

MODULE 4

Building Financial Foundations

Key topics covered in this module include:

- Financial Paperwork
- Loan Options
- Housing Options
- Home Ownership
- Mortgage Application Process



Building Financial Foundations

Now that you have learned the basics of finance management in Modules 1 and 2, as well as credit report information in Module 3, this module reviews advanced financial management principles and topics.

Please note that the information in this curriculum is intended to be general advice for individuals involved in an abusive relationship. However, not everyone's situation is the same. So, if you need specific advice regarding your particular situation, you should contact a domestic violence advocate, financial advisor or attorney.



Stand up. Speak Out.

National Domestic Violence Hotline: 1-800-799-SAFE (7233)



Story of Survival

Joelle loves her job. She works 20 hours a week for an organization that advocates for, and provides support to, families in low-income communities.

Joelle's life hasn't always been in such a good place. In 1999, she was convicted of a drug felony, incarcerated and went through a drug treatment program. Following her release, she became pregnant and had a child. However, the father was abusive and the relationship did not last.

Joelle had to earn a living and pay for childcare. Because of her felony conviction, she was ineligible for welfare, subsidized childcare, training/education funding, or subsidized housing. She supplemented her income by selling jewelry. To hold her expenses down, she moved in with her cousin. However, the father of her child began to harass her at her cousin's home.

Joelle's story is one of many domestic violence survivors. But there is hope and there are people, programs and organizations willing and ready to help.

In 2005, Joelle contacted the National Network to End Domestic Violence and asked for help. By working with her local advocate, she was able to secure another side job which allowed her to work from home. She also worked with her advocate on clever ways to save money and remain hidden from her abuser.

Today, Joelle is living in a one-bedroom apartment near the organization she works for and continues to be a strong and proud mother to her child. Her place is small and she still lives on a very strict budget. But Joelle is no longer sought after by her abuser and she is happy.

This curriculum, along with supportive partners in your local community, is designed to help you do just that: gain personal and financial independence.



Financial Paperwork

Fully understanding your financial situation is an important step in building a financial foundation. First you need to gather financial documents that indicate what you owe, how much you have and what your living expenses are. Doing so will prepare you well for any future loans or large purchases, such as an auto or home loan.

At every step of the process, make sure you are considering your personal safety, even if you are no longer with an abusive partner. Talk to an advocate to create a safety plan and be mindful of keeping safe. Consider carefully where you store your financial documents and records. You might want to copy or take pictures of some documents, as a back-up.

The following list of documents may help as you rebuild your financial life. This list is the ideal and is quite long. Not all items will pertain to your situation. Don't be discouraged if you are unable to obtain all of these documents. At a minimum, make note of account numbers, the phone number for your bank or credit union, credit card companies or other lenders. With the account numbers and contact information you will be able to reconstruct many of these documents. Work with your advocate to make a plan for safely gathering documents.

Financial Records

- Bank statements
- Bank certificates of deposit
- Information and statements
- Loan documents and statements
- Mortgage repayment records
- Tax filings and refunds
- Business financial statements
- All employee benefits (including insurance, retirement and bonuses)
- Statements of all retirement or investment accounts
- Documentation from any public assistance or benefits received
 - Records of debts
 - Records of business partnerships

Legal Documents

- Birth certificate(s)
- Marriage certificate
- Passports/Immigration Paperwork
- Social Security card(s)
- Wills and trust documents
- Records of debts

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- Records of business partnerships
- Pre- and post-marital agreements (divorce settlements)
- Previous divorce settlements
- Records of any pending legal actions
- Records of inheritance
- Driver's license or state identification card
- Adoption papers for any adopted children
- Paperwork pertaining to immigration and laws for you, your children and partner
- Protection restraining orders (including police reports)

Property Documents

- Title documents
- Lease/Rental/Mortgage agreements and payment records
- List of collectibles, jewelry, artwork, other valuables (include photos)
- Vehicle registrations
- Insurance policies
- Pictures of the furnishings and personal items in your home
- Copies of any existing wills and deeds

Health Records

- Medical and dental records
- Health, life and disability insurance policies
- Medical expense records
- Records of prescriptions for drugs and eyeglasses
- List of doctors (for you and your children or other dependents) and their telephone numbers
- Living will

Monthly Expense Documents

- Household bills (utilities, rent/mortgage)
- Education records
- Entertainment
- Childcare costs and contact information, including after-school programs or summer camps
- Church and charitable donations
- Transportation information (gas receipts, toll receipts, tax fare, etc.)

This list does not include every financial document that exists. However, it does provide a thorough starting point for collecting the information and data you might need in your financial future. You may not be able to access every document on the list, but reviewing the list may help you remember the assets and liabilities you have.

