Module 4.2
Study Guide

HUD Housing Counselors Training

U.S. Department of Housing
and Urban Development

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Module 4.2 Homeownership/Post-Purchase

Module Introduction

Module Introduction

In this module, you'll learn to help clients successfully fulfill their ongoing responsibilities as homeowners. You'll learn about the importance of continued financial management in order to make property-related payments on time. You'll also learn about preparing plans for home maintenance and repair.

To help clients create a safe living space, you'll learn methods to reduce risk of accidents in the home and tips to create a plan for emergencies or disasters. Additionally, you'll explore strategies for energy efficiency to reduce environmental impact and home maintenance costs.

Lastly, you'll learn about financing options for home improvement, such as securing a home equity loan or refinancing, and about the process of selling a home.

Before we begin, let's look at the module learning objectives.

Lesson Objectives

By the end of this module, you'll be able to:

1. Apply knowledge of the consequences related to neglecting housing obligations, including mortgage payments, property taxes, and compliance with financial requirements and regulations of homeowners associations.
2. Prepare a maintenance plan for at least one major household system, including the system's life cycle, use, and repair strategies.
3. Apply knowledge of safety-related strategies for the interior and exterior of the home when discussing with clients how to promote a safe living environment, reducing the risk of accidents and the impact of disasters..
4. Create an emergency preparedness plan to assist clients with coping during a disaster.
5. Discuss specific energy efficient strategies that clients may employ.
6. Utilize your knowledge of specific home improvement financing options, such as FHA 203k and HELOC, to counsel clients on applying for financing for repairs or renovations on their properties.

7. Assess a client's options to refinance an existing mortgage using their credit report, recent mortgage statements, estimated property value, and applied knowledge of available loan programs.
8. Apply knowledge of the home sales process to prepare clients to avoid predators and select professionals to support the process.

Timely Payments

Consequences of Late Payments

First, to learn about the importance of making timely payments, we'll look in on a post-purchase counseling session.

In the session, Rebecca counsels Drew, a former client whom she helped through the homebuying process. You'll observe her as she:

A Counselor, Rebecca

- Reviews common financial obligations of homeowners.
- Cautions about the consequences of late payments on mortgages, taxes, special assessments, and fees to homeowners associations, or HOAs, as well as community associations.
- Discusses the impact of liens on the property and homebuyer.
- Reviews the homeowner's household budget and revises as needed.
- Warns about the consequences of violating rules and regulations of HOAs or community associations.

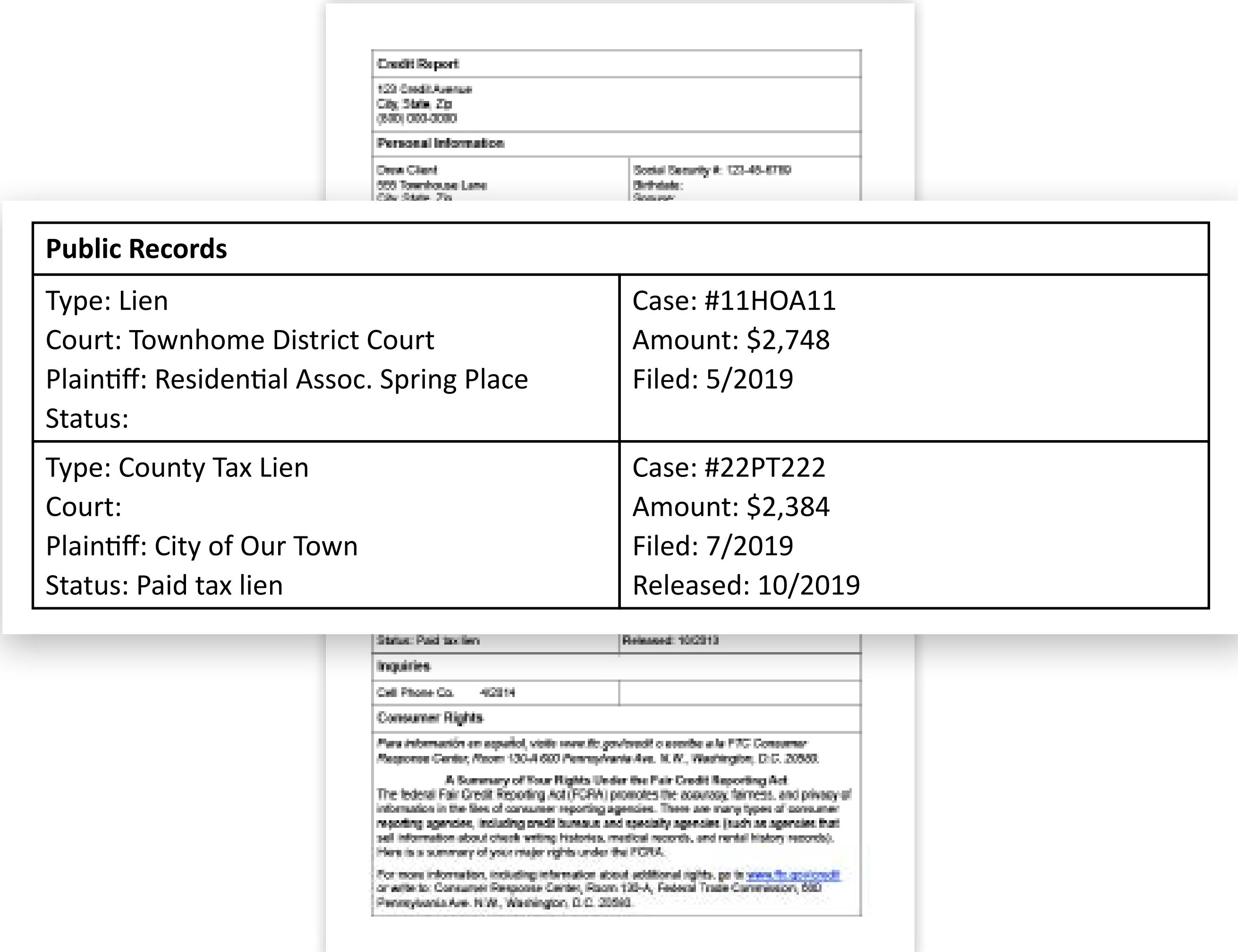
Lien

A legal claim against a property that secures the property as collateral if a debtor fails to meet loan obligations. Acts as a defect on the title and must be settled before transfer of ownership. The lien holder, or creditor granting the loan, releases the lien when the loan is paid in full.

Let's enter the session.

Rebecca: Hi, Drew. What brings you in today? I don't believe I have seen you since you bought your townhome 18 months ago.

Drew: Well, I applied for a new cell phone account and was denied because my credit score was too low. I have my credit report here, and I was hoping you could help me understand why my score is so low.



