Homeowner Benefits and Responsibilities

CreditSmart® Asian

Freddie Mac

We make home possible®

About Freddie Mac

Freddie Mac is a stockholder-owned corporation chartered by Congress in 1970 to create a continuous flow of funds to mortgage lenders in support of homeownership and rental housing. Freddie Mac purchases mortgages from lenders and packages them into securities that are sold to investors. Since its creation, Freddie Mac has helped finance one in six American homes.

About CreditSmart® Asian

CreditSmart Asian is a multilingual series to guide Asian American consumers on how to build and maintain better credit, understand the steps to buying a home and how to protect their investment.

Special Thanks

Special thanks to the following organizations for their collaboration in the development of the CreditSmart Asian: Asian Americans for Equality, Boat People SOS, Chhaya CDC, Filipinos for Affirmative Action, Korean Churches for Community Development, Nakatomi & Associates, National Coalition for Asian Pacific American Community Development (National CAPACD), National Congress of Vietnamese Americans, National Korean American Service & Education Consortium, Inc., and Quon Design.

Table Of Contents

Freddie Mac

We make home possible®

CreditSmart® Asian

CreditSmart Asian: Homeowner Benefits and Responsibilities

These books provide a road map to answer the questions you may have as you pursue your dream of homeownership.

Welcome,

As a new homeowner, you've made an important investment in your future. You have a place that you and your family can call your very own. Being a homeowner brings tremendous satisfaction, but it also comes with great responsibilities.

As you embark on this exciting period in your life, Freddie Mac is pleased to provide you with this information to help you maintain your home, protect and increase its value, and ensure your success as a homeowner.

This guidebook, *Homeowner Benefits and Responsibilities*, provides information about how to take care of your home and protect your investment. It explains the financial obligations of homeownership, as well as the importance of homeownership, including recordkeeping, maintenance, and emergency preparedness.

If you have not yet purchased a home or if you need information about how to establish or improve your credit history, please read our companion guidebooks, *The Importance of Good Credit* and *Steps to Homeownership*. Together, these books provide a road map to answer the questions you may have as you pursue your dream of homeownership.

From all of us at Freddie Mac, we wish you great success. With proper planning, time, and hard work, we are confident you will enjoy all the benefits of homeownership.

Understanding the Responsibilities of Homeownership

Congratulations! Now that you have purchased a home, you have achieved an important lifetime milestone. Being a homeowner offers many benefits, including:

- Shelter
- Security for your family
- A source of pride for you and your family
- A safe investment that will most likely grow over time ("building equity")
- The ability to make your own improvements and decorating choices
- The freedom to plant a garden and landscape your yard
- Tax benefits

However, being a homeowner is very different from being a renter. Being a homeowner carries responsibilities in many of the same ways that being a parent demands responsibilities.

Home Repairs and Maintenance

There's no longer a landlord to fix things if they stop working. Repairs are your responsibility. If a light bulb goes out, the toilet is broken, or the roof is leaking, you must take care of it yourself or pay someone to do the work.

New and Unexpected Expenses

New homeowners must pay many new expenses. These expenses include your monthly mortgage payment; property taxes and house insurance, which may be included in your mortgage payment as part of an "escrow account"; and the costs of any home repairs and improvements, such as replacing a broken water heater or installing new window blinds. Owning a home can be an expensive proposition with many hidden or unexpected costs. Plus, if you are late or delinquent in making these payments (especially your mortgage payment), you could hurt your credit history or even lose your home — making it much more difficult and expensive to buy another home or get a loan for any purpose in the future. Making your mortgage payment on time every month should be your first priority.

Being a homeowner carries responsibilities in many of the same ways that being a parent demands responsibilities.

Now that you are a homeowner, you must keep your finances in order.

Yard Work and Landscaping

Unless you own a condominium, you are responsible for maintaining your yard by mowing the lawn, trimming hedges, taking care of the landscaping, raking leaves, and even shoveling snow in winter, depending on where you live. Yard work and landscaping can be a significant amount of work, but many homeowners also find these activities fulfilling. Planting flowers, vegetables, shrubs, and trees can be relaxing and make your home more enjoyable for you.

Community Commitments

Homeowners tend to become part of a community, usually taking on more responsibilities in their neighborhood and the larger community. This could mean they help their elderly neighbors buy groceries each week, join the volunteer fire department, serve on the board of a local community group, or even run for elected office. Whatever the form, getting involved is a rewarding way to make a difference, for you and the whole community

Financial Responsibility

Now that you are a homeowner, you must keep your finances in order. Here are some guidelines to follow:

Keep good records. Homeownership comes with a lot of paperwork. To get your tax benefits, you'll need records of your housing-related expenses. If you ever experience damage to your home caused by an emergency or disaster such as a fire, you'll need your insurance policy along with copies of purchase receipts and photographs of your possessions. If your new refrigerator breaks, you'll need the warranty. To find these and other documents when you need them, you'll want to set up a system for filing your homeownership records as soon as possible. Not having an organized system could be costly in the long run. Buy a fireproof filing cabinet or box, or rent a safety deposit box at your local bank to store household records and legal documents.

Maximize your tax deductions. Current tax laws permit you to deduct the interest you pay on your mortgage and the real estate taxes you pay on your home — major expenses associated with homeownership — from your taxable income. These deductions may reduce the federal and, in most cases, state income taxes you have to pay. It's wise to check with a tax accountant to help you with these tax issues.

Prepay your mortgage. You can save money in interest paid over the life of your mortgage by including some extra money with your regular mortgage payments. Tell your servicer to apply this extra money directly to the principal to reduce your outstanding loan balance. This is called "prepayment." Prepayment reduces your loan term and lowers the total interest owed over the life of the loan. Just adding an extra $50 a month to your monthly payment on a $100,000, 30-year loan at 7% interest would reduce your loan term by more than five years and save you around $32,000 in total interest paid over the life of the loan. If you are interested in prepaying your mortgage, contact your mortgage servicer to find out the proper procedures for doing so. Be sure to find out if your mortgage has any prepayment penalties.

Maintain adequate insurance coverage. Because lenders generally require you to have homeowner's insurance in order to get a mortgage, your policy is probably adequate. Before you experience any loss, however, review your policy to make sure you understand your coverage. Ideally, you want to ensure that you have enough insurance to cover the cost of rebuilding your home at current construction costs, not including the cost of the land. Be sure to look at your policy at least once a year when it is renewed to make sure that your coverage goes up with any increase in your home's value.

It's wise to check with a tax accountant to help you with these tax issues.

Not all insurance coverage is the same.

The Importance of Homeowner's Insurance

Homeowner's insurance, although a sizable expense, is vitally important. When you purchased your home, your lender required you to carry property insurance. You must keep this policy in good standing not only because your mortgage lender requires it, but because it protects your valuable investment. Even the most basic coverage is beneficial in the event of loss or damage to your home.

Keep in mind, however, that not all insurance coverage is the same. For example, if you live in an area prone to earthquakes or flooding, you may need to carry a separate policy (usually underwritten by the state or federal government) to insure against these types of disasters. Additionally, certain possessions, such as expensive antiques, jewelry, or musical instruments, may not be covered by your regular homeowners' policy if they are stolen, lost, or damaged. To insure these items, you may need an additional policy called a rider or a floater. If you have any questions about what is and is not covered by your current policy, consult your insurance company.

Just when you need your insurance the most, such as after a fire or natural disaster, you may not have access to your policy. It is a good idea to keep your basic insurance information, including your policy number and the contact information for your insurance company, on a card in your wallet and in a separate location, such as with a trusted friend or relative. Store important papers, like birth certificates, passports, and insurance policies, in a fireproof box or safety deposit box.

Checklist for Keeping Good Records

Here is a list of items you should keep in a safe deposit box:

General

- ❑ Record organization checklist
- ❑ Birth certificates
- ❑ Marriage certificates
- ❑ Divorce decrees
- ❑ Death certificates
- ❑ Citizenship papers
- ❑ Military service records
- ❑ Wills

Auto

- ❑ Titles
- ❑ Auto insurance policies
- ❑ Records of traffic violations and accidents
- ❑ Auto registration receipts
- ❑ Auto maintenance records

Employment

- ❑ Employee handbooks
- ❑ Fringe benefits information
- ❑ Personal resumes
- ❑ Licenses and certifications

Finances

- ❑ Receipts from bills and debts paid
- ❑ Income/expense records
- ❑ Spending plans
- ❑ Bank statements and cancelled checks
- ❑ Payroll check stubs
- ❑ Bankruptcy papers

Health and Medical

- ❑ Health and disability insurance policies
- ❑ Medical history records
- ❑ Life insurance policies

Investments

- ❑ Transaction slips and monthly statements

Personal Property

- ❑ Personal property inventory
- ❑ Guaranties and warranties
- ❑ Instruction books

Home

- ❑ Purchase contracts
- ❑ Deeds
- ❑ Mortgage papers
- ❑ Property tax receipts
- ❑ Home improvement receipts
- ❑ Title insurance policies
- ❑ Homeowners insurance policies
- ❑ Property details
- ❑ Appraisal information
- ❑ Property surveys
- ❑ Inspection reports

Taxes

- ❑ Tax returns with W2s
- ❑ Receipts and records for deductions

How long do you need to keep important records?

