own one car.
- Now renting a three-bedroom, one-bathroom, 1,000 square-foot house.
- Two children, Caleb (2 years old) and Shawna (4 years old).
- Kelly is currently keeping his sports equipment in one bedroom; the two kids share another bedroom.
- They now live in the best school district in town (Oakdale) and want to remain there.

**Visual 4.10: Kelly and Heidi's Housing Priorities**

Priority (1-5)	
	1. Enough rooms for each child to have a separate room
	2. An extra bathroom
	3. Location close to the bus line
	4. Brick exterior for low maintenance
	5. Fenced back yard for the children
	6. A garage
	7. Safe neighborhood
	8. Remaining in the Oakdale school district



Visual 4.11: The Offer and the Deal

Best single rule: Don't be in a hurry.

Negotiations, inspections, and financing will take time.

Your offer is not casual.

- Will usually contain contingencies: conditions that must be met for the sale to be completed (such as getting financing).
- When contingencies are met, your offer is legally binding.



Visual 4.12: Between the Deal and the Closing

- Appraisal
(to determine the fair market value)
- Inspections
(to make sure the property doesn't have major problems)
- Title commitment
(when it's determined that the property and seller are as described)
- Completion of loan processing
- Survey
(if required)



Visual 4.13: A Real Estate Closing

- You'll sign your name many times.
- You need to be well represented (lawyer or settlement agent).
- Most important document: deed of trust (gives lender the right to remove you and sell the property if you don't keep up payments).
- When the closing is done, the home is yours!

**Visual 4.14: Maintaining and Improving a Home**

- Things go wrong with houses; you're responsible for making repairs.
- Most important repairs: those that have large costs if left unattended (for example, water leaks, termites).
- Home improvements: especially inexpensive ones with a good payoff (for example, interior painting).



Visual 4.15: If You Get Behind

Main rule: **Communicate!**

- Let the lender know what's happening.
- Often you can work out a plan to get back on track.
- If you say and do nothing:
 1. Late fees and penalties add up.
 2. Your credit rating suffers.
 3. Foreclosure may result.



Visual 4.16: The Predatory Lender Banana-Phone

Predator: Hello, may I speak with Mr. Kyles?

Victim: This is Tim Kyles.

Predator: Mr. Kyles, I'm calling from Predatory Credit, Incorporated, because we know that many people like you are feeling stretched by credit-card bills and other high-interest payments. Do you ever feel like that?

Victim: Well, yes, but...

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Victim: Yeah, but how does it work?

Predator: Here at Predatory Credit, we recognize that responsible homeowners like yourself are good credit risks. We can combine your current bills for one low monthly payment. Can I start taking your application?

Victim: Can you send me something in the mail so I can think about it?

Predator: We could, but you'll miss out on the best deal if you wait. If you apply by 5 p.m. today, we're having a special that will save you \$150 on loan origination fees. We could all use \$150, couldn't we?

Victim: Well, uh...

Predator: I'll just start getting your information, simple stuff about your address and your property. We can get you a check by the end of the week! Now, if you'll just verify your full name for me, we can get started...

**Visual 4.17: Review**

- Homeownership isn't for everybody.
- Good housing choices can help you a lot financially.
 1. Is it true that renting housing is a waste?
 2. What would be a better place for money being saved for a housing purchase in year: a bank account or the stock market? Why?
 3. If your neighbor with a low-interest government-subsidized mortgage was being pressured to refinance, what would you do?