Public Records	
Type: Lien Court: Townhome District Court Plaintiff: Residential Assoc. Spring Place Status:	Case: #11HOA11 Amount: $2,748 Filed: 5/2019
Type: County Tax Lien Court: Plaintiff: City of Our Town Status: Paid tax lien	Case: #22PT222 Amount: $2,384 Filed: 7/2019 Released: 10/2019

REBECCA: Although credit reports no longer show liens, your public record does show a few liens. Items on your public record could still have a severe negative impact on your ability to obtain new credit. It shows here that you did not pay your property taxes on time, and you still need to pay past-due HOA fees. To reduce the chances that taxes are paid late, many lenders require borrowers to pay property taxes in conjunction with the monthly mortgage payment and then set the funds aside in an **escrow account**. However, that does not appear to be the case for you.

DREW: No, that is not the case for me. I have to pay taxes separately. But I did pay the taxes eventually. I even paid the late payment fees and

Escrow Account

An account in which escrow funds are held to be used for specific purposes by parties carrying out a mutual transaction. While there are many uses for an escrow account, they are commonly used by lenders to set aside a portion of monthly mortgage payments needed to cover property taxes, homeowners insurance, or other fees.

penalties charged. Why are the liens still noted there?

REBECCA: Unfortunately, even when liens have been paid and released, they can remain on your credit report. In addition to your current balances due, credit reports demonstrate your bill payment history, because it is of interest to prospective creditors.

DREW: Oh yeah, I believe we talked about that before I purchased my new place. As for the HOA fees, I didn't remember that they were mandatory. No one ever approached me to ask for them.

REBECCA: Yes, they are mandatory. If you neglect to pay the dues or fees, the HOA may file a **judgment** against you or place a lien on your property to collect payment. A lien will need to be settled when you sell your home and usually makes selling it or refinancing it harder.

Judgment

In relation to credit, a court order mandating that a debtor pay a creditor a specified sum of money, often in collection of a debt. The record remains on a debtor's credit report for seven years whether paid or unpaid, but the negative effect is greater if unpaid.

DREW: I had no idea the consequences of late payments are so extreme. What can I do now to fix this?

REBECCA: First, I recommend that you contact your HOA to make arrangements for a payment plan. Since you are late on your payments, late charges and interest are accruing. If you continue to neglect these payments, the HOA could eventually foreclose on your townhome.

DREW: Okay, I can do that. Is there anything else I should do?

REBECCA: Make it a priority to pay all financial obligations connected to your home on time from this point forward. In addition to your mortgage payments, these obligations include property taxes, HOA fees and special assessments, and utility bills.

The owners of these accounts can place a lien on your home for unpaid balances, so these bills are critical to successful homeownership.

DREW: Will you tell me more about special assessments and what could happen if I miss a mortgage payment?

Special Assessments and Mortgage Payments

Rebecca answers Drew's question by sharing this critical information about special assessments and mortgage payments.

Special Assessments

Purpose

Homeowners or community associations may collect a special assessment, also known as a community assessment, to pay for specific large maintenance projects that benefit the entire community. For example, if the roof in a townhome complex needs to be replaced, each homeowner in the complex would pay a portion of the associated expenses. Special assessments differ from regular HOA fees, which generally cover routine community maintenance such as landscaping, snow removal, and garbage collection.

Sources of Funding

Savings: Generally, upcoming assessments will be announced six months to a year in advance, allowing time for homeowners to save money for the assessment.

Insurance: Homeowners can choose a homeowners insurance policy that includes loss assessment coverage. This coverage is designed specifically for homeowners with community associations, such as condominium or townhome owners. It provides funds to cover the policyholder's portion of certain types of community assessments, called loss assessments. Loss assessments are levied when unexpected, serious damage occurs to commonly owned association property, resulting in expenses that cannot be fully covered by the association's insurance policy. It is essential for a homeowner to review their homeowners insurance policy to understand which types of assessments might be covered through loss assessment coverage.

Escrow: When selling a home, the seller is required to inform the buyer about any impending assessments that have been announced. In such cases, the seller usually sets aside funds to cover the assessment in an escrow account. However, if the seller fails to disclose information about an upcoming assessment and establish an escrow account before the sale, the buyer may request the funds when they are notified of the assessment.

Consequences of Late Payments

The possible consequences are similar to those for property taxes and HOA fees. These include:

- Late payment fees and interest may accrue.
- Late payments can be reported to credit bureaus, negatively affecting credit scores.
- A judgment may be filed against a homeowner or a lien may be placed on the home.
- Selling or refinancing may become more difficult if a lien is placed against the home.

- Other consequences outlined in community bylaws may be enforced.

Mortgage

Purpose

A mortgage gives a lender the right to collect payment on a loan and to foreclose if loan obligations are not met. Mortgage contracts typically allow a grace period, usually 10–15 days after the due date. Payments made after the grace period are delinquent. If a payment is not made before the grace period ends, a mortgage is considered delinquent and remains delinquent as long as one payment remains due but unpaid. Lenders are not required to accept partial payments or payments that do not cover fees charged.

Consequences of Late Payments

- Late payment and other service fees will be charged.
- Late payments or nonpayment will be reported to credit bureaus, negatively impacting credit scores.
- Homeowners can lose their home through foreclosure, a legal process in which mortgaged property is sold to pay the loan of the **defaulting** borrower.

> **Default**
>
> The inability to make timely payments or fulfill legal obligations of loan terms. Mortgage loans are typically considered in default when a payment has not been made after 60 to 90 days.

When is a loan in default? A conventional loan is considered in default when a payment has not been paid after 60 to 90 days. Additional late fees and service fees are levied during this period. For FHA loans, a loan is considered in default after 30 days.

Housing counselors should attempt to schedule post-purchase counseling sessions immediately after clients purchase homes so they can reiterate the consequences of missing payments and adjust the household budget as needed before any problems arise.

Knowledge Check 1

A new homeowner, Rob, schedules a meeting with Rebecca and explains the following: "I purchased my house four months ago, and yesterday I received a notice that I will owe $3,000 in two weeks for a special assessment. I don't have $3,000 to spare, and I am not even certain what a special assessment is. What will happen if I just don't pay it?"

Which statement is NOT accurate based on what you know about special assessments?

"Yes, assessments are always difficult to pay because they are always announced just a few weeks before the funds are due."

A. "Special assessments are funds collected to pay for large projects such as repairing the roof of a condominium complex."
B. "The possible consequences of late payment or non-payment are similar to that of property taxes and HOA fees."
C. "The previous homeowner should have disclosed information regarding pending assessments before you purchased the home."

Violations to Association Regulations

Drew and Rebecca then talk about the consequences for violating association regulations.

Drew: Thanks for reviewing all of this information about payments with me! I'll set a goal to make my payments on time from now on.

Rebecca: You're welcome! Before we conclude our session today, let's look at your current budget and make adjustments to ensure you'll have the funds to make all housing-related payments on time. You'll need to be diligent about adhering to the budget.