Indefinitely

- Birth, death, and marriage certificates
- Adoption and custody papers
- Separation and divorce papers
- Citizenship and naturalization papers
- Diplomas and education records
- Employment and military records
- Medical history records
- Investment records
- List of safe deposit box contents
- Personal property inventory
- Real estate and mortgage papers

As Long As You Own

- Appliance use and care manuals
- Vehicle titles and bills of sale

Until Expiration

- Insurance policies
- Warranties

Five Years After Payment

- Installment contracts and other real estate forms

Seven Years Minimum

- Tax returns

Refinancing Your Mortgage

Refinancing is when you take out a new mortgage to pay off your current mortgage.

At some point, you may think about changing your mortgage terms by refinancing because mortgage rates have gone down or your financial situation has changed. Refinancing is when you take out a new mortgage to pay off your current mortgage. When you refinance, you complete many of the same steps and pay some of the same expenses that you did when you got the first mortgage to buy your home. Before starting the refinancing process, you should understand the following points:

- Refinancing your mortgage can have significant costs. Often the refinancing fees are pulled from the equity in your home.
- Using your equity this way will increase the balance owed on your mortgage and reduce the cash you may have available for a potential financial emergency in the future.
- Refinancing may extend your repayment term.
- In some cases, if you received special financial assistance from your local government or a nonprofit organization to purchase your home, you may have to repay a portion of these funds if you refinance your home. Review your mortgage documents to find out about these restrictions.
- If your original mortgage includes a prepayment penalty, you may incur a penalty for paying off your mortgage through a refinance. Review your mortgage documents for the exact terms of any prepayment penalties.

Evaluating Refinance Options

There are a number of good reasons to consider refinancing, including:

Refinancing to save money on your interest rate. If interest rates drop lower than what you have on your current mortgage, refinancing at a lower rate could reduce your monthly payments and the total amount of interest that you pay over the life of the loan. When considering this option, determine your break-even point. This is how long it would take you to recapture all of the costs of refinancing (closing costs, fees, points, and any prepayment penalties through savings from the new mortgage payment). If you plan to stay in your home for longer than it would take to recover your costs, the savings you will accumulate could be worth refinancing.

Refinancing to lower your monthly payment. If you would like to reduce your mortgage payment, you could either extend the term of your loan or switch to a loan product with a lower interest rate. If you choose to lengthen your loan term, it will take you longer to pay off the mortgage and own your home outright, and it will cost you more in overall interest charges and total loan costs. Be aware that advertisements regarding loan products and their interest rates can be misleading. Some loans, especially adjustable-rate mortgage (ARM) products, have low initial “teaser rates” or low interest rates in the first few years to attract consumers, but then can adjust to higher rates. Other mortgages such as interest-only mortgages have low monthly payments that might seem attractive, but none of your monthly payment is used to pay down your mortgage principal; it is only used to pay off the interest. With an interest-only loan, it may be difficult to build equity in your home. While these loan options may seem attractive, consumers should be very cautious when considering adjustable-rate mortgages or interest-only mortgages because the monthly mortgage payments could rise dramatically over time.

Refinancing to convert one type of mortgage to another. When you selected your original mortgage, you based your decision on your financial situation at that time. If your situation has changed and that product is no longer the right fit for you, you could refinance to obtain a different loan type. If you have an ARM and wish to get rid of an unpredictable interest rate and monthly payment, you could change to a fixed-rate mortgage. If you can manage a fluctuating interest rate, you could look for an ARM with a lower rate or better features. If you would like to improve the terms on a second mortgage, you could either refinance this loan with a better product or refinance both your first and second mortgages into a new first mortgage loan.

Refinancing to build equity faster. If your financial situation has improved since you bought your home, you may want to get a mortgage with a shorter term. This will help you pay less in total interest charges and own your home sooner. On the other hand, your monthly payments will be higher.

Refinancing to take cash out. If you need some extra cash, you could get a cash-out refinance loan. With this type of loan, you turn some of your home equity into cash by getting a larger loan — often with a higher interest rate than the loan that is being paid off. The additional cash you receive can be used for any purpose.

If your situation has changed and that product is no longer the right fit for you, you could refinance to obtain a different loan type.

When refinancing get your finances in order, shop around for the best loan available, and proceed with caution.

Determining Whether to Refinance

Choosing to refinance is a personal decision that should be based on your financial situation, the terms of your existing loan, the new loan being considered, and how much equity you have in your home. Making this decision can be challenging. You'll need to weigh the pros and cons of refinancing considering your circumstances. A trusted financial adviser can help.

Keep in mind that your home is probably your largest financial asset. For your long-term financial health, it's vital that you manage this asset wisely. When refinancing get your finances in order, shop around for the best loan available, and proceed with caution.

Many homeowners get into trouble when they refinance their homes using risky or high-cost mortgages. There are some sensible steps you can take to ensure that refinancing is your best option and that the loan you select best fits your needs.

Get financial counseling. You can avoid getting into financial trouble by making informed decisions about refinancing. Counseling can help you understand your mortgage options and how to avoid unscrupulous lenders. Free or low-cost counseling is offered by many nonprofit organizations, including those that are part of the NeighborWorks® network (www.nw.org) or vist the Department of Housing and Urban development (www.hud.gov) for a link to nonprofit organizations in your area. In New York, visit Asian Americans for Equality (www.aafe.org) and in Los Angeles, visit Korean Churches for Community Development (www.kccd3300.org) for counseling in Chinese and Korean.

Maintain a budget and set up an emergency savings account. Unexpected expenses can throw a wrench into your finances. Try to save 10% of your income in a savings account to cover these unexpected expenses — whether they are home repairs, health problems, or car repairs. As a homeowner, it's important to have a little financial cushion to protect you from these expenses.

Stay on top of home repairs and maintenance. Neglected home maintenance and emergency home repairs combined with untrustworthy contractors can lead to unexpected bills. These high costs can push a homeowner's budget to the breaking point — especially if they have no savings to cover home repairs. If you are considering refinancing your home, think about the costs of any necessary repairs in the financing package.

Finding the Right Lender

Just as you did when you purchased your home, you'll need to consider a variety of loan options when you refinance. There are many different types of lenders, and they offer refinance loan products, including those from banks, mortgage companies, credit unions, government agencies, and mortgage brokers. Before you select the right lender and loan product for you, you'll need to understand what different lenders can offer you. Shop around, compare costs and terms, and negotiate the best deal. Below are some useful tips:

Start with your current lender. If you had a good experience with your current lender, compare its products with others found from research and referrals. Your existing lender may offer some incentives or discounts to keep your business.

Contact several lenders. Get price quotes from at least three lenders to compare their offerings.

Compare similar options. Look at the combination of interest rates, points, and fees being offered by each lender. When evaluating different products, the annual percentage rate (APR), which is the total annual cost of borrowing money based on the loan amount, interest rate, added fees and term, is a useful benchmark. You will also want to find out how much money you'll need at closing and what your new monthly payments will be.

Understanding Your Credit Rating

Your credit history influences which loan products you'll be offered. If you have good credit, you'll be offered lower interest rates. If you have had past credit problems, you'll be charged higher rates. If you've had minor credit problems in the past, don't assume that your only choices are high-cost lenders. Talk to different lenders about how your credit history will affect the price of your loan and what you can do to get a better price.

If you're working with a mortgage broker, be sure to do some extra homework. A mortgage broker is best described as a "loan finder," or someone who acts as an independent contractor between you and the lender. In return for a broker helping you to find a loan, you normally pay him or her a fee, which can range from a few hundred dollars to 1% of your loan amount. Ask questions and do your research to be sure your broker is not pushing you into a higher-priced product to get a higher commission from the lender.

Shop around, compare costs and terms, and negotiate the best deal.

Borrowing Against Your Home Equity

If you have built enough equity in your home, you may be able to take out cash toward other financial goals.

After becoming a homeowner, you will receive many offers by phone and through the mail for home equity loans and home equity lines of credit. When you borrow against your home equity, you get a loan or line of credit that is in addition to your existing mortgage. You should carefully consider many factors when determining if it's a good decision to borrow against your home equity to get extra cash.

What Is Home Equity?