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Loan Options

As you begin to rebuild your financial foundation, you may want to look at obtaining a loan to meet your financial goals. Taking on debt isn't always bad and can actually be very helpful in building a positive credit score. The key is to not take on more debt than you can manage. Knowing about different kinds of loans will help you make better decisions. After all, knowledge is power and a most important piece of knowledge is this:

Avoid taking out any loan unless you have a solid plan for repayment.

Also, be aware that if you are attempting to keep your location or actions confidential, taking out ANY loan, including credit cards, may make you vulnerable and traceable via your credit report.

There are essentially two types of loans: unsecured and secured.

An unsecured loan is a loan obtained without **collateral** (such as a house or car). This loan is also called a signature loan. There are three main types of unsecured loans: IOU Loan, Credit Card Loan and Personal Loan.

Unsecured Loans

IOU Loan

The simplest unsecured loan is a personal loan from a friend or family member. An IOU (I owe you) is a signed agreement to pay back the loan.

This type of loan may be a good option. But before taking a loan from family or friends consider the following questions: What might happen if I'm unable to repay the loan? What if my family member or friend changes their mind and wants to be paid back earlier? How might this damage the relationship?

If you decide that an IOU loan is a good option, put the agreement in writing. Spell out all of the terms of the loan, interest to be paid and when payments are due. By having the agreement clearly stated in writing, you can avoid problems in the future. Here is a list of what should be included on an IOU loan:

- Date, month and year the agreement is made
- Full name and address of the person lending the money
- Full name and address of the person borrowing the money

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- Amount of the loan
- Number of months or years the loan is for
- Amount of each scheduled payment
- Interest charged on the loan (if applicable)
- Signatures of the borrower and lender

Credit Card Loan

Another common type of unsecured loan is a purchase made on a credit card. Each time you make a credit card purchase, you sign a form which authorizes the payment and shows you agree to pay the money borrowed. The term and amount of the loan are predetermined when you first apply for and receive the credit card.

With this type of loan, the money is not loaned on the basis of collateral, such as home or property ownership. The credit card company merely has the borrower's agreement to pay any funds borrowed. However, if the loan is not paid in the expected time, fees may be added. The account may be sent to collections, and legal proceedings can be taken against the borrower.

As has been mentioned previously, the key to any loan is to use it only if you have the ability to repay.

With that said, credit cards can be a good option for short-term needs and for establishing credit. However, discipline is the key to using credit cards.

Before putting something on a credit card, consider the interest rate, the monthly payment and how long it will take you to pay off the loan.

Personal Loan

Banks can also offer an unsecured personal loan to a borrower. Usually they will assess whether

the borrower is a good risk before handing over cash without collateral. Those who have lower credit scores tend to have less chance obtaining an unsecured loan. And if they can get one, they may be assessed high interest rates, since the lender is taking more risk.

Usually, an unsecured loan is for a small amount, perhaps for a one-time medical fee or short-term needs. When your credit is good, shopping around for the best interest rate for an unsecured loan is a good idea.

Frequently, the best rates for an unsecured loan are offered through credit unions. If you have an existing account with a credit union, obtaining an unsecured loan should not be a problem.

Student Loan

Student loans are a type of unsecured loan. They will be covered in Module 5.

Secured Loans

Secured loans are those loans that are protected by an asset or collateral of some sort (such as a car or house). Secured loans are less of a risk to the lender because the lender can recover any loss from the collateral used to secure the loan.

Benefits of Secured Loans

- The best way to obtain larger amounts of money.
- Lower rates, since there is less risk for the lender.

Drawbacks of Secured Loans

- If the loan is not repaid; the lender may take possession of the asset.
- Since the loan amount is generally higher; the application process may take longer.

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There are three main types of secured loans: Debt Consolidation Loan, Car Loan and Home Loan.

Types of Secured Loans

Debt Consolidation Loan

One type of secured loan is a debt consolidation loan where a home or other personal property is used as collateral. Instead of having many high interest credit card payments to make each month, money is loaned to pay the original lenders off, and the borrower then only has to repay the one loan.

This is not only more convenient, but it can also save a lot of money over time, since interest rates for secured loans tend to be lower. A debt consolidation loan usually offers a lower monthly payment as well.

There are pros and cons to debt consolidation loans. This site offers information to consider: <http://www.nolo.com/legal-encyclopedia/debt-consolidation-pros-cons.html>

If you are considering debt consolidation, it's important to find a trustworthy credit counselor and company. Consumer Affairs provides lots of helpful guides and tips, including debt consolidation, provided at the link below: https://www.consumeraffairs.com/debt_counsel/#

Car Loan

A car loan is a very popular type of secured loan. With it, the loan is secured with the value of the vehicle.

The primary difference between loans for new and used cars is that new car loans tend to come at a lower interest rate. This may be an important factor for people with poor credit, as the higher interest rate could make a used car substantially more expensive. For people with good credit, the difference in interest rate may not make a huge impact. In either case, people should be very careful when shopping for a car loan to ensure that they get the best loan for their needs.