In addition to the serious consequences of late payments, it's important to note that failing to follow the rules in your homeowners association bylaws can also result in additional consequences.

Drew: When I first moved into my townhome, I received a pamphlet with the rules and skimmed over it. I remember some of the rules, but I don't remember anything about consequences. There were some very detailed rules, such as what color doors and shutter types are permitted.

Rebecca: I'm glad you looked at the brochure. I recommend that you review the procedures that your association follows to enforce its rules. Each association is different, but typically, if you do not comply with the regulations, you could be restricted from using common association facilities or be held responsible for a variety of financial obligations.

DREW: What kind of financial obligations could there be if I don't follow a rule that is not related to my payments?

REBECCA: Your homeowners association could charge you a violation fine, sue you and charge you for any attorney's fees, and may place a lien on your property.

DREW: It seems like I'll need to also set a goal to learn all of the regulations and abide by them so I can avoid all of that!

KNOWLEDGE CHECK 2

Read about the following client situations, and then answer the question.

Ginette was temporarily moving to South America and expects to return in about six months. She knew from the HOA bylaws that an approved leasing permit was required to rent her unit, but there was a waiting list, and she did not have time to wait for approval. She signed a contract to sublet her condo for six months.

Nathan's wife lost her part-time job, which provided the income to pay the monthly mortgage. So, Nathan has not paid his mortgage payment for two months and plans to back pay as soon as his wife finds a new job.

What are possible consequences of Ginette's actions and Nathan's actions? Match each consequence on the right with the corresponding individual on the left.

A. Ginette
B. Nathan

___ 1. Late payment fees

___ 2. Restricted use of common facilities

___ 3. Mortgage in default

___ 4. Lien placed on property

___ 5. Violation fees

SYSTEM MAINTENANCE PLAN

Now, let's return to the session with Rebecca and Drew.

When they revise his budget, Rebecca explains to Drew that they will not only need to consider routine housing payments, but they will also need to plan for repairs or replacements of major household systems.

It is beneficial to pay for these projects with personal savings to avoid the additional expense of loan interest. She shows Drew a template for a system maintenance plan that will help him prepare and save, reviewing each component of the plan with him.

System	Warranty Coverage (Old System)	Life Used (Old System)	Life Expectancy (Old System)	Upkeep Options	Estimated Cost (New System)	Repair/ Replacement Strategy	Target Replacement Date

System

Household systems include appliances, windows, roofing, insulation, electric, heating, ventilation, air conditioning (HVAC), and other components.

Warranty Coverage (Old System)

Home warranties offer protection for mechanical systems like HVAC and attached appliances against unexpected repairs not covered by homeowner's insurance. Homebuyers should ask previous homeowners about warranties on individual home appliances as well.

Life Used (Old System)

A previous homeowner or a home inspector may know or be able to estimate when the system was manufactured, installed, or purchased.

Life Expectancy (Old System)

Homeowners can refer to the manufacturers' online resources to estimate the life expectancy of household systems

Upkeep Options

There are many proactive steps homeowners can take to prevent repairs from becoming necessary and to increase the life of a household system.

Estimated Cost (New System)

Homeowners can purchase refurbished appliances to save money upfront. Also, they can reduce their energy bills long term by choosing energy-efficient appliances that have an ENERGY STAR label.

Repair/Replacement Strategy

Homeowners can fix and replace systems independently or pay a contractor. To learn how to complete home repairs themselves, they might attend free workshops at hardware stores and local nonprofits. Those who use a contractor may want to research to find a reliable and reasonably priced contractor.

Target Replacement Date

When homeowners set a target replacement date for household systems, they can plan financially for the associated expenses.

Before moving on, Rebecca assists Drew in making a list of key systems in his home and preparing a plan for one system. Here is what they come up with.

System	Warranty Coverage (Old System)	Life Used (Old System)	Life Expectancy (Old System)	Upkeep Options	Estimated Cost (New System)	Repair/ Replacement Strategy	Target Replacement Date
Refrigerator	1 year product warranty (expired)	12 years	10 years	Clean accumulated dust off the condenser coil once a year—could triple the life cycle	New, ENERGY STAR label, top freezer = about $700	Will pay the retail store about $100 to install it	Summer
Oven							
Dishwasher							
Kitchen Flooring							
Windows							
Water Heater							
Washer							
HVAC							
Indoor Paint							
Insulation							

Note: When estimating the replacement cost for system components, manufactured-home owners should research models that are suitable for their home. Replacement components must comply with HUD Code which could impact costs.

Drew will complete the form on his own as homework and then will refer to it and update it often. If he follows the plan, he will avoid paying for critical repairs or replacements with credit or out of his emergency savings funds.

Knowledge Check 3

Which is the **least** critical topic to research when completing an effective maintenance plan for a household system?

A. Items covered by a home warranty or a product warranty
B. Estimated life of home television
C. Savings for purchasing a refurbished system rather than a new system
D. Upkeep techniques that may extend the life of a system

Home Improvements to Increase Energy Efficiency and Safety

Let's now go back to Rebecca and Drew's session. They are discussing home system replacements or home improvements, which increase the safety and energy efficiency of a home.

Rebecca: We have now reviewed some best practices to maintain home systems and prepare financially to replace them. You may find it beneficial and cost-efficient to replace some of the systems before they reach their life expectancies to improve or rehabilitate your home.

Improvements that increase the energy efficiency or safety of your home may be particularly beneficial, since they can increase the resale value of homes. Energy efficiency improvements have additional financial benefits as well.

Drew: What other financial benefits could the energy efficiency improvements have?

Rebecca: They may:

- Generate lower energy bills.
- Entitle homeowners to federal tax credits for consumer energy.
- Qualify homeowners for Energy Efficient Mortgages, a product of the Federal Housing Administration (FHA).

Drew: Those benefits make "going green" seem a lot more affordable! Are there any specific energy-related projects that you would recommend?

Rebecca: I can show you a checklist with some ideas. I'll also show you several ideas for large projects to improve your home safety, specifically to reduce the risk of accidents and impacts of disasters. However, I recommend that you do a bit more research on each change to determine if it is right for you and your home, as they can require a lot of time and money up front.

Drew: Where can I do more research to determine if an improvement project would be right for me?

Rebecca: You can find resources to guide your decisions about energy efficient improvements on the U.S. Department of Energy website, energy.gov, or the federal government's ENERGY STAR website, energystar.gov. On these sites, you can learn how to assess which projects give you the greatest energy savings and comfort benefits, and how to determine which projects will work best with your budget. You'll also be able to review which improvements entitle you to a tax credit and what guidelines exist for Energy Efficient Mortgages. Improvements such as installing heat pumps, heat pump water heaters, insulation, doors, and windows, as well as electrical panel upgrades, home energy audits, and more, are covered by the tax credits and can help families save money on their monthly energy bills for years to come. In addition to the energy efficiency credits, homeowners can also take advantage of the modified and extended Residential Clean Energy credit, which provides a 30 percent income tax credit for clean energy equipment, such as rooftop solar, wind energy, geothermal heat pumps, and battery storage.