Home equity is the difference between what your home is worth and the total amount you owe on your home. You can build equity in two ways: (1) by paying down your loan balance through regular mortgage payments and by making extra payments toward the loan balance; and (2) by having your home's value increase from home improvements or appreciation in your area. Both may happen at once.

Determining How Much Equity You Have

If you have built enough equity in your home, you may be able to take out cash toward other financial goals. On the other hand, you may prefer to save your equity to build more savings for yourself.

If you are considering borrowing against your home equity, one of the first things you will need to do is to find out how much equity you have. To figure out how much you have, you will need to know your home's market value and your outstanding loan balance. Call your loan servicer or check your monthly loan statement for your loan balance. For your home's market value, you can hire an appraiser, contact your local tax assessor's office, or check with a real estate professional. Subtract your loan balance from your home's value to see how much home equity you have.

Reasons for Borrowing Against Your Equity

It can be difficult to decide whether to borrow against your home equity. Your home is an important financial asset that you want to manage wisely. While borrowing against home equity gives you access to extra money for major projects and events, it could jeopardize your financial security if you don't borrow prudently. When you get a home equity loan or line of credit, you borrow more money that is secured against your home. If you take on too much mortgage debt and can't afford to repay it, you could lose your home to foreclosure. Consult a trusted adviser, like a reputable housing or credit counselor, to decide if borrowing against your home equity is right for you.

If you decide to use your home equity, only do so for a good reason. Use it as an opportunity to invest your money safely and wisely for long-term financial goals, not as a chance to spend money on items that have little return on investment.

Common reasons for borrowing against home equity include:

Making home improvements. Financing a home improvement project that increases your home's value can be a good investment.

Paying for your children's education. Helping to pay for your children's education can be viewed as an investment in their future.

Paying for your own education. Getting training to improve your job skills or change careers can increase your earning power.

Consolidating debt. This is generally a poor reason for refinancing. Converting high-interest, nondeductible consumer debt (like credit card balances, installment loans, and medical bills) into one payment may make repayment easier, but only if you can change your spending habits to avoid taking on any new consumer debt.

Making investments. Investing in stocks or bonds, starting up a small business, or investing in other real estate can help you increase the scale and diversity of your investments, if you can find sound ventures.

THE VALUE OF HOME IMPROVEMENT

According to financial experts, here are the top ten home improvements in order of their return:

1. Remodeled kitchen (average value: 80 to 120% of cost)
2. Extra bathroom (average value: 75 to 100% of cost)
3. Fireplace (average value: 70% of cost)
4. Deck or patio (average value: 50 to 70% of cost)
5. Central air conditioning (average value: 40 to 80% of cost)
6. Additional room (average Value: 50 to 70% of cost)
7. Basement or garage conversion (average value: 30 to 60% of cost)
8. Aluminum siding (average value: 30 to 50% of cost)
9. Swimming pool (average value: 20 to 50% of cost)
10. Recreation room (average value: 30% of cost)

Source: *Money Magazine*, as cited by www.cnyrealtor.com

One phone call could save you hundreds of dollars.

HOW TO SAVE MONEY ON HOME IMPROVEMENT

Do it yourself.

Even if you are new to home repair, there are many simple home improvement tasks you can learn to do yourself. By investing in a few tools and learning the basics, you will be able to handle many basic home repairs. Check your public library for how-to books or visit your local home improvement retailer for guidance. Many stores offer free home improvement classes on projects like tile and cabinet installation, gardening and landscaping, painting, and flooring installation.

Ask for referrals.

Rather than calling someone you found in an ad or listed in the telephone book, ask trusted friends and relatives for their references on contractors and repair professionals they have used previously.

Comparison shop.

If you are quoted a price for a repair that seems too high, call another service company and ask for their bid. One phone call could save you hundreds of dollars.

Buy odd lots or overages.

Sometimes retailers and contractors have large quantities of carpeting, tile, or other supplies left after a large job. If you are willing to be flexible about color or style to get a better price, this may be a good option for you.

Ways to Borrow Against Your Equity

The following products allow you to borrow against your home equity:

Home equity loan. This is a mortgage secured against your home in addition to your existing mortgage. You borrow a set amount of money as a second mortgage or "junior lien." Second mortgage loans usually have fixed interest rates that are higher than first mortgages.

Home equity line of credit. This is a specialized form of a second lien that is also secured against your home. A line of credit, in many ways, is similar to a credit card. It is a revolving line of credit, where the balance can go up or down. You can borrow money (up to the amount that has been approved) and pay it back as many times as you need during the term of the loan. Interest rates for lines of credit are usually variable, but you only pay interest on the amount you borrow.

Cash-out refinance loan. This loan replaces your old mortgage with a larger one, and you keep the difference between the loan amounts to use as you want. The interest rate for a cash-out refinance loan is often higher than the rate for the loan that is being paid off.

Reverse mortgage or home equity conversion mortgage (HECM). This loan is available only if all the owners on the title to the home are at least 62 years old. It works like a line of credit, except that you don't make any loan payments as long as you are living in the home. Visit www.aarp.org for more information on reverse mortgages.

Choosing the loan product that is right for you depends on what you plan to do with the extra money, how much you need, when you need it, and how quickly you plan to repay. A reputable housing or credit counselor can help you select the right product. Before you accept an offer for a home equity loan or line of credit, make sure you know the terms of the loan and if there are any prepayment penalties.

Exercise Caution When Borrowing Against Your Home Equity

Home equity loans are often structured as 10- or 15-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. Moreover, while home values in most markets appreciate over time, leaving your appreciation intact is an excellent way of saving for college and your retirement. If you need to use your asset — your home — for some important family event, such as a medical emergency or sending a child to college, shop around for a mortgage that is fairly priced, with fair terms and fair marketing.

Choosing the loan product that is right for you depends on what you plan to do with the extra money, how much you need, when you need it, and how quickly you plan to repay.

Should I Choose a Home Equity Loan or Home Equity Line of Credit?

When deciding which home equity option is right for you, consider the following:

Q: Do I need the money in a lump sum or in several installments?

A: A home equity loan is best if you need a lump sum of money, while a line of credit makes sense when you need money in installments, such as for a large-scale home improvement project.

Q: Is it for a long-term or short-term purpose?

A: If you plan on spending the money on something that will last a long time, like a new roof, a home equity loan might be better. If the money is for something that won't last long, a line of credit might make more sense.

Q: How much monthly payment can I handle?

A: A home equity loan generally requires you to pay principal and interest every month for the life of the loan, while a line of credit usually gives you more flexible payment options depending on how much you borrow from it.

Q: Would a line of credit tempt me to use the money carelessly?

A: If you are worried about temptation, opt for a home equity loan to have an installment account rather than a revolving account.

Q: Should I be concerned about a variable rate?

A: If you don't like the idea of having a payment that could change every time rates change, consider getting a home equity loan, which usually has a fixed interest rate.

A home equity loan is best if you need a lump sum of money, while a line of credit makes sense when you need money in installments, such as for a large-scale home improvement project.

Avoiding Financial Traps

When you own a home, you are likely to receive many offers for new loans, refinancing and credit cards. Because of this, you must be cautious – no matter how attractive the offer might seem — to avoid high-pressure or deceptive sales tactics. Be on the lookout for these unscrupulous lenders, because you could lose your home and much of your savings if you borrow from them.

Here are some common techniques used to deceive homeowners:

Targeting unsuspecting consumers. These lenders target low-income people with poor credit or elderly homeowners with large amounts of equity in their homes.

Using high-pressure sales tactics. These lenders use high-pressure tactics and sometimes outright fraudulent tactics to deceive consumers.

Focusing on the monthly payment. These lenders highlight only the monthly payment for the loan and often hide or gloss over key information such as the interest rate on the loan, high fees, or other unfavorable terms.

Ignoring the borrower's financial condition. These lenders put borrowers into questionable and high-cost loans without considering the homeowner's ability to repay.

Bait and switch. These lenders offer one set of loan terms when you apply, then switch to higher fees and interest rates when borrowers complete the transaction by signing the loan papers.

Adding unnecessary fees. These lenders charge high fees for the loans and often add unnecessary and costly features such as credit life insurance into the loans.

Encouraging repeated refinancing. These lenders encourage consumers to repeatedly refinance their loans, often rolling in other consumer debts and charging high fees with each refinance.

ABUSIVE LENDING MARKETING TECHNIQUES

Unscrupulous or predatory lenders use many aggressive marketing techniques to reach consumers. These techniques include:

- Marketing through telephone calls, door-to-door solicitations, direct mail, fliers, the Internet, and television commercials. Some predatory lenders may first canvas a neighborhood or look through public records to find likely candidates.
- Selling loans under the guise of 'rescuing' a homeowner from foreclosure.
- Making loans in conjunction with home improvement contractors, including offering loans to homeowners whose homes have suffered a disaster.
- Selling home equity loans as a way for borrowers to consolidate other debts.
- Marketing home equity credit cards.
- Paying high referral fees to mortgage brokers.