Before shopping for used cars or loans, it is a good idea to sit down and determine what kind



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of car payment you can afford. Drivers should remember that in addition to monthly payments, the car will need to be insured. It will also require gas and periodic repairs and maintenance.

All of these costs can add up. Therefore, it's important to plan for them in a monthly budget to avoid surprises or a loan that is too big to carry comfortably.

When considering a car loan, it can help to use a car loan calculator, such as <http://www.edmunds.com/calculators/simplified-pricing.html>. A car loan calculator can give you a rough idea of how the amount of a loan, the length of a loan, and the interest rate can change monthly payments. It can help you figure out the total cost of the loan over time.

As a general rule, loans with short terms are better (36 vs. 60 months), because borrowers pay less interest, and the lower the interest rate, the less costly the car financing.

New car loans tend to be large, because new cars are more expensive than used cars, but the interest rate tends to be lower than that for a used car. Taking out a loan will add to the cost of the car over time, because people will be paying interest in addition to the principal balance, but for people who cannot afford cash for a new car, new car loans can be an option.

The chart below shows a \$15,000 car loan. It shows the different interest rates that may be charged, depending on the length of the term.

Loan Amount	Term (Months)	Interest Rate	Monthly	Total Interest
\$15,000	36	3.24%	\$437.81	\$761
	48	3.39%	\$334.61	\$1,061
	60	3.49%	\$272.81	\$1,369
	72	3.74%	\$232.90	\$1,769

As you can see, a shorter term means you pay a higher monthly payment. However, over the length of the loan, you end up paying much less interest.

Here's a link to calculate different loan terms so you can figure out what might work best for you: <https://www.allstate.com/tools-and-resources/car-insurance/compare-auto-loans-calculator.aspx>

Used car loans are generally smaller, but they carry some extra risk, which is why they tend to have a higher interest rate. The lender's concern is that the value of the car may go below the value of the loan before the loan is fully paid, and if a borrower defaults, the lender may have trouble recovering the full amount of the loan. Hence, a high interest rate is charged to make the loan less risky for the lender.

Car Financing Through a Car Dealer

If you are considering financing a car through the dealer, make sure you understand all of the costs. Some car dealers may have working relationships with local lenders to make the financing process easier. However, these relationships may involve payments to the dealers for routing loans to particular lenders. Be sure to ask the dealer to fully explain all of the costs involved to understand what you are paying for in the process.

Car Financing Online

It is also possible to find used car financing online, although the customer service may not be as



good. To avoid a negative impact on your credit scores, shop around without actively applying for any loans. Then ask only one or two online lenders that appear to have good rates and terms for pre-approval on a used car loan. In a pre-approval, the lender will provide the borrower with paperwork indicating how much the lender will give out, and what the interest rate and terms of the loan would be.

Car Financing With No Credit

The last type of a car loan to discuss is the no credit car loan. While there may be good reasons to consider a no credit car loan, there can also be

some dangers. In some cases, a no credit car loan may seem like a good solution for those who have bad credit or have no credit history. Some of the drawbacks include:

- Typically only available on used cars.
- Many lenders that offer this type of loan do not report to the credit reporting agencies (which makes it difficult to rebuild your credit).
- The interest rate is typically higher due to the increased risk.
- If a payment is missed, the interest rate may increase and the lender can repossess (take back) the vehicle.

If you have bad credit, chances are good that you'll find at least some lenders who are willing to finance your automobile purchase. However, it's wise to be extra careful when shopping for car loans in this situation. Some lenders take advantage of borrowers who have bad credit. They know borrowers with bad credit may take just about any offer because they feel desperate.

Mortgage Loan

Mortgage loans will be covered in the next section, Housing Options.

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Housing Options

As you look to secure new housing, you have options to consider. Three options are transitional housing, a rental unit and home ownership.

Transitional Housing

Transitional housing programs can be an option for someone who is leaving an emergency shelter or is not yet in a position to afford living completely independently. In addition to affordable housing, many of these programs also provide support services to help residents build skills in money management. Some also offer savings programs. These programs allow you to develop the skills you need to obtain permanent housing.

Some transitional housing programs offer rent **subsidies**. Subsidies allow participants to find and keep their own housing by assisting them for a set period of time with rent. Other programs allow participants to live in apartment-style quarters owned or managed by the program. Some are group settings or congregate living where several individuals or families share a household.

Many times, transitional housing units are dedicated specifically for victims of domestic violence and their families. Services that may be available include:

- Childcare
- Advocacy/counseling/emotional support
- Job training
- Job placement

Most programs offer assistance for up to two years. To learn more about transitional housing programs and if they exist in your community, contact your local domestic violence program.

Rental Properties

Before you look for a room, apartment, or house to rent, determine how much you can afford to pay each month. Housing experts generally recommend that you limit your rent to 25% to 30% of your income.

For example, if your gross monthly income is \$1,600, you should look for something that costs no more than \$400-\$480 a month.