To decide which home safety improvement projects to implement, I recommend that you review the federal government's emergency preparedness campaign website, Ready.gov. The site demonstrates that the location of a home will largely determine which improvements are valuable.

For instance, residents in wildfire-prone areas often consider establishing an outside water source like a small well or swimming pool. Conversely, individuals residing in earthquake-prone zones may install flexible pipe fittings to mitigate the risk of gas or water leaks.

Energy Efficiency

- Add insulation to the basement, attic, walls, and hot water pipes.
- Seal air leaks in the basement and attic.
- Replace windows with ENERGY STAR qualified windows.
- Install ENERGY STAR qualified heating and cooling equipment.
- Install an ENERGY STAR qualified water heater.
- Install renewable energy systems such as solar panels or a wind turbine.
- Put in a skylight, sunroom, or sunspace.
- Create a cool roof.

Safety

- Install an entrance door and garage door that can withstand impact and wind pressure and are secured with quality deadbolt locks.
- Install a garage door with a sensor that will stop it from closing on a person in its path.
- Use straps or additional clips to securely fasten your roof to the frame structure.
- Cover windows with permanent storm shutters.
- Purchase a generator for emergencies.
- Construct a safe-room based on the Federal Emergency Management Agency (FEMA)

guidelines.

- Anchor large equipment and furniture.

Home Maintenance to Increase Energy Efficiency and Safety

In addition to examining possible large-scale home improvements to increase energy efficiency and safety, Rebecca and Drew review examples of minor maintenance measures that can increase the energy efficiency and safety of his home.

Energy Efficiency

Interior

- Fix leaking faucets.
- Keep lights off in unoccupied rooms.
- Unplug equipment when not in use.
- Install a programmable thermostat.
- Use compact fluorescent lights (CFLs).
- Reduce the temperature of the water heater.
- Change your air filter regularly.
- Have your heating and cooling system tuned up yearly.

Exterior

- Plant shrubs and trees to provide shade.
- Repair caulking on windows.

Safety

Interior

- Install and maintain carbon monoxide detectors.
- Install and maintain smoke alarms.
- Keep electrical cords in good condition and positioned appropriately.
- Clean chimneys.
- Purchase a fire extinguisher and learn how to use it.
- Ensure there is adequate lighting in hallways and stairways.

- Fix loose handrails or carpeting on stairs.
- Tack down rugs and runners.
- Remove clutter.
- Check for evidence of mildew or mold.
- Check for exposed wires.
- Clean or replace filters.

Exterior

- Check driveways and walkways for cracks, breaks, and erosions.
- Use fencing around swimming pools and hot tubs.
- Ensure garage doors function.
- Remove clutter.
- Make sure outdoor security lighting works.
- Keep all window and door locks working properly.
- Check the inside and outside of foundation walls for termite damage.
- Keep tree branches trimmed and away from the chimney.
- Check for damaged gutter systems.

Drew recognizes that there are many actions he can take to make his home safer for his family, and he is now aware of ways to save money through energy efficiency. He decides to set aside a weekend each month to complete items on the checklist.

Drew will start with the actions that require no additional funds, such as turning off lights and reducing water temperature. Meanwhile, he will start saving for projects such as replacing his current light bulbs with CFLs.

Knowledge Check 4

Match the client scenario on the left to the most relevant advice on the right.

A. Client 1 has recently moved to a new state with his family. He has heard that the area is sometimes affected by tornadoes that could potentially damage his home.

B. Client 2 is considering purchasing ENERGY STAR appliances to reduce her energy bills, but she is not certain it is feasible because they can be more expensive up front.

C. Client 3 wants to make sure her home is safe for her daughter as she begins to crawl and walk.

D. Client 4 would like to reduce his utility bills so he can put more into savings. He'd like to do this without spending any money.

E. Client 5 recently purchased a home that needs major structural repairs. As she makes those repairs, she would like to make it more energy efficient, but she is not certain how to begin.

___ 1. The federal government maintains two websites that will help you assess which projects will give you the greatest energy savings and comfort benefits.

___ 2. Consider the long-term savings that will come from making energy efficiency home improvements. Investing in energy efficiency up front can generate lower energy bills and entitle you to federal tax credits. An Energy Efficient Mortgage could help you pay for these repairs.

___ 3. Consider adopting these simple habits: Fix leaking faucets, keep lights off in unoccupied rooms, unplug equipment when not in use, and reduce the temperature of the water heater.

___ 4. The federal government maintains a website that demonstrates how to prepare families and homes for each type of major hazard and disaster. Review this website and consider carrying out the home improvement and home maintenance steps recommended.

___ 5. In order to prevent injuries in your home, you can apply common home safety maintenance practices such as fixing loose handrails or carpeting on stairs, checking for exposed wires, and removing clutter.

Emergency Preparedness

Counseling on Emergency Preparedness

Depending on geographic location, clients may experience a variety of natural disasters, such as earthquakes, floods, hurricanes, tornadoes, or wildfires. Some situations may allow for advance preparation, while others may be sudden. Rebecca advises Drew to enhance the safety of his family by developing an emergency preparedness plan.

We'll visit their session again to see how she:

- Emphasizes the importance of an emergency preparedness plan.
- Encourages involvement of the entire family in creating and implementing the emergency preparedness plan.
- Identifies essential components of a successful emergency preparedness plan.
- Offers a template of an emergency preparedness plan.

Let's enter the session.

Rebecca: It is important to have an emergency preparedness plan so that your family remains safe in the event of disasters like earthquakes, fires, floods, or hurricanes. Have you ever made an emergency preparedness plan?

Drew: No, but my office has an emergency plan in place. We have occasional trainings to learn and practice what to do in different types of emergencies.

We learn about the best room to be in during an earthquake, the best routes to exit our building, where to meet once we have exited, who should check the building to make sure everyone is out, and which co-worker we must report to. We also exchange our contact information.

Rebecca: Great! Your office took important steps that I would recommend you take with your family as well. I wanted to share an Emergency Preparedness brochure that lists the

Prepare specifically for emergencies that are likely to happen in your region.

Potential Disasters. *We will be prepared for the following dangers or disasters which are likely to occur in our neighborhood or region:*

Select an interior room with no or few windows as a "safe room."

Safe Room. *If local authorities direct us to take shelter in our home, we will meet in a safe place where we can seal windows, vents, and doors, and listen to emergency broadcasts for instructions:*

Plan a safe escape route from your home.

- If in a multiple-story home, store ladders in an easily accessible place to provide an escape path for those on upper floors.