There are many telephone scams out there — sweepstakes claims, travel scams, business opportunities, illegal charitable solicitations, work-at-home schemes, and credit repair plans. Say no!

Telephone and Internet Scams

As a general rule, never provide personal data, such as bank account numbers or your Social Security number, to someone you do not know and trust. There are many telephone scams out there — sweepstakes claims, travel scams, business opportunities, illegal charitable solicitations, work-at-home schemes, and credit repair plans. Say no! Their goal is to get your money. For your protection, get on national “Do Not Call” and “Do Not Mail” lists, keep records of these types of solicitations, and create a paper trail. Take action by exercising your legal rights if you’ve been harmed.

You’ll also find many Internet scams if you surf on the Web. Be careful! Always use caution with personal data or credit card information on the Internet. Many of these “dot com” scams are old tricks reincarnated on the Web.

Home Repair Scams

If you own a home and need home repairs or improvements, you need to be very careful in deciding on a contractor to use. While many contractors are honest and hard working, others can be con artists who work with unscrupulous lenders to deceive you and steal your money. Bad contractors might provide a high bid for your home repairs. Then, when you balk at the price tag, the contractor says they have a “special lender” who can offer a great financing deal and make the repairs affordable. Indeed, you qualify for a loan with the “special lender.” But the deal is usually too good to be true. That’s because the important details are in the fine print — and the homeowner usually ends up paying a higher price, hidden fees, or having a high balloon payment at the end of the financing period.

If you have concerns about a lender, call someone you know and trust to help you. Don’t be pressured into signing any documents until you’ve read the documents or had someone you trust review them.

Preventing Foreclosure

The worst fear of many homeowners is falling into deep financial trouble and losing their home. Foreclosure is a legal process that allows a lender to take back ownership of the mortgaged property (for example, a home) and sell it when a loan is in default.

Typically, only about 1% of mortgages in the United States go into default and are foreclosed. It is a myth that lenders want to foreclose on your home. Reputable lenders would much prefer that you pay your mortgage regularly and be a good customer for life. Often lenders lose money in a foreclosure process, and, as a result, they are increasingly offering help to homeowners to avoid foreclosure.

The sad fact is that many homeowners in financial trouble avoid the issue instead of asking for help from friends, relatives, counselors, lenders, and others. These troubled homeowners often ignore the problem until it's too late and their home is taken away in foreclosure. In many states, the foreclosure process only takes a few months, so it's important to contact your lender early to ask for help if you are in financial trouble and are having difficulty meeting your mortgage payments.   Remember, make the mortgage payment your first priority.

If you are in trouble and ask for help early in the process, there are usually many alternatives to help you remain in your home. Alternatively these types of interventions can help you sell the property without destroying your credit.

Common Causes of Foreclosure

- Job loss or income loss
- Health crisis
- Taxes, utilities, or property insurance problems
- Problems with a rental unit
- High-cost auto or consumer loan
- Disability
- Overspending
- Death in the family

The sad fact is that many homeowners in financial trouble avoid the issue [of foreclosure] instead of asking for help from friends, relatives, counselors, lenders, and others.

It may be embarrassing to ask for help, but if it helps you keep your home, it's worth it.

No one wants to lose his or her home through foreclosure. Typically, the causes of foreclosure are complex and layered. It may start as a family living "paycheck to paycheck" on a tight budget with too many debts when suddenly a financial hardship hits. It may be the loss of overtime work, a temporary layoff from a job, a large car repair bill, or a family health emergency. The unexpected loss of income or expense destroys the budget and puts the family into a financial crisis. The bills mount up and many don't get paid. The creditors start calling and demand to be paid. This type of stress can lead to a vicious and continuing cycle of financial problems. No homeowner wants to face this situation, so it's extremely important to learn how to avoid foreclosure.

Tips for Avoiding Foreclosure

Always make your mortgage payment on time. Consider your mortgage payment your highest priority every month. Pay it before any other bill and pay it on time. If you have trouble making the payment, cut back your expenses in other areas. Or, look for ways to increase your income by getting another job or working overtime to make payments on time.

If you get into financial trouble, reach out to relatives, friends, spiritual advisors, and others for help. It may be embarrassing to ask for help, but if it helps you keep your home, it's worth it.

If you fall behind on your mortgage payments, the most important step is to talk to your lender immediately. More than half of homeowners facing foreclosure do not call for help when they fall behind in their mortgage payments. Call your lender or talk to them if they call you. Don't deny that you have a problem and ignore your lender. Explain your situation and ask for help. Many lenders have special assistance they can offer to consumers in trouble to help them catch up on their mortgage payments.

Call a trained counselor who can advise you about your options. To find a housing counseling agency near you, visit www.hud.gov or call 800-596-4287.

Talk to your lender and develop a workout plan. Depending on the situation, the lender may be able to lower the interest rate on your mortgage, lower the monthly payment, or set up a special repayment agreement for missed payments. Make sure any plan you develop with your lender is realistic for your budget.

If you set up a plan with your lender, it is very important to follow it. Talk to your family and work hard to live within the new budget plan. If you find that you can't follow the plan, call your lender right away.

Typical Loan Workout Options

Workout options that help you avoid foreclosure vary greatly from lender to lender depending on the type of mortgage, the mortgage's investors, and your credit history. That said, here are some common workout options if you fall behind on your mortgage payments:

Reinstatement. Reinstatement is when you are behind in your mortgage payments but you can make a lump sum payment to catch up on your overdue mortgage payments by a specific date, including any late fees or attorney fees. Some consumers borrow funds from family or friends to make these payments.

PROTECTING YOUR INVESTMENT FOR YOUR FAMILY

Some lenders will offer you the option to purchase mortgage protection insurance. Terms and rates vary, but this insurance is designed to pay off your mortgage in the event of your death, so that family members will not be left to pay it. Keep in mind that you may already have other means or forms of insurance in place to take care of your heirs in the case of your passing, so only consider paying for this option if you really need it.

Workout options that help you avoid foreclosure vary greatly from lender to lender depending on the type of mortgage, the mortgage's investors, and your credit history.

If you have enough equity in your home, you may want to try refinancing your mortgage.

Forbearance. A forbearance agreement allows you pay less than the full amount of your mortgage payment, or pay nothing at all, for a short period, with the understanding that another option will be used later to bring the account current. This type of agreement may be used if your financial problems are short-term and if you will be able to pay off the missed payments within a specific time in the future.

Repayment plan. 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. This plan allows you to add a portion of the overdue amount on top of each monthly payment so you can bring your account current.

Loan modification. The lender may be willing to modify or restructure your mortgage with a written agreement to extend the length of your loan terms or change the due dates, the payment amounts, or the interest rate to get you back on track.

Refinancing. If you have enough equity in your home, you may want to try refinancing your mortgage. The 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.

Selling your home. If catching up on payments is not possible, the lender might agree to put the foreclosure on hold to give you some time to attempt to sell your home. While this approach may not seem ideal, it gives you an opportunity to sell the property and perhaps walk away with some of your equity. At the very least, it could prevent you from harming your credit through the foreclosure process, which could make it more difficult and more expensive to get credit in the future. In cases where you sell your home for less than what you owe the lender, the lender may accept this lesser amount as a “short sale” or a “short payoff.”

Deed in Lieu. In some cases, the lender may agree to the voluntary transfer of the home title back to them in exchange for cancellation of your mortgage debt. This approach could have a negative impact on your credit record, although not as much as a foreclosure. It may also have tax implications for you, and it might not be possible if there are other liens against the home.

Maintaining, Repairing, and Improving Your Home

Your home is most likely the largest purchase you will make in your lifetime. You want to take care of it so that it retains its value and, if possible, appreciates over time.

In many ways, a house is like the human body. Both are clusters of complex systems enclosed in a fragile shell at the mercy of the environment. And like the human body, a house, especially an older house, needs regular maintenance to remain in good condition.

In fact, regular maintenance can help prevent costly problems. It can help mechanical systems run more efficiently and last longer, and it can have an enormous impact on a house's market value. And of course, it can make a house look better, making you proud, as well as keeping your neighbors happy.

Understanding Your Home's Systems

A house is a mix of different components that work together to keep us safe, protected from the weather, and comfortable throughout the year. These components include:

- Heating and cooling system (furnace and air conditioning)
- Electrical system (wiring, lights, outlets, appliances)
- Plumbing system (sinks, toilets, baths, supply pipes and drains)
- Foundation
- Roof
- Windows and doors
- Structure (walls, siding, porches, etc.)
- Yard and landscaping

Regular maintenance can help prevent costly problems.