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Before you rent:

- Determine the size home you need and whether you need to live near your work, family, bus line, store, bank, etc.
- Define your needs. Do you prefer to rent an apartment, townhome or mobile home? What size rental do you need (studio, one bedroom, two bedrooms or more)?
- Keep in mind that additional fees such as utilities or maintenance fees vary from landlord to landlord. Be sure to inquire about any additional fees that you may be expected to pay.
- Pay outstanding utility bills. Make sure all utility bills in your name are current.
- Look for a rental. There are several ways to find rentals, such as word of mouth, newspaper, online or by driving through areas where you'd like to live.
- Submit your application. Typical applications include questions about your rental history, employment, plus financial and personal information. Be prepared to provide the name and contact information for previous landlords.
- Learn about the rental deposit. Most apartment leases require a rental deposit. A typical deposit is equal to one month's rent. Some leases require more than one month's rent.
- Move in. Once your application is approved and you accept the landlord's terms, sign the lease (after reading it carefully) and move in.

Section 8 Federal Housing

The Section 8 Federal Housing program makes privately owned rental housing affordable to low-income households. It provides rent subsidies (either rental certificates or vouchers) for eligible tenants. These subsidies usually equal the difference between 30% of the household's adjusted income and the approved market rent.



The standards for approved rent are set by the Department of Housing and Urban Development (HUD) or the Public Housing Authority. For example, if your rent is \$600 and you can only pay \$480, a Section 8 voucher can cover the remaining \$120. Availability of Section 8 and federal housing varies by state and often has a long waiting list.

Although many property owners rent units to individuals with Section 8 vouchers, some do not. If you believe you are a victim of housing discrimination, contact a domestic violence program advocate, legal services or the public housing authority to file a complaint.

Lease Bifurcation

Are you on a lease or rental agreement with your current or former abuser? If so, you may be able to remove your name or have the abuser's name removed from the lease.

This process is called lease bifurcation. Laws vary by state, so ask an attorney or a domestic violence advocate about the bifurcation laws in your state.

If there is good cause, such as domestic violence, many lease bifurcation laws require landlords to allow one party be released or removed from a jointly held lease. This process may allow you to remove your name so that you can leave the unit without further obligation. Or the process may have your abuser's or former abuser's name

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removed. Once a name is removed from the lease, that person has no responsibility to pay rent, utilities or other expenses and has no right to be on the property.

Addressing Property Damage

If your abuser damages rental property and your name is on the lease, you will be held responsible for the damage. However:

- If your abuser has damaged your property, you may be able to obtain financial assistance to make repairs through your state's Crime Victims Compensation Fund. Crime victim compensations programs provide funding to cover expenses resulting from a crime. For more information, contact your local domestic violence program. You may need to provide a police report or otherwise cooperate with law enforcement to access this fund. However, if you live in public housing, be aware that some public housing units may evict their residents if police are called to their unit.
- If you have renter's insurance, your policy may cover the costs of damage to the property. You may need to file a police report for your insurance company to repair the damage. Consult your policy agreement for more information or call your insurance company to discuss your options.
- You may be able to get financial assistance from a local domestic violence program. Some programs have direct assistance funds for making minor repairs to your home (e.g. changing locks, repairing a door or window). For more information about how direct assistance funds are used in your community, contact your local domestic violence program.

When a tenant moves out of an apartment, most landlords inspect the apartment for damage. If there is no damage or missing items, you should receive your deposit money within 30 days. Keep in mind, however, that you must pay the last month's rent before you receive your deposit.

On page 100, you can find a sample first page of a lease agreement to provide you an idea of what this legally binding contract looks like. Lease agreements can vary in length depending on how many clauses and riders are attached to the basic agreement. If you have any questions about the document, contact a housing organization in your community or an attorney. They can answer your questions and help explain the document to you.

General Rights of Tenants

Livable rental units must provide:

- Accommodations that are weather and waterproof.
- Plumbing in good working order.
- Enough hot and cold running water.
- A heating system in good working order.
- An electrical system in good working order.
- Freedom from infestations of insects and rodents.
- Sufficient trash cans.
- Floors, stairways and railings in good repair.
- Natural lighting in every room.
- Working windows that open at least halfway (or mechanical ventilation).
- Fire or emergency exits that lead to street or hallway.
- Working deadbolt lock(s) on the main entrance.
- Working security devices on windows.
- Working smoke detectors.



Tenants have a right to written 24-hour advance notice of the owner's intent to enter the property, except in case of an emergency. When a tenant has provided a written request for repairs to the landlord, the tenant has the right to a prompt response.

Tenants must receive 30 days written notice of a rent increase under 10% and 60 days written notice of a rent increase of more than 10%.

Tenants must receive the return of their security deposit within 21 days of vacating a unit. They have a right to an itemized statement of any money withheld by the landlord.