Escape Route. *If evacuation is necessary, we will use one of the following safe escape routes from our home:*

Identify responsibilities for each family member.

Family Member Responsibilities in the Event of a Disaster

Task	*Description*	*Responsible*
Disaster Kit	*In case of evacuation, stock and maintain disaster kit. Include items for an emergency shelter and remember medications and eyeglasses.*	
Be Informed	*For current updates and relevant information, maintain access to local broadcasts via radio, TV, email, or text alert.*	
Medical Attention	*In case of evacuation, ensure that the household medical information is accessible.*	
Financial Information	*Obtain copies of bank statements and cash in the event ATMs and credit cards do not work due to power outages. Bring copies of utility bills as proof of residence in applying for assistance.*	
Pet Information	*Evacuate pets. Keep list of pet-friendly motels and animal shelters. Assemble the pet disaster kit.*	
Plan Updates & Communication	*Share the completed plan with household members. Meet every 6 months or as needed to discuss plan changes or updates.*	

Share critical contact information.

Communications. *If we are separated, we will stay in touch using the following methods:*

- First attempt, communicate via call, text, or social media status update.
- If we cannot connect via mobile phone or social media, we will connect with our emergency contact outside of our immediate area:

Name	*Phone*	*Email*

- We can also register at "Safe & Well" at www.redcross.org/get-help/disaster-relief-and-recovery-services/contact-and-locate-loved-ones.html or by calling The Red Cross free Restoring Family Links national helpline at 1-844-782-9441 if we are not able to reach anyone through the methods above.

Practice the plan.

Inform everyone of the plan.

Task	*Description*	*Responsible*
Plan Updates & Communication	*Share the completed plan with household members. Meet every 6 months or as needed to discuss plan changes or updates.*	

DREW: Alright, I can do all of that. But, what if the emergency is during the day when we are all in different locations like daycare, school, and work?

REBECCA: Good question. In order to create a successful emergency plan, your family will need to take several additional steps. They are listed in this brochure as well.

Establish a location to meet outside of the neighborhood when it is impossible to return home or there is an evacuation. This will preferably be a place where your family can live temporarily.

Determine several safe routes to get to that meeting place.

Backup Meeting Point. *If we cannot return home or are asked to evacuate, we will use a pre-determined safe escape route to meet at this alternate outside of our neighborhood:*

Backup Meeting Place:

Escape Route:

Alternate Escape Route:

Select an emergency point of contact who lives outside your immediate area.

If we cannot connect via mobile phone or social media, we will connect with our emergency contact outside of our immediate area:

Name	*Phone*	*Email*

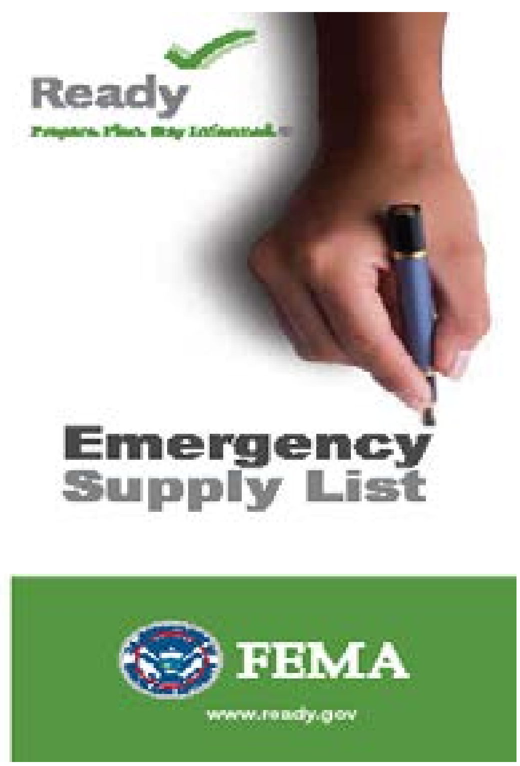
Learn about the school and daycare evacuation plans.

School/Daycare Plan. *Family members in school or daycare will be evacuated to:*

Name of Child	*Evacuation Site & Contact*
	Address: *Contact Person:*
	Address: *Contact Person:*
	Address: *Contact Person:*

Put together a disaster kit.

Task	*Description*	*Responsible*
Disaster Kit	*In case of evacuation, stock and maintain disaster kit. Review Ready Recommended Items to Include in a Basic Emergency Supply Kit and consider the unique needs of your family.*	



DREW: Yes, I can see how all of those steps would be important. I will gather my family to create this plan over the weekend. Do you have a copy of that emergency supply kit I could show them?

REBECCA: You can find many examples online, or you can fill out this template that I have created.

You can find the sample Emergency Preparedness Plan that Rebecca provides to Drew in the course Resources.

In the event of a disaster or national emergency, like the COVID-19 National Emergency, counselors should know where to find important information relative to counseling clients. Check the HUD Exchange for more information on disasters and national emergencies.

KNOWLEDGE CHECK 5

Which is the **least** critical component of an emergency preparedness plan?

A. A home escape route
B. Meeting location outside the immediate area
C. Safe room
D. Identification bracelets for each family member

HOME IMPROVEMENT FINANCING

TYPES OF HOME IMPROVEMENT FINANCING

We'll now return to the counseling session with Drew to see how Rebecca:

- Outlines several home improvement financing options.
- Describes homeowners who would benefit most from each option.
- Shares best practices for using each option.

REBECCA: Eventually you may want to complete home improvement projects to enhance your home's energy efficiency, safety or to better meet the needs of your family. If you dont have enough savings for a particular project , or there is an urgent need, you may be able to borrow against the equity in your home. There are sevenprimary methods to do this. We'll cover the first six now, saving the seventh for later in this module.

Home Equity Loan

A **home equity loan** provides a lump sum of money. It is often referred to as a second mortgage, because it can be obtained while you are still bound to your initial mortgage. Home equity loan terms can range from 5 to 30 years at a fixed interest rate.

A home equity loan may be right for you if:

- Your home improvement plan consists of a large one-time expense.
- You want a fixed rate for your monthly payments.
- You do not have funds available for significant closing costs.

To use a home equity loan effectively:

- Make your monthly payments on time.
- Don't use the funds for anything besides the planned home improvement project.

Home Equity Loan

A home equity loan provides a lump sum of money. It is often referred to as a second mortgage, because it can be obtained while the borrower is still bound to the initial mortgage. Home equity loan terms can range from 5 to 30 years at a fixed interest rate.

Home Equity Line of Credit (HELOC)

A home equity line of credit, or HELOC, is a line of credit from which you can borrow at any time during the draw period, up to your credit limit. Typically, the draw period is 10 years, and the repayment period lasts 15 years. A HELOC is generally offered at a variable rate and payments are typically interest-only during the draw period.