Your home systems need regular, seasonal maintenance.

Schedule of Home Maintenance

Your home systems need regular, seasonal maintenance and occasional repairs to keep them in good working condition. Here is a suggested schedule for these important tasks.

Daily or Weekly

- Keeping your home tidy and clean is important, not only for your personal enjoyment, but for everyone's health and safety.
- Similar to the inside of your home, it is important to keep your home's exterior neat and clean. Trash and recycling should be stored in the proper bins as required by your city or town. Debris and other obstacles should be removed from pathways, where they could create hazards for you or your guests. Some cities require you to remove snow from the sidewalks that are adjacent to your home to prevent injuries.
- If you have a lawn, you will need to water and mow it regularly. Additionally, depending on the type of grass, it may require periodic reseeding and fertilization.

Monthly

- Test smoke detectors.
- Change furnace/air conditioning filters when in use.
- Ensure your interior and exterior lights are working. This helps promote safety and deter crime.

Quarterly

- Inspect bathtubs and sinks for caulking and leaks; repair as needed.
- Check operation of water pump and sump pump.
- Review and practice emergency procedures.
- Survey carpet and flooring/clean and repair if needed.
- Inspect window caulking and repair if needed.
- Remove leaves and debris from gutters.

Annually

- Drain sediment from base of hot water tank.
- Have heating and air conditioning system serviced.
- Trim or prune trees and bushes.
- Check that your roof shingles are in good condition. Repair or replace any damaged shingles. Leaks require immediate attention and repair. If you cannot do the work yourself, contact a roofing professional right away.

Planning Is Critical

Look at the big picture. Before starting any home maintenance or repair project, it's best to plan it out. First, learn about the house. Inspect it thoroughly and make a full inventory of its current condition. Develop a comprehensive list of needed repairs and desired improvements. Set up a three- to five-year plan for home improvements. Make a budget and stick to it!

Get expert advice. Study home repair books and magazines and talk to contractors, architects, and friends about your house. Listen to their advice and learn from their mistakes. Home maintenance and repair classes may also be available at local housing agencies, home improvement stores, community organizations, or colleges. These classes can help you understand a home's maintenance needs. The workshops can also provide a better understanding of common house-related problems and ways of preventing them.

Don't over-invest in improvements. Unless you are highly skilled and have a large budget, do not attempt to transform a home into something out of a interior design magazine. After all, a home is supposed to be an investment, not a money pit. Over-improving a home, compared with other homes in the neighborhood, will not necessarily make the home worth more when you want to sell it.

Plan ahead for maintenance. Keep in mind that sooner or later nearly everything installed in and around a home is going to break or need repairs. To reduce this eventual burden, it makes sense to use materials that are well-designed, soundly constructed, and have withstood the "test of time." Keep track of receipts, manuals, and diagrams of replacement parts. Try to make maintenance as simple as possible by using high-quality materials and buying appliances that have long warranties. It is also wise to set up a savings account specifically for costly home repairs such as a roof replacement or exterior painting.

Consider your skills and your pocketbook. Be careful and realistic. Home repair projects can be stressful for a family, particularly if the use of the bathroom or kitchen is interrupted. To reduce this stress, try to keep the work within the limits of your skills, time, and budget.

Use high-quality building materials. As far as building materials go, use the best materials you can afford. In general, try to repair existing materials. If replacement is required, try to at least match the quality of the existing materials used in your home. It also makes sense to compare the "life-cycle costs" of materials. That is, try to compare materials not just by their initial costs but also by their maintenance costs and how long they will last. Using this standard, in the long run a hardwood floor would be a better investment than carpeting.

Over-improving a home, compared with other homes in the neighborhood, will not necessarily make the home worth more when you want to sell it.

It's a good idea to set aside a portion of your monthly savings for routine home maintenance and repairs.

Setting Priorities

Obviously, not everyone can afford to restore an entire house at once. Thus it is important to prioritize home repair work with a master plan that can be implemented over, say, a five-year period. The following are some suggested priorities for home repairs.

Critical building maintenance and life-safety repairs. The first items you must take care of include any life safety or structural repairs that, if left undone, could damage the structure or hurt those living in it. This list might include repairs to your roof, foundation, siding, porches, exterior stairs, or even exterior painting.

Mechanical system improvements. This work would include upgrading the heating, air conditioning, electrical, or plumbing systems to be safer, more economical, or just more convenient.

Energy-efficiency improvements. This area covers items that could reduce heating and/or cooling costs and increase comfort. For example, this work might entail repairing or replacing windows and doors, adding attic insulation or installing an attic fan.

General and cosmetic interior improvements. This includes everything else, such as updating the kitchen, installing new carpeting, or repainting interior walls.

Yard work and landscaping improvements. This work includes work on your yard, from simply planting flowers to more expensive and involved work, such as planting trees or building a barbecue patio.

Once priorities for home repairs and improvements are established, it doesn't mean that you have to follow the priorities one-by-one down the checklist. After you have taken care of all critical building maintenance and life safety repairs, you can rearrange the list to strike a compromise among your needs, desires, and pocketbook.

Saving for Routine Maintenance and Repairs

It's a good idea to set aside a portion of your monthly savings for routine home maintenance and repairs. The amount will vary depending on the age and condition of your property, but a good rule of thumb is to save at least 1% of your home's purchase price over a one-year period (for example, 1% of a $120,000 home over 12 months is $100 per month).

At minimum, you will want to have a home repair fund of $2,000 to $3,000 set aside to cover repairs. If you don't set money aside to do routine maintenance and make small repairs when needed, you might end up paying costly credit card charges for this work. Worse yet, if you ignore the maintenance, you could end up with serious, expensive problems in the future.

Sample Schedule of Seasonal Maintenance Tasks

Winter Maintenance Schedule

Task	Frequency	Who Will Do	Date(s) Done
Change furnace filters	Monthly (during heating season)	____________	________
Humidifier: thoroughly clean water in reservoir, if applicable	Each week	____________	________

Spring Maintenance Schedule

Task	Frequency	Who Will Do	Date(s) Done
Window cleaning spring and fall	As needed	____________	________
Window caulking (especially for air-conditioned rooms)	Spring and fall or as needed	____________	________
Plans for outside care, such as washing or painting siding	Annually as needed	____________	________
Defrost manual freezer	Annually before new preservation seasons begin	____________	________

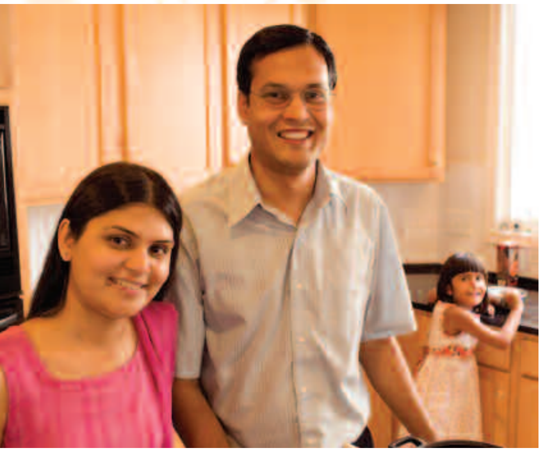
Summer Maintenance Schedule

Task	Frequency	Who Will Do	Date(s) Done
Clean air conditioner filter	Monthly or per manual directions	____________	________

Fall Maintenance Schedule

Task	Frequency	Who Will Do	Date(s) Done
Heating system serviced	Before system is needed	____________	________
Remove leaves from gutters	Once or twice during fall	____________	________
Clean and store yard tools, discard or store yard chemicals properly	As needed	____________	________
Clean fire extinguisher, refill or replace as needed	Annually	____________	________

Adapted from Ohio State University Extension.



Good advice can save you time and money.

Making Home Improvements

In addition to making these necessary home repairs, you will also have the opportunity to improve your property over time to make it more convenient, efficient, safe, or attractive. Many of these repairs and improvements are expensive. Therefore, it's important to plan ahead so you can save for this work and get it done when you are financially ready instead of being forced to address these issues as part of a crisis.

Doing Simple Home Repairs and Maintenance Yourself

There are many ways to learn how to do home repairs and maintenance chores. While some home projects are large and complex, many are simple, small tasks that most homeowners can learn to do themselves. Here are several ways to learn more about maintaining and improving your home:

Learn from neighbors, relatives, contractors, and associates at home improvement stores. It is probably simplest to learn home improvement skills directly from someone else. With one-on-one instruction, you can ask questions, watch the person make similar improvements, and test out your skills while the instructor watches. Good advice can save you time and money.