General Tenant Responsibilities

Tenants must:

- Pay the rent on time.
- Keep the unit clean and sanitary.
- Use gas, electrical and plumbing fixtures properly.

- Fix or pay for repairs of items they or their guests damage.
- Not remove anything from the structures or buildings that they have not put there and must not allow anyone else to do so.
- Use the premises and the rooms for their intended purpose.
- Not engage in illegal activities on the premises
- Limit household tenants to the number allowable by law.

Before Signing a Lease

- Do not put money down unless you're sure you want the apartment.
- Calculate the anticipated costs of utilities (e.g. heat, water, electricity) when determining whether you can afford an apartment.
- Check the apartment to ensure that it's in acceptable condition. Put all agreements for repairs in writing.

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- Evaluate how the management responds to “after hours” emergencies.
- Talk with prospective neighbors about the competency and reputation of the landlord and/or management company.
- Visit the neighborhood at night and/or during the weekend to see what the community is like.
- Be aware that although you may be legally entitled to have your deposit returned, it may be difficult to recover.

How to Handle Evictions for Non-payment of Rent

There are three steps to eviction:

1) Notice from Landlord

The landlord is required to give **written notice** before he or she files a lawsuit against you. The notice may state “Pay the rent or vacate in three days.” If you fail to do either during the designated time, the landlord may file an eviction lawsuit in court.

How to handle this notice

Talk to a lawyer if you believe that you do not owe the rent that is being demanded of you. If you agree that you owe the money, you can meet the terms of this notice by paying the overdue rent within the time stated in the notice. Be sure to pay with a check or money order. This will prove that you paid the money. Write the months you are paying for on the check/money order. If you have to pay in cash, be sure to ask for a receipt that specifically states that you have paid those months in full. Be sure to keep the receipt. If you do not have enough money to pay the rent, contact a local domestic violence program or other community organization to learn about possible grants or loans.

2) Notice from Court

If you do not pay the rent that is demanded of you, you may receive a petition for eviction and a summons/notice to appear in court. If you receive these court papers, it means that the landlord has filed an eviction lawsuit against you. Being sued for eviction can have consequences that reach far beyond the court case. Even if you eventually settle the lawsuit, future landlords may be able to view these court records and may not want to rent to you. In other words, you may be “blacklisted” from future rentals.

How to handle this notice

Step 1: Talk to a lawyer as soon as possible to see if you have any legal defenses to the rent being demanded. For example, if the landlord created an environment that was dangerous to live in, s/he may have breached the “warranty of habitability.”

Step 2: Begin thinking of how you may be able to pay the rent owed. Perhaps you can ask your landlord to set up a payment plan. You may be able to apply for a grant to prevent homelessness from public assistance. Or you may be able to get help from a private charity, etc. Even if you do not have a lawyer, show up to the court date. If you do not show up, a judgment of eviction and a warrant for possession of your rental unit will likely be issued. If you do not have a lawyer, contact a non-profit organization such as The Legal Aid Society (www.legal-aid.org). You can find listings of non-profit legal organizations for every state on WomensLaw.org

3) Notice from Sheriff

If the landlord wins the eviction lawsuit against you, s/he can get a judgment of possession of the rental unit and an **order to vacate** (warrant). The order will indicate when you must vacate (move

out). It will likely be enforced against you by the sheriff, marshal or other law enforcement officer.

How to handle this notice

Comply with this notice and move your family and your belongings as soon as possible. If you leave any items behind, you may have to pay storage fees to get them back. Or the landlord may consider the items abandoned and discard them. If you did not receive a summons/petition before you received the order to vacate or if you believe that you are being wrongfully evicted for any other reason, see a lawyer immediately. The lawyer may be able to get the order/warrant set aside, on grounds that you did not have a chance to defend yourself in court. However, you may also have to prove that you had a “meritorious defense” to the initial court case. Even if you cannot get a lawyer to help you, you can go to court yourself to see if you can file an order to show (or other legal papers). This would ask the judge to set aside the warrant of eviction and to give you more time to pay the rent owed.

Illegal Evictions

An illegal eviction can take place when you are forced to leave your home by someone who does not have a legal right to evict you or when your landlord does not follow proper legal procedures in evicting you. Your landlord only has the legal right to exclude you from your home in certain circumstances. In addition, there will be very specific steps that must be followed in order for you to be evicted legally. Talk to a lawyer if you believe that you are being wrongfully or illegally evicted. For example, you may be illegally evicted if your landlord:

- Changes the locks while you’re out or stops you from getting into your home.
- Makes life so uncomfortable for you that you’re forced to leave your home (for example, turning off the heat, gas, hot water, electric, etc.); this is known as a “constructive eviction.”
- Physically removes you from the property or has anyone who is not authorized to do so by law remove you.





Home Ownership

For most people, the process of acquiring a home requires obtaining a **mortgage**. One of the best ways to begin your quest for mortgage advice is to talk with your banker. Banks make a wide range of loans. Most bankers have the knowledge and experience to help you evaluate your circumstances and identify mortgage packages that are right for you.