A HELOC may be right for you if:

- Your home improvement plan consists of multiple expenses that may be paid over an extended period of time.
- You do not have funds available for significant closing costs.

To use a HELOC effectively:

- Obtain a quote from a contractor to determine how much your home improvement project will cost before applying for a HELOC. Then, only request this amount of credit.
- Make an effort to research products and lenders before making your final selection.

- Don’t use the credit for anything besides the planned home improvement project.
- Cancel the HELOC once it is paid off.

FHA 203k Loan

An FHA 203k loan is a loan insured by the FHA. It can provide you with an initial loan for purchasing a home as well as funding for home improvement.

An FHA 203k may be right for you if:

- You plan to purchase a home that needs major repairs.
- You own a home and want to refinance to conduct major repairs.
- The home and repairs meet the 203k qualifications set forth by the FHA.

To use a 203k effectively:

- Select an FHA-approved lender who is familiar with 203k loans.
- Ensure that the property value after completion of any repairs and renovations supports the mortgage amount, including the costs of the improvements, or supports the refinanced mortgage amount.

Streamlined 203k Loan

A loan through the FHA’s Streamlined 203k program permits homebuyers and homeowners to finance up to $35,000 into their mortgage to repair, improve, or upgrade their home. It may be used in conjunction with the Energy Efficiency Mortgage program to make energy efficient improvements.

A Streamlined 203k program loan may be right for you if:

- You would like to carry out a minor rehabilitation or home improvement project that won’t require the involvement of consultants, engineers, or architects.
- Your proposed projects meet the Streamlined 203k qualifications set forth by the FHA.
- You intend to use one or more contractors to complete the repairs or can prove that you have the necessary expertise and experience to perform the work.
- You can complete the project within six months.

To use a Streamlined 203k program loan effectively:

- Select an FHA-approved lender who is familiar with Streamlined 203k loans.
- Adhere to the regulations for a Streamlined 203k mortgage for paying contractors as set forth by the FHA.

- Don’t use the funds for a major remodeling project, new construction, the repair of structural damage, or for landscaping work.

Energy Efficient Mortgage

An Energy Efficient Mortgage (EEM) assists individuals in purchasing an energy-efficient home or refinance a home to make energy-efficient improvements. Although the additional expense of a cost-effective energy package may be financed into an EEM, the loan is initially underwritten as if the energy package did not exist. This means that the borrower does not need to qualify for additional financing or provide a higher down payment. In addition to conventional EEM options, EEMs can be insured through either the FHA or the Department of Veterans Affairs.

An EEM may be right for you if:

- You would like to obtain a larger loan amount than you qualify for in order to make energy efficient improvements to your home.
- You desire to buy a better and more energy efficient home.
- You, the home, and the improvements meet the qualifications as set forth by the FHA or other financing body.

To use an EEM effectively:

- For FHA EEMs, the lender must be FHA approved.
- Determine the cost of the energy improvements and estimate the energy savings with a Home Energy Rating System (HERS) or an energy consultant. HERS Index is the industry standard by which a home’s energy efficiency is measured. It’s also the nationally recognized system for inspecting and calculating a home’s energy performance. You can learn more about your homes energy efficiency at https://www.hersindex.com/
- Complete the energy improvements after the loan closes.

For any FHA product, you can assist your clients in searching for an FHA-approved lender on HUD’s Lender List website.

Note: The following loan and grant programs are not mortgages, which means they can be used to repair or improve manufactured homes that are classified as personal property and/or on leased land.

Title I Loan

Title I loans, insured by the FHA, may be used for alterations, repairs, and site improvements on single-family homes and for alterations and repairs on multifamily homes and manufactured homes on paid or unpaid leased land. Title I loans can be used in connection with a 203k Rehabilitation Mortgage.

A Title I loan may be right for you if:

- You are the owner of the property to be improved, the person leasing the property, or someone purchasing the property under a land installment contract.
- You want a fixed interest rate.
- You desire a loan of up to $25,000 for improving a single-family home or for improving or building a nonresidential structure.
- You desire a loan of up to $12,000 per family unit, not to exceed a total of $60,000, for improving a multifamily structure.

To use a Title I loan effectively:

- Select a lender approved to make Title I loans.
- Ensure the lease and the site are FHA compliant for leased land.
- Use caution in choosing and supervising home repair dealers or contractors conducting Title I repair or renovation work, especially if the loan is made through the dealer.

USDA Section 504 Home Repair Program

The USDA Section 504 Home Repair Program provides loans to very-low-income homeowners to repair, improve, or modernize their homes, or grants to elderly, very-low-income homeowners to remove health and safety hazards.

A Section 504 loan or grant may be right for you if:

- You desire a loan of up to $40,000 at a fixed rate of 1% interest for a 20-year term to repair, improve, or modernize homes, or a grant of up to $10,00 to remove health and safety hazards.
- You are the owner of the property as your primary residence and the property is a single-family home or a manufactured home on leased land.
- You are unable to obtain affordable credit elsewhere and have a family income below 50% of the area median income.
- Your home is in an eligible area.
- For grants, you are age 62 or older and not able to repay a repair loan.

To use the USDA Section 504 Home Repair Program effectively:

- Apply through the local Rural Development office.

Knowledge Check 6

A client, Kim, purchased a house two years ago. Recently, her aging mother has fallen ill and has requested to move in with Kim. So, Kim has received approval from county officials to convert her garage into a mini-apartment, a structural modification. Kim intends to complete the project over the course of a year. Because she plans to purchase materials herself, she wants to buy them in phases, buying only what she needs for each project phase at the time that it begins. She'll need to hire an architect to draw up the project plans. She expects the project will cost over $25,000.

Which financing option would Rebecca most likely recommend to Kim?

A. Home Equity Loan
B. HELOC
C. Streamlined 203k Loan
D. Title I Loan

Knowledge Check 7

Manufactured homes classified as personal property are eligible collateral for which home repair financing options?

Place a check mark (✓) next to the options that apply.

___ A. Home Equity Loan
___ B. HELOC
___ C. FHA Title I Loan
___ D. FHA 203k Loan
___ E. USDA Section 504 Loan and Grant Program

Cash-Out Refinancing

Now that we've looked at six home improvement financing options, let's step back into the meeting with Drew and Rebecca. In this part of the meeting, Rebecca:

- Points out the perils of borrowing against home equity.
- Explains cash-out refinancing.
- Discusses the risk of refinancing products with "no out-of-pocket costs."

Rebecca: Keep in mind, the housing market can fluctuate, and your equity can decline. So, by borrowing against your equity, your home could end up being worth less than you owe in loans.

Drew: Okay, I will be careful to use these options wisely if I ever need them. However, I am still interested to know about the seventh option for home improvement financing that you referred to.

REBECCA: Cash-out refinancing is the seventh option.