Take a home repair class. Many schools, colleges, nonprofit organizations, and home improvement stores offer classes on home repairs and improvement projects. These classes provide homeowners with the opportunity to get "hands-on" experience in making home repairs under the supervision of a skilled teacher.

Read books, watch videos, and visit web sites. Reading home repair books, watching videos or cable shows and checking online resources are valuable ways to learn more about home repairs and improvements. While these approaches won't allow you to ask questions, they can be very helpful in providing detailed background information and providing creative solutions to common problems.

Work alongside a contractor you've hired. Not all contractors are willing to work directly with homeowners, but it's worth asking. Some contractors will welcome having a homeowner who can act as a helper to fetch parts and tools as they work. This gives you an opportunity to watch them in action, ask questions, and learn new skills from an experienced professional.

Hiring Contractors

In the course of maintaining a home, you will occasionally have to make repairs that require professional help and you'll need to call in a contractor. To ensure that the relationship with a contractor goes smoothly, it's a good idea to follow these suggestions:

Be specific about the work. Before calling contractors, you should have a clear idea of what you want. Whenever possible, describe dimensions, materials, colors, style of cabinets or fixtures, and so on. Write these ideas down and give a copy to each contractor you meet with so that they understand what you want. For larger projects, it's worthwhile working with an architect or a construction manager to develop plans and specifications.

Shop for contractors and check references. Talk to friends or check with the local homebuilder association about reliable contractors. Every reputable contractor should provide the names of several recent customers as references. Call these references and, if possible, visit their homes to inspect the work. Be thorough in asking questions about the contractor's timeliness and work habits. Also, make sure the contractors are licensed, if applicable, in your area and that they have current liability insurance coverage.

Bid the job competitively. Unless the job is very small or very urgent, it is wise to have several contractors compete for the opportunity to do the work. Try to obtain two or three bids. Contractors spend considerable time preparing bids, so be fair. Don't ask a contractor to bid on a project unless you are willing to award them the job if the price is right. Make sure that contractors are providing bids (firm prices) rather than estimates (rough calculations) for the work. Ask about hourly rates for any extra work. Read the written bids carefully to ensure that all the contractors are bidding on similar work.

Sign a contract. Prepare a contract that describes the work to be completed, including plans and specifications; the time schedule; the payment schedule; and any warranties that are provided. The contract should also note who is responsible for clean-up, utility costs, obtaining permits, and paying applicable permit fees during the construction period. Before signing, read the contract carefully to ensure that the terms are agreeable. This legal document is meant to protect both parties.

Talk to friends or check with the local homebuilder association about reliable contractors.

On larger jobs, or at the contractor's request, you may want to make progress payments.

Don't pay in advance. Many small construction jobs are completed quickly so that only one payment at the end may be necessary. On larger jobs, or at the contractor's request, you may want to make progress payments. The amount of these payments should be written into the contract and followed closely. It is wise to hold back a substantial amount of the contract (up to 10 to 30%) for the final payment to ensure the job is completed in a timely manner and all the loose ends are tied up. Of course, you shouldn't make this final payment until you are fully satisfied with the completed work.

During construction, keep changes to a minimum. Try to avoid making changes in the contract because late changes will increase costs and usually the time required to complete the project. However, in the event they do occur, any changes should be approved by both parties in writing with a listing of any extra material and labor costs.

Keep a written record. Keep a written log of your construction projects. The records should detail the progress of the work, payments made, approved changes in the work, and important conversations with the contractor. These records could help resolve disagreements at the end of the project.

Show good faith. Throughout the construction process, try to maintain a good relationship with the contractor: be available for consultations, help out where possible, or have a cold drink available after a long day's work. Remember, a little cooperation and courtesy can go a long way toward preventing tensions between you and the contractor.

The Contract

A contract is a legally binding written agreement. A contract should be written for all construction projects between homeowners and contractors. This agreement should be signed by both parties and any changes to the contract should be made in writing and be approved by both parties.

Ideally, the contract should include the following information:

- Names and addresses of both parties
- Date the contract is signed
- Scope of work (be specific: plans, specifications, lists, materials, etc.)
- Total cost of the specified work
- Work schedule (date when work will begin and end)
- Payment schedule (when payments will be made; with at least 10% held until the end)
- Warranties for the work or materials
- Hourly labor rate for any extra work
- Responsibilities for clean-up, utilities, and permit fees
- Requirements for liability insurance coverage

Home Safety and Emergency Preparedness

A key priority for maintaining your home is paying attention to safety issues. Home accidents are a major source of injuries — but you can do a lot to prevent them and/or limit the harm they cause. Here are a few strategies to improve the safety of your home:

Keep a first aid kit handy. Keep a first aid kit in a convenient place in your home such as the bathroom or kitchen, and make sure everyone knows where it is located. These types of kits can be purchased at most drug stores or outdoor stores for less than $25. The first aid kit should include sterile bandages, sterile gauze pads, 2-inch gauze bandage, adhesive tape, antibiotic ointment, latex gloves, face masks, antiseptic wipes, burn gel, aspirin, antihistamine, eye wash, a thermal blanket, and chemical ice packs.

Post emergency phone numbers in the kitchen and by all phones. Print out emergency phone numbers for the police, fire department, doctor, pharmacist, hospital emergency room, and nearby relatives or neighbors. Post these numbers close to all of the phones so they can be easily found and used. Train everyone in the family to use these numbers in case of an emergency. Even young children can learn to dial 911 in case of an emergency.

Prevent fire damage by installing smoke detectors and purchasing fire extinguishers. Your house should have direct-wired smoke detectors installed on the ceilings outside all bedrooms and other living spaces in the house. If you have questions about the location or condition of smoke detectors, contact your local fire department — they often provide free home safety inspections. The detectors should be tested regularly to make sure they are working. Detectors in good working order will sound an alarm loud enough to awaken everyone in the house if smoke is detected. A fire extinguisher can be used to put out a small fire. Keep an extinguisher in the kitchen, garage, and upstairs. Keep extinguishers away from children and check their gauges regularly to ensure they are operational.

Have an evacuation plan. In case of a fire or some other emergency, you need an evacuation plan to make sure everyone gets out of the house safely. Talk to everyone about alternative ways they can get out of the house quickly and safely (through windows and/or doors) if there is a fire or other emergency. Have a plan to meet up at a neighbor's house or another specific location.

Home accidents are a major source of injuries — but you can do a lot to prevent them and/or limit the harm they cause.

Simple steps can help prevent accidents.

Take steps to prevent accidental injuries caused by falls. Falls account for almost half of accidental deaths in the home, and the elderly are especially susceptible to these injuries. Here are some simple steps that can help prevent these accidents:

- Keep floors in good repair and make sure all rugs have nonskid backings
- Avoid running electric cords across rooms and pathways
- Keep floors and pathways clear of toys and other obstructions
- Make sure that stairs and steps are well-lit and free of obstructions
- Provide sturdy handrails on all stairs
- Be cautious around wet and slippery floor surfaces
- Install nightlights in hallways and bathrooms
- Install nonskid mats in bathtubs and showers
- Install sturdy grab bars in bathtubs and showers
- Install window guards for children on upper floors
- If you have small children, install gates at the top and bottom of stairways

Prevent lead contamination. Most houses built before 1980 have paint that contains a significant amount of lead. If this lead-based paint is peeling, chipped or sanded, it can be a hazard to a home's occupants, especially young children who may eat or breathe in these paint particles. Many studies have shown that lead can have significant negative health effects on children. If you suspect your home has lead paint, get it tested by a professional before you do any repairs and renovations that may disturb painted surfaces. Clean up any paint chips or dust with a wet sponge mop to avoid spreading it through your house. Contact your county health department for useful publications and advice on this topic.

Conduct a home safety inspection. Inspect your doors and windows from the outside to ensure that they close and lock properly. Repair or replace any locks, doors or windows that are broken or not working. Deadbolts should be installed on all of your entry doors. If crime is a problem in your neighborhood, you may want to consider installing a security alarm system. You may want to start a neighborhood watch program with your neighbors.

Emergency and Disaster Preparedness

Disasters can strike unexpectedly and wreak havoc on your life. Though you can rarely control or prevent disasters, you can certainly plan and be prepared for these emergencies. Even a small amount of preparation can help reduce your losses from these disasters. The University of Florida IFAS Web site provides an excellent online manual about disaster preparedness at http://disaster.ifas.ufl.edu/default.htm. Here are some general guidelines to follow:

Pay attention to advance warnings. Public officials can often provide advance warnings about pending disasters such as floods, tornadoes, hurricanes, severe windstorms, extreme heat waves, and snowstorms. Pay attention to these warnings and take steps to prepare your household for the potential emergency. Tune in to radio and television reports for updated conditions. Don't ignore these warnings and continue with "business as usual." Remind your family about your evacuation plans and alert relatives about the potential situation.