Along with bankers, consulting a mortgage broker is also a great way to get mortgage advice. Mortgage brokers are sometimes connected with loan agencies or other types of financial institutions. However, mortgage brokers may also be involved in the buying and selling of mortgages. In their work, they learn what types of mortgages are likely to be the most stable over the next several years.

Real estate professionals must have a working knowledge of mortgages. This makes them a good source of mortgage advice. A realtor has a vested interest in helping a client get financing from the right lender. They earn a commission when they successfully help a client buy a house. In order to help a client get financing, a realtor must assess the client's financial situation and create a match with the right type of lender.

Good financial professionals can provide you with mortgage advice that covers just about every aspect of the process. They can help you:

- Understand the different types of mortgages.
- Get a mortgage.
- Understand the references you must supply as part of the application process.
- Calculate what type of monthly mortgage payment you can reasonably manage.

Seeking solid mortgage advice before purchasing a home can help you avoid mistakes that could prove to be costly in the long run.

Owning a home is a dream for many. To make this dream a reality, ask tough questions, set goals and plan carefully. The more you know about owning a home, the more likely you are to fulfill your goal.

Ask yourself these questions:

- Do you have a steady income and a stable job?
- Do you plan to stay in the same community for at least three to five years?
- Do you have a budget? Do you stick to it?
- Do you have a good credit or non-traditional credit history (including payments to landlords, utilities, cable, insurance, etc.)?



- Do you have savings for a down payment and closing costs? Have you researched programs that offer down payments and closing costs for survivors of domestic violence?
- Have you tried to pre-qualify for a home mortgage?
- Can you pay off most of your current debt before you buy a home?
- Have you looked at low- and moderate-income mortgage programs?
- Have you taken homebuyer education classes?

Based on the answers to these questions, can you afford to buy a home? Most lenders require a down payment. It can be anywhere from 3%-20% of the home mortgage. For many first-time homebuyer programs, 3%-5% down payment is standard.

Most people can comfortably repay a mortgage that is 2.5 times their total annual income (before deductions). If you make \$30,000 a year, you may qualify for a \$75,000 mortgage. You still must

have the down payment, closing and inspection costs, and a good credit rating.

Although you may qualify for a large mortgage with some lenders, you may be unable to meet the monthly payments, and you could lose your home. Review your finances and estimated monthly expenses carefully. Do not take on a mortgage unless you can comfortably make the monthly payments.

Closing Costs

Closing costs are fees you pay when you finalize the details of your home mortgage with a financial institution.

Closing costs include a title search, which will prove that no one else owns or has a lien on the property. Once this is proven, you must purchase title insurance. You may also have to pay for a land survey, termite inspection and homeowner's insurance. Ask your banker to explain the closing costs before you sign any papers. Watch for hidden fees and be sure to comparison shop.

Mortgage Types

A mortgage is a type of secured loan. The terms of a mortgage loan are usually different from a standard bank loan, both in terms of structure and in duration. In most mortgage financing arrangements, the property that is purchased with the financing is used as collateral for the debt. There are three main types of mortgage loans: fixed-rate, adjustable rate, and sub-prime. Each loan is explained in further detail below.

Fixed-Rate Loan

The two most common loan terms today are the 15-year and the 30-year mortgage. If a borrower selects a 15-year mortgage, she agrees to repay

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the amount borrowed and all interest within 15 years (180 monthly payments). If a borrower selects a 30-year mortgage, she agrees to repay the amount borrowed and all interest within 30 years (360 monthly payments). A fixed-rate loan provides the same interest rate during the life of the loan.

Selecting a loan term that is right for your specific needs is one of the most important decisions you can make when choosing a mortgage. So how do you choose between a 15- or a 30-year mortgage? While there are many factors to consider, most borrowers make the choice based on the monthly payment that is most comfortable. The longer the repayment term of the loan, the less the monthly payment will be. The drawback to this is that over the life of the loan, the borrower will pay more in interest with a longer term than with a shorter term.

Adjustable Rate Mortgages (ARMs) Loan

An adjustable rate mortgage, also known as ARM or floating rate mortgage, is a type of mortgage on which the interest rate is not fixed for the entire life of the loan. The rate is fixed for a period at the beginning, called the “initial rate period”, but after that it may change based on movements in an interest rate index.

An adjustable rate mortgage is not necessarily a bad thing, just a more risky one. If the index falls, you may pay less than you would with a fixed-rate loan. However, if the index rises, you may pay more. An adjustable rate mortgage often comes with a cap on charges. For example, an adjustable rate mortgage may have a cap of a 2% maximum per year. Or it may have a 6% cap over the lifetime of the mortgage. This protects you while still ensuring the lender a fairly safe transaction.