When you refinance your mortgage, you replace it with a new mortgage that has better terms—typically lower interest rates. Unlike regular refinancing, cash-out refinancing can leverage a borrower's home equity to provide additional cash funding for improvements to the home.

With cash-out refinancing, you replace your original mortgage with a mortgage covering a higher amount. You receive the difference to invest, save, or use for large purchases or home repairs.

DREW: I am not sure I understand exactly how it works. Could you give me an example of cash-out refinancing?

REBECCA: Sure. Say, five years ago, a man buys a home for $200,000. This year he still owes $180,000, and his home is appraised at $220,000. That means he has $40,000 in equity. He decides to cash-out refinance for $30,000 to pay for his home repair project. Now, he has a loan for more than $210,000.

Home Price: $200,000
Amount Owed: $180,000
Home Appraisal: $220,000
Home Equity: $40,000
Cash-out Refinance: $30,000 (for repairs)
Amount Now Owed: $210,000+

DREW: In the example, why would the loan be more than $210,000?

REBECCA: The final cost of the loan will be over $210,000, because closing costs and fees associated with refinancing may be added to the new mortgage.

There will always be closing costs and fees associated with a refinance. Even with "no cost" refinance offers, which can seem like a great deal, you will still be responsible for closing costs. These offers are better termed "no out-of-pocket costs," because the closing costs are simply included in the loan instead of separated into upfront expenses.

Knowledge Check 8

Match the home improvement financing option on the left that best fits each client situation on the right.

A. Home Equity Loan
B. HELOC
C. FHA 203k Loan
D. Cash-Out Refinancing
E. Streamlined 203k Loan
F. Energy Efficient Mortgage

___ 1. A client's home improvement plan consists of multiple expenses that may be paid over an extended period of time.

___ 2. A client intends to purchase a home that needs major repairs and will make those repairs with funding rolled into the mortgage loan.

___ 3. There are a handful of minor repairs that a client would like to make to the home that he is buying. He expects that they will be complete in just a few months.

___ 4. A client would like to add insulation to the basement and attic as well as seal air leaks in order to reduce the home's energy consumption.

___ 5. A client leverages home equity through a new, larger loan to access funding to make improvements to the home.

___ 6. A client's home improvement plan consists of a large one-time expense.

Refinancing

Refinancing and Loan Approval

Let's continue by observing how Rebecca:

- Offers examples of when refinancing could be worthwhile.
- Explains how to apply for home improvement financing and refinancing.
- Describes three factors that are used to assess a client's eligibility for home improvement financing or refinancing.

Drew: I understand that I might want to avoid cash-out refinancing, because I could end up in more debt. However, in what circumstances would it be useful for me to refinance without a cash-out loan?

Rebecca: The purpose of a refinance without a cash-out loan is not to fund home improvement projects like the other options we have discussed.

However, a refinance may be right for you if:

1. Your original mortgage interest rates are considerably higher than current loan rates and will lead to a large reduction in monthly mortgage payments.
2. You are required to pay for mortgage insurance on the original loan and owe less than 80% of the home's value.
3. You would prefer to switch from an adjustable-rate loan to a fixed-rate loan.

Keep in mind that there are closing costs and other fees generally associated with refinancing. So, before you apply, I recommend we set up an appointment to weigh the costs of refinancing against the benefits you would receive.

Drew: For future reference, how would I apply for refinancing?

Rebecca: The process is very similar to applying for a loan when purchasing a home. The first step is to shop around to find the best total loan cost. Then, you'll provide a significant amount of information to the lender about your employment history and your financial situation. You may be required to get an appraisal as well, especially if you are obtaining a cash-out refinance. The lender, together with an underwriter, will then determine if you are eligible for refinancing. You'll have to go through this process to apply for most of the financing options that we discussed.

Drew: What will the lenders assess in order to determine if I am eligible for the financing options or refinancing?

Rebecca: If you have an existing FHA mortgage, you may be able to qualify for a streamline refinance, which reduces the amount of documentation and underwriting required for the lender. An FHA streamline refinance does not require an appraisal or credit qualifying as long as there is no cash out in the process. To qualify, a mortgage should not be delinquent, though there are other eligibility requirements for approval.

Though the specifics will vary for each home improvement financing and refinancing option, lenders will typically take three factors into consideration for all of them: credit history, debt-to-income ratio, and loan-to-value ratio. Let's briefly discuss each one.

Note: Private lenders will rarely refinance a manufactured home chattel or personal loan with a new loan. Manufactured homes financed as personal property with a chattel or personal loan may qualify for refinance under the FHA Title I Manufactured Home Loan program featured in Module 2.2. Cash-out refinancing is not allowed under Title I though the funds can be used to finance built-in appliances and equipment and wall-to-wall carpeting.

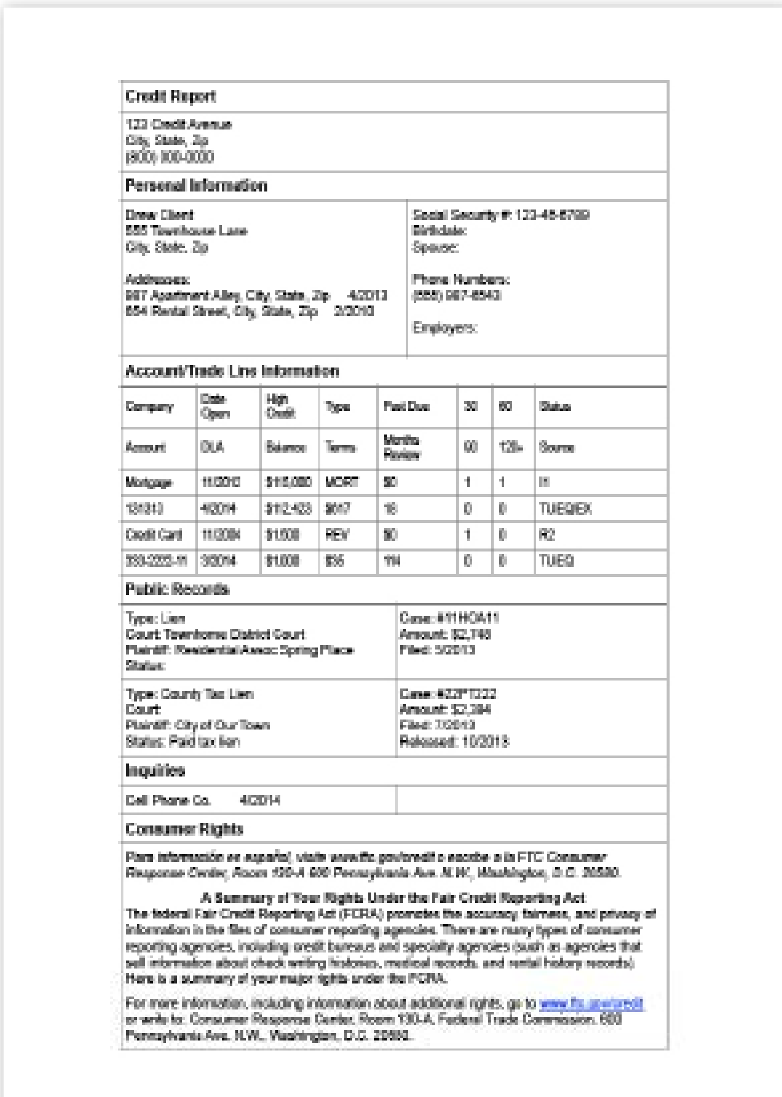
Credit History

Each lender you speak to will pull your credit report in order to examine your credit history.