Have emergency supplies stored and ready. Even a modest storm can cause temporary power outages and prevent your lights from working. If these outages are longer term, you can be uncomfortable and your safety could be at risk unless you have some emergency supplies stored and ready for use. See the Emergency Supply Checklist for specific items to include in your kit.

Keep an up-to-date inventory of household possessions. A key to putting your life back together after a disaster is having a thorough household inventory and secure storage for important documents. The household inventory should include a description of your possessions (including model and serial numbers), proof of the date you bought each item and its cost (ideally, including a copy of the receipt and/or a photograph of the item). In fact, photographing or videotaping your possessions is a great way to keep an inventory. Even relatively inexpensive items such as tools or clothes should be inventoried.

Protect valuable household records. It is critical to keep your important household documents in a locked, fireproof, and waterproof container to prevent these documents from being destroyed in a disaster. If you do not have a bank safe deposit box to store these documents, you should purchase a home storage safe that is fireproof and waterproof.

Emergency Supply Checklist

- ❑ Water: one gallon of water per person per day for at least three days, for drinking and sanitation, and water purification tablets
- ❑ Food: at least a three-day supply of nonperishable food
- ❑ Battery-powered or hand-crank radio and a NOAA Weather Radio with tone alert and extra batteries
- ❑ Flashlight and extra batteries
- ❑ First aid kit
- ❑ Whistle to signal for help
- ❑ Dust masks, to help filter contaminated air and plastic sheeting and duct tape
- ❑ Moist towelettes, garbage bags and plastic ties for personal sanitation
- ❑ Wrench or pliers to turn off utilities
- ❑ Can opener for canned food
- ❑ Local maps
- ❑ Tissues and plastic bags
- ❑ Plastic tarp, thermal blankets, and emergency ponchos
- ❑ Cell phone batteries and rechargers
- ❑ Candles and waterproof matches
- ❑ Cash, credit cards
- ❑ Emergency telephone numbers
- ❑ Paper and pencil

Source: U.S. Department of Homeland Security.

Getting Involved in Your Community

Meet your neighbors, visit your local library or community center, and read your city newspaper to learn more about activities and important issues in your area.

When you bought your home, you also "bought into" the neighborhood in which your home is located. This may be a neighborhood that is new to you or one in which you lived previously. In your new role as a homeowner in the neighborhood, you will probably want to find ways to get more involved in your community to help protect your investment and make it more enjoyable to live there.

Get to Know the Neighborhood

To be an active member of the community, you must first get to know your neighborhood. Meet your neighbors, visit your local library or community center, and read your city newspaper to learn more about activities and important issues in your area. You may wish to get involved with a local Neighborhood Watch association, or the parent organization at your child's school. If you would like to learn more about civic affairs, you can attend town or city council meetings, or contact your local, state, or federal elected officials. You can obtain the names of your elected officials online, or at your local library.

Enjoy the Benefits

With all this hard work, it is important to remember that homeownership comes with many benefits. Here are just a few:

- Having pride of ownership
- Enjoying a home value that may increase over time (3 to 6% nationwide over past 20 years, according to financial experts) Note: figure from lendingtree.com
- Receiving tax advantages
- Having the control to make important choices about when and where repairs and improvements are made
- Enjoying a garden or a yard for your children and/or pets to play in
- Experiencing a sense of community as you and your family get to know neighbors, schools, and parks
- Having choices when it comes to decorating and renovating
- Investing in your home's equity by paying your mortgage instead of paying a landlord
- Creating a valuable asset for your future
- Having a recognized voice in your community — elected officials and decision makers value homeowners' opinions on local matters, including school issues and traffic concerns
- Creating stability for you and your family in a place of your own

Welcome Home

For you, the dream of homeownership is now a reality. You made the right choice in buying your home and now you must live up to the challenge of maintaining and protecting your important investment. Yes, you have hard work ahead of you, but you also get to reap the many rewards of being a homeowner. Congratulations.

Glossary

Actual Cash Value: An amount equal to the replacement value of damaged property minus depreciation.

Adjustable-Rate Mortgage (ARM): Also known as a variable-rate loan, an ARM usually offers a lower initial rate than a fixed-rate loan. The interest rate can change at a specified time, known as an adjustment period, based on a published index that tracks changes in the current finance market. Indexes used for ARMs include the LIBOR index and the Treasury index. ARMs also have caps, a maximum and minimum that the interest rate can change at each adjustment period.

Adjustment Period: The time between interest rate adjustments for an ARM. There is usually an initial adjustment period, beginning from the start date of the loan and varying from 1 to 10 years. After the first adjustment period, adjustment periods are usually 12 months, which means that the interest rate can change every year.

Amortization: Paying off a loan over the period of time and at the interest rate specified in a loan document. The amortization of a loan includes in each mortgage payment the payment of interest and a part of the amount borrowed.

Amortization Schedule: Provided by mortgage lenders, the schedule shows how, over the term of your mortgage, the principal portion of the mortgage payment increases and the interest portion of the mortgage payment decreases.

Annual Percentage Rate (APR): How much a loan costs annually. The APR includes the interest rate, points, broker fees and certain other credit charges a borrower is required to pay.

Application Fee: The fee to cover processing costs that a mortgage lender charges the borrower to apply for a mortgage.

Appraisal: A professional analysis used to estimate the value of the property. This includes examples of sales of similar properties.

Appraiser: A professional who conducts an analysis of the property, including examples of sales of similar properties, to develop an estimated value of the property. The analysis is called an appraisal.

Appreciation: An increase in the market value of a home due to changing market conditions and/or home improvements.

Arbitration: A process where disputes are settled by referring them to a fair and neutral third party (arbitrator). The disputing parties agree in advance to agree with the decision of the arbitrator. There is a hearing where both parties have an opportunity to be heard, after which the arbitrator makes a decision.

Asbestos: A toxic material that was once used in housing insulation and fireproofing. Because some forms of asbestos have been linked to certain lung diseases, it is no longer used in new homes. However, some older homes may still have asbestos in these materials.

Asset: Something of value an individual owns.

Assumption: A homebuyer's agreement to take the primary responsibility for paying an existing mortgage from a home seller.

Balloon Mortgage: A mortgage with monthly payments based on a 30-year amortization schedule, with the unpaid balance due in a lump sum payment at the end of a specific period of time (usually five or seven years). The mortgage contains an option to "reset" the interest rate to the current market rate and extend the due date if certain conditions are met.

Bankruptcy: A legal declaration that you are unable to pay your debts. Bankruptcy can severely affect your credit record and your ability to borrow money.

Cap: A limit to how much an adjustable rate mortgage's monthly payment or interest rate can increase. A cap protects the borrower from large increases and may be a payment cap, an interest cap, a life-of-loan cap or an annual cap. A payment cap is a limit on the monthly payment. An interest cap is a limit on the amount of the interest rate. A life-of-loan cap restricts the amount the interest rate can increase over the entire term of the loan. An annual cap limits the amount the interest rate can increase during a 12-month period.

Capacity: Your ability to make your mortgage payments on time. This depends on your income and income stability (job history and security), your assets, your savings and the amount of your income that remains each month after you have paid your housing costs, debts and other obligations.

Closing (Closing Date): The completion of the real estate transaction between buyer and seller. The buyer signs the mortgage documents, and the closing costs are paid. It is also known as the settlement date.

Closing Agent: A person who coordinates closing-related activities, such as recording the closing documents and disbursing funds.

Closing Costs: The costs to complete the real estate transaction. These costs are in addition to the price of the home and are paid at closing. They include points, taxes, title insurance, financing costs, items that must be prepaid or escrowed and other costs. Ask your lender for a complete list of closing cost items.

Glossary

Collateral: Property that is used as security for a debt. In the case of a mortgage, the collateral is the house and property.

Commitment Letter: A letter from your lender stating the amount of the mortgage, the number of years to repay the mortgage (the term), the interest rate, the loan origination fee, the annual percentage rate and the monthly charges.

Concession: Something given up or agreed to when negotiating the sale of the house. For example, the sellers may agree to help pay for closing costs.

Condominium: A unit in a multi-unit building. The owner of a condominium unit owns the unit itself and has the right, along with other owners, to use the common areas. The owner does not own the common elements, such as the exterior walls, floors, ceilings or structural systems outside of the unit; the condominium association owns these. There are usually condominium association fees for building maintenance, property upkeep, taxes and insurance on the common areas, and there are reserves for improvements.

Contingency: A plan for something that may occur but is not likely. For example, your offer may be contingent on the home passing a home inspection. If the home does not pass inspection, you are protected.

Counter-offer: An offer made in response to a previous offer. For example, after the buyer presents his or her first offer, the seller may make a counter-offer with a slightly higher sale price.