Sub-Prime Loan

What if you cannot qualify for a traditional fixed-rate mortgage loan or are having difficulty obtaining credit through the normal channel? If that is the case, a sub-prime loan may be an option. A sub-prime loan is a loan that is typically given to people with a bad credit record. The interest rate on a sub-prime loan is likely to be higher than an interest rate you would expect on a loan from a bank. Many people will use a sub-prime loan when they cannot get credit to help repair their credit rating.

Lenders of this type of loan usually finance the loan through a third party, so the lending rules are slightly more flexible. Be mindful when investigating in this type of loan as it is often considered high-risk. Also, be sure to read the

Home Loan Comparison Chart

Loan Amount	5% Down Payment	Term (years)	Interest Rate (APR)	Monthly Payment	Total Interest	Total Payment
\$100,000	\$5,000	30	3.802%	\$670	\$64,396	\$159,396
		15	3.104%	\$888	\$23,947	\$118,947
\$200,000	\$10,000	30	3.641%	\$1,255	\$122,555	\$312,555
		15	2.894%	\$1,689	\$44,439	\$234,439



section on Predatory Lending which is explained later in this module, as this type of lending is often found in the sub-prime market.

The chart on the previous page compares 15 and 30 year loans for two different mortgages. It shows how term length affects the interest rate, the monthly payment and the overall cost of the loan.

Regardless of which type of loan you apply for, make sure you research home mortgages carefully. Some websites (such as, <https://www.mortgageloan.com/>) will compare mortgages for you, but consider working with a loan consultant (such as a banker, mortgage broker or realtor) before applying for a mortgage online. The loan consultant can discuss your options and any problems that might affect your eligibility for getting a mortgage.

Pre-Payment Penalties

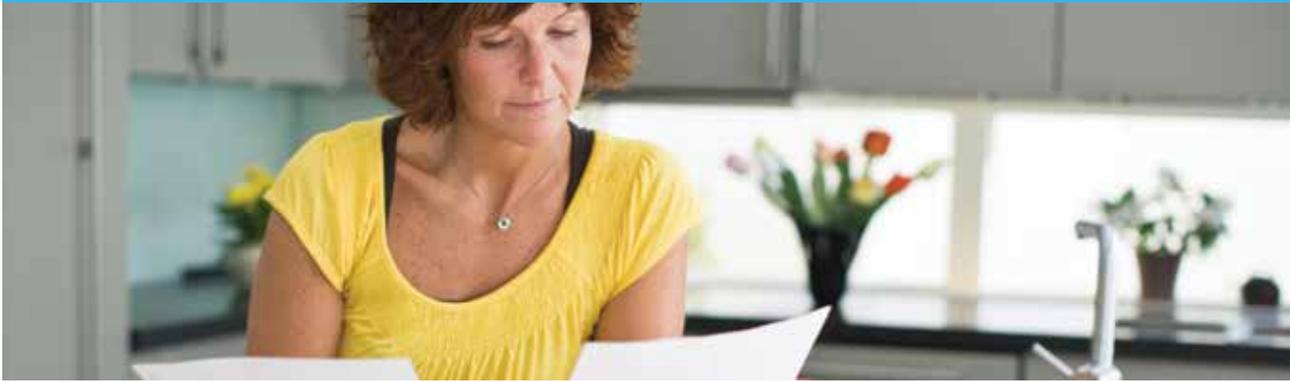
Mortgages and other loans often have **pre-payment penalties**. A pre-payment penalty is a penalty that a borrower has to pay if she pays off a loan earlier than was originally agreed. Banks enforce a pre-payment penalty to guarantee

they make a certain amount of money from loaning money to a borrower.

Many lending institutions attach a pre-payment penalty to a loan because loan refinancing has become relatively commonplace. If a consumer takes out a loan, pays on it for a period of time, and then refinances at a lower interest rate, she saves money. The lending institution that provided the original loan, however, loses out on the money that would have been earned from interest payments.

The specifics of a pre-payment penalty vary from one lender to another. One type of pre-payment penalty is referred to as a soft prepay. This type of pre-payment penalty is waived if the source of the original loan, such as a home, is sold. In this case, the penalty is only enforced if the loan is refinanced.

This type of pre-payment penalty is considered to be an incentive for customers who do not plan on refinancing, while still protecting the original lending institution. Be sure to ask at the time of the loan origination if there is a pre-payment penalty. If there is, don't be afraid to try to negotiate it off.



Mortgage Application Process

Why do some people get loans approved without any problem, while others struggle through the process? What do lenders look at when they evaluate you? These questions will be answered in this section.

Getting your loan approved depends on how your financial background matches the lender's criteria for granting loans. Although the criteria may change from lender to lender, the following guidelines are often used to evaluate loan applications.

Employment History

Depending on the type of loan, most lenders look for two consecutive years of employment within the same industry. This shows employment stability and that you do not hop from one job to another. Employment history helps lenders evaluate your ability to earn income and repay a loan.

Credit History

You must demonstrate that you can manage credit responsibly. Lenders look for a history of on-time payments. Too much debt on credit cards or maxed-out credit lines indicate that you may be unable to pay your debt. Pay down any short-term debt at least six months before applying for

a new loan. A good rule is that you should not owe more than 30% of the card limit (e.g. if your limit is \$1,000 you should not owe a balance over \$300).

Outstanding Liabilities

How big a loan can you comfortably repay?

The size of your income dictates the amount of loan you can support. Your total monthly payments for debts (including credit card debt, car loans, student loans, existing mortgages and/or child support) should not exceed 42% of your monthly earnings.

Cash and Asset Reserves

Lenders may request information about your cash available (checking and savings). This is particularly important if you apply for a mortgage loan, as lenders may require that cash and assets be available to pay at least two monthly mortgage payments.

Before visiting a lending institution, you should take advantage of numerous online mortgage calculators. These mortgage calculators also make it possible to determine how much you can afford in a mortgage loan, as well as what your monthly payments would be for specific mortgage loan amounts.

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Although the information on these calculators is not as accurate as the information provided by a lender, it does provide you with ballpark figures.

Pre-qualification Process

Loan pre-qualification is a process that pre-approves a homebuyer for a specific loan amount. Loan pre-qualification can aid a homebuyer because it gives the buyer a clearer picture of how much money can be spent toward the purchase of the home. It can also make your offer on a property more appealing to the seller if they know you are pre-qualified.

The loan pre-qualification process is a simple one. First, the loan officer asks the homebuyer several questions, some of which may require documented proof.

For example, the loan officer will ask the homebuyer to provide proof of income and debt in order to determine a debt to income ratio.

In order to determine this ratio, the loan officer needs to know the homebuyer's outstanding debts, assets, credit, and employment status. After evaluating all of this information, the loan officer can provide the homebuyer with an estimate of how much money he or she can spend toward the purchase of a new home.

Loan Approval Process

As valuable as loan pre-qualification letters can be, they are not a guarantee of a loan.

The actual loan approval process is a long and sometimes tedious one, even if the homebuyer's income and credit history is great.

After pre-qualification (and finding a home you'd like to purchase), the next step is to apply for a mortgage loan. A mortgage application is a type of loan application. When a person wants to buy



real estate, they apply for a mortgage from a lending institution.

The application asks a number of important questions about the applicant's identity, employment history, income, monthly expenses, and debts. It also asks for information about the house the person wants to buy and the requested mortgage amount.

The application form is only one part of the mortgage application process. A big part of this process is the checking of the borrower's credit. This is done by ordering a credit report through a credit bureau.

Checking Your Credit Report

The purpose of this check is to find out whether or not the borrower has a history of paying his bills on time.

No matter how good an applicant looks on a loan application, she stands to be rejected if her credit history is poor. There are some mortgage lenders that grant loans to people with imperfect credit, but the terms of such loans may be poorer than those offered to borrowers with good credit.

Before submitting a mortgage application, many home loan experts recommend that borrowers

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check their credit files for inaccuracies. If the wrong information is listed, a borrower can contact the credit bureau to learn the process for having it changed.

To have the best chance of securing a home mortgage loan, a borrower will want to put her best foot forward with accurate information.

See Module 3 for more information about credit reports.

Checking Other Documentation

Besides the credit check, another important part of a mortgage application is the documentation a borrower provides. A bank or mortgage company is unlikely to take a borrower's word for her income, expenses, and employment.

The borrower may need to provide tax returns, bank records, and proof of income. These types of documents may be required not only of the primary borrower, but also of anyone else whose name is included as a co-borrower or co-signer on the mortgage application.

Owning a home is a good way to build wealth and protect your family's future. It offers security and stability. The equity in your home can help pay education expenses, finance a small business, buy a car or take care of unexpected emergencies like illness or unemployment.

However, as you learned earlier, some lenders will loan you money even if you do not have good credit. These lenders, called predatory lenders, offer loans with high interest rates, fees and repayment terms. If you can't afford to repay the loan, you may lose your home in foreclosure.



Sample Lease and Rental Agreement

Lease and Rental Agreement

This rental agreement is made between:

_____ (Landlord) and _____
(Tenant)

For the property on:

_____ (Address)

(City, State and zip
code)

The lease is for one year starting on January 1, 2016 and is automatically renewed for the amount of \$400.00 a month, payable on the first.

_____ (Tenant) is responsible for the Electric, Gas and Telephone.
Snow removal, trash, and lawn care are provided by the landlord.

_____ (Tenant) is responsible for insuring personal property.

_____ (Tenant) agrees to use the premises for residential purposes
only and not for illegal, immoral or hazardous purposes.

_____ (Tenant) may have/may not have animals, for additional
deposit
of \$ _____.

(Tenant) (Date) (Phone)

(Landlord) (Date) (Phone)

(Landlord) (Date) (Phone)