Credit: Credit is the ability to borrow tomorrow's money to pay for something you get today. Credit is extended based on a lender's good opinion of a person's financial situation and reliability.

Credit Bureau: A company that gathers information on consumers who use credit. The company sells that information to credit lenders in the form of a credit report.

Credit History: A record of credit consisting of a list of individual consumer debts and a record of whether these debts were paid on time or as agreed. Credit institutions have created a detailed document of your credit history called a credit report.

Credit Report: A document used by the credit industry to examine your use of credit. It provides information on money that you have borrowed from credit institutions and your payment history.

Credit Score: A computer-generated number that summarizes your credit profile and predicts the likelihood that you will repay future debts.

Creditworthy: Your ability to qualify for credit and repay debts.

Debt: Money owed from one person or institution to another person or institution.

Debt-to-Income Ratio: The percentage of gross monthly income that goes toward paying your monthly housing expense, alimony, child support, car payments and other installment debts, and payments on revolving or open-ended accounts such as credit cards.

Deed: A legal document transferring ownership or title to a property.

Deed of Trust: A legal document in which the borrower transfers the title to a third party (trustee) to hold as security for the lender. When the loan is paid in full, the trustee transfers title back to the borrower. If the borrower defaults on the loan, the trustee will sell the property and pay the lender the mortgage debt.

Default: Failure to fulfill a legal obligation. A default includes failure to pay a financial obligation, but it also may be a failure to perform some action or service that is non-monetary. For example, when leasing a car, the lessee usually is required to properly maintain the car.

Depreciation: A decline in the value of a home due to changing market conditions or lack of upkeep on the home.

Down Payment: A portion, usually between 3% to 20%, of the price of a home. This portion is not borrowed and is paid up front.

Earnest Money Deposit: The deposit to show that you are committed to buying the home. The deposit is not refunded to you after the seller accepts your offer unless one of the sales contract contingencies is not fulfilled.

Equity: The value of your home above the total amount of liens against your home. If you owe $100,000 on your home, but it is worth $130,000, you have $30,000 of equity.

Escrow: The holding of money or documents by a neutral third party before closing. It also can be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

Glossary

Fixed-Rate Mortgage: A mortgage with an interest rate that does not change during the entire term of the loan.

Foreclosure: A legal action that ends all ownership rights in a home when the homeowner fails to make the mortgage payments or is otherwise in default under the terms of the mortgage.

Gift Letter: A letter that a family member writes verifying that he or she has given you a certain amount of money as a gift, and that you do not have to repay it. For some mortgages, you can use this money toward a portion of your down payment.

Good-Faith Estimate: A written statement from the lender itemizing the approximate costs and fees for the mortgage.

Gross Monthly Income: The income you earn in a month before taxes and other deductions. It also may include rental income, self-employment income, income from alimony, child support, public assistance payments, and retirement benefits.

Home Inspection: A professional inspection of a home to determine the condition of the property. The inspection should include an evaluation of the plumbing, heating and cooling systems, roof, wiring, foundation, and pest infestation.

Homeowner's Insurance: A policy that protects you and the lender from fire or flood, which damages the structure of the house; a liability, such as an injury to a visitor to your home; or damage to your personal property, such as your furniture, clothes or appliances

Housing Expense Ratio: The percentage of your gross monthly income that goes toward paying for your housing expenses.

HUD-1 Settlement Statement: A final list of the costs of the mortgage transaction. It states the sales price and down payment, as well as the total settlement costs required from the buyer and seller.

Index: The published index of interest rates used to calculate the interest rate for an ARM. The index is usually an average of the interest rates on a particular type of security, such as the LIBOR.

Individual Retirement Account (IRA): A tax-deferred plan that can help you build money for retirement.

Inflation: An increase in prices.

Inquiry: A request for a copy of your credit report. An inquiry occurs every time you fill out a credit application or request more credit. Too many inquiries on a credit report can hurt your credit score.

Interest: The cost you pay to borrow money. It is the payment you make to a lender for the money it has loaned to you. Interest is usually expressed as a percentage of the amount borrowed.

Keogh Fund: A tax-deferred retirement savings plan for small business owners or self-employed individuals who have earned income from their trade or business. Contributions to the Keogh plan are tax deductible.

Liability: A debt or other financial obligation.

Lien: A claim or charge on property for payment of a debt. With a mortgage, the lender has the right to take the title to your property if you do not make the mortgage payments.

Loan Origination Fee: A fee paid to your mortgage lender for processing the mortgage application. This fee is usually in the form of points. One point equals 1% of the mortgage amount.

Lock-In Rate: A written agreement guaranteeing a specific mortgage interest rate for a certain amount of time.

Low–Down Payment Feature: A feature of some mortgages, usually fixed-rate mortgages, that helps you buy a home with as little as a 3% down payment.

Margin: A percentage added to the index for an ARM to establish the interest rate on each adjustment date.

Market Value: The current value of your home based on what a purchaser would pay. Sometimes an appraisal is used to determine market value.

Mortgage: A loan using your home as collateral. In some states the term mortgage also describes the document you sign (to grant the lender a lien on your home). The term also may indicate the amount of money you borrow, with interest, to purchase your home. The amount of your mortgage is usually the purchase price of the home minus your down payment.

Mortgage Broker: An independent finance professional who specializes in bringing together borrowers and lenders to complete real estate mortgages.

Mortgage Insurance or Private Mortgage Insurance (MI or PMI): Insurance needed for mortgages with low down payments (usually less than 20% of the price of the home).

Mortgage Lender: The lender who provides funds for a mortgage. Lenders also manage the credit and financial information review, the property and the loan application process through closing.

Glossary

Mortgage Rate: The cost or the interest rate you pay to borrow the money to buy your house.

Mutual Fund: A fund that pools the money of its investors to buy a variety of securities.

Net Monthly Income: Your take-home pay after taxes. It is the amount of money that you actually receive in your paycheck.

Offer: A formal bid from the homebuyer to the home seller to purchase a home.

Open House: When the seller's real estate agent opens the seller's house to the public. You do not need a real estate agent to attend an open house.

Point: 1% of the amount of the mortgage. For example, if a loan is made for $50,000, one point equals $500.

Pre-Approval Letter: A letter from a mortgage lender indicating that you qualify for a mortgage of a specific amount. It also shows a home seller that you are a serious buyer.

Predatory Lending: Abusive lending practices that include making mortgage loans to people who do not have the income to repay them, or repeatedly refinancing loans, charging high points and fees each time and "packing" credit insurance onto a loan.

Pre-Qualification Letter: A letter from a mortgage lender that states that you are pre-qualified to buy a home, but it does not commit the lender to a particular mortgage amount.

Principal: The amount of money borrowed to buy your house, or the amount of the loan that has not yet been repaid to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan minus the amount you have repaid.

Private Mortgage Insurance (PMI): See Mortgage Insurance.

Property Appreciation: See Appreciation.

Radon: A toxic gas found in the soil beneath a house that can contribute to cancer and other illnesses.

Rate Cap: The limit on the amount an interest rate for an ARM can increase or decrease during an adjustment period.

Ratified Sales Contract: A contract that shows both you and the seller of the house have agreed to your offer. This offer may include sales contingencies, such as obtaining a mortgage of a certain type and rate, getting an acceptable inspection, making repairs and closing by a certain date.

Real Estate Professional: An individual who provides services for buying and selling homes. The seller pays the real estate professional a percentage of the home sale price. Unless you specifically have contracted with a buyer's agent, the real estate professional represents the interest of the seller. Real estate professionals may be able to refer you to local lenders or mortgage brokers, but they generally are not involved in the lending process.

Refinance: The process of getting a new mortgage and using all or some portion of the proceeds to pay off the original mortgage.

Replacement Cost: The cost to replace damaged personal property without a deduction for depreciation.

Securities: A financial form that shows that the holder owns shares of a company (stock) or has loaned money to a company or government organization (bond).

Title: The right to, and the ownership of, property. A title or deed sometimes is used as proof of ownership of land.

Title Insurance: Insurance that protects lenders and homeowners against legal problems with the title.

Truth-in-Lending Act (TILA): A federal law that requires disclosure of a truth-in-lending statement for consumer loans. The statement includes a summary of the total cost of credit, such as the APR and other specifics of the loan.

Underwriting: The process a lender uses to determine loan approval. It involves evaluating the property and the borrower's credit and ability to pay the mortgage.

Uniform Residential Loan Application: A standard mortgage application your lender will ask you to complete. The form requests your income, assets, liabilities and a description of the property you plan to buy, among other things.

Warranty: A written guarantee of the quality of a product and the promise to repair or replace defective parts free of charge.

Notes

Notes