It is possible that you will not qualify for financing if you have any of the following:

- Low credit score
- **Collection** accounts
- Judgments
- Liens

> **Collection**
>
> An account in default with an original creditor and sold to a third-party debt collector that will continue attempts to collect past due payments.



Credit Report

123 Credit Avenue
City, State, Zip
(800) 000-0000

Personal Information

Drew Client 555 Townhouse Lane City, State, Zip Addresses: 887 Apartment Alley, City, State, Zip 4/2013 654 Rental Street, City, State, Zip 2/2010	Social Security #: 123-45-6789 Birthdate: Spouse: Phone Numbers: (555) 987-6543 Employers:

Account/Trade Line Information

Company	Date Open	High Credit	Type	Past Due	30	60	Status
Account	DLA	Balance	Terms	Months Review	90	120+	Source
Mortgage	11/2010	$115,000	MORT	$0	1	1	I1
131313	4/2014	$112,433	$917	16	0	0	TUEQEX
Credit Card	11/2004	$1,500	REV	$0	1	0	R2
333-2222-11	3/2014	$1,000	$56	114	0	0	TUEQ

Public Records

Type: Lien Court: Townhome District Court Plaintiff: Residential Assoc Spring Place Status:	Case: #11HOA11 Amount: $2,748 Filed: 5/2013
Type: County Tax Lien Court: Plaintiff: City of Our Town Status: Paid tax lien	Case: #22PT222 Amount: $2,384 Filed: 7/2013 Released: 10/2013

Inquiries

Cell Phone Co. 4/2014

Consumer Rights

Para información en español, visite www.ftc.gov/credit o escribe a la FTC Consumer Response Center, Room 130-A 600 Pennsylvania Ave. N.W., Washington, D.C. 20580.

A Summary of Your Rights Under the Fair Credit Reporting Act

The federal Fair Credit Reporting Act (FCRA) promotes the accuracy, fairness, and privacy of information in the files of consumer reporting agencies. There are many types of consumer reporting agencies, including credit bureaus and specialty agencies (such as agencies that sell information about check writing histories, medical records, and rental history records). Here is a summary of your major rights under the FCRA.

For more information, including information about additional rights, go to www.ftc.gov/credit or write to: Consumer Response Center, Room 130-A, Federal Trade Commission, 600 Pennsylvania Ave. N.W., Washington, D.C. 20580.

Debt-to-Income Ratio

Lenders will request information that allows them to calculate your **debt-to-income ratio**. This ratio demonstrates how much of your income goes toward paying debts each month.

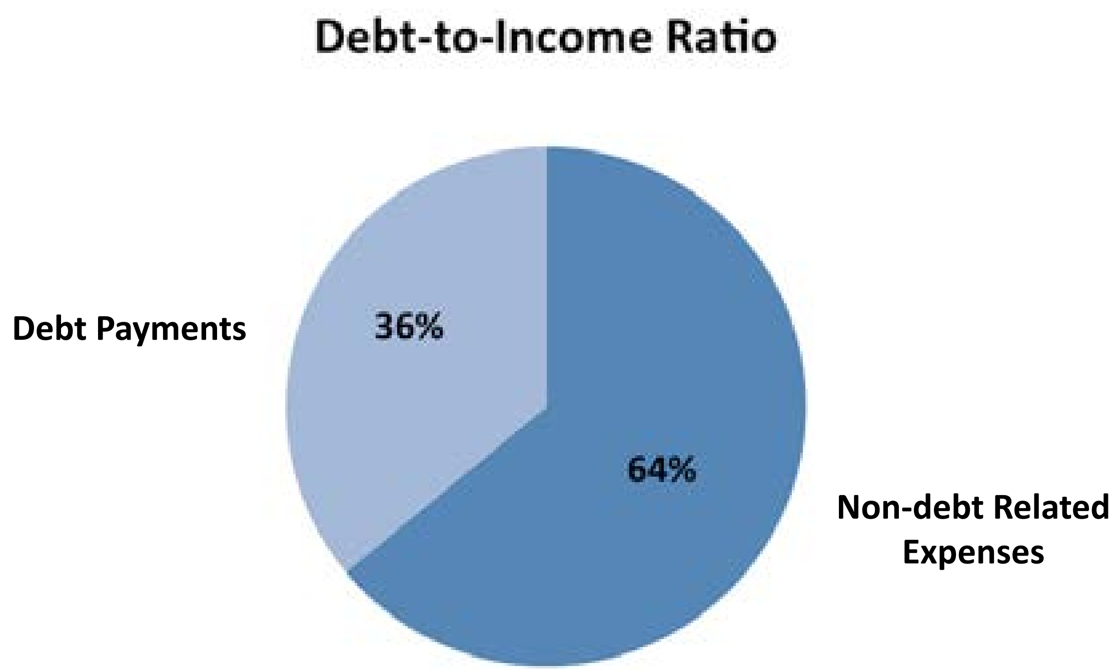
To determine your debt-to-income ratio, lenders may request documents such as:

- Proof of income.
- Credit report.
- Housing documents.

Debt-to-Income Ratio

A rate that calculates a borrower's total monthly debt, including housing and other debt obligations, as a percentage of gross monthly income. Frequently used by lenders to qualify borrowers for a mortgage. Also called a back-end ratio.

Although mortgage programs vary, many lenders will not approve a loan if your debt-to-income ration exceeds 45%, it may be possible to qualify if there are other favorable factors.



Loan-to-Value Ratio

Lenders will want to calculate what your loan-to-value ratio will be if you are awarded the loan. LTV represents the ratio of the amount owed on the mortgage to the appraised value or purchase price of the property being financed. The LTV ratio is typically expressed as a percentage.

> **Loan-to-Value Ratio**
>
> A percentage calculated by dividing the amount of the outstanding loan amount by the sales price or appraised value of the home; also called an LTV ratio.

To determine your **loan-to-value ratio**, a current estimation of your property value is needed. This can be obtained by examining:

- Your property tax assessment.
- Recent neighborhood sales on online home search tools.
- A recent appraisal.

Most lenders are unlikely to approve you for a loan if your loan-to-value ratio exceeds 80%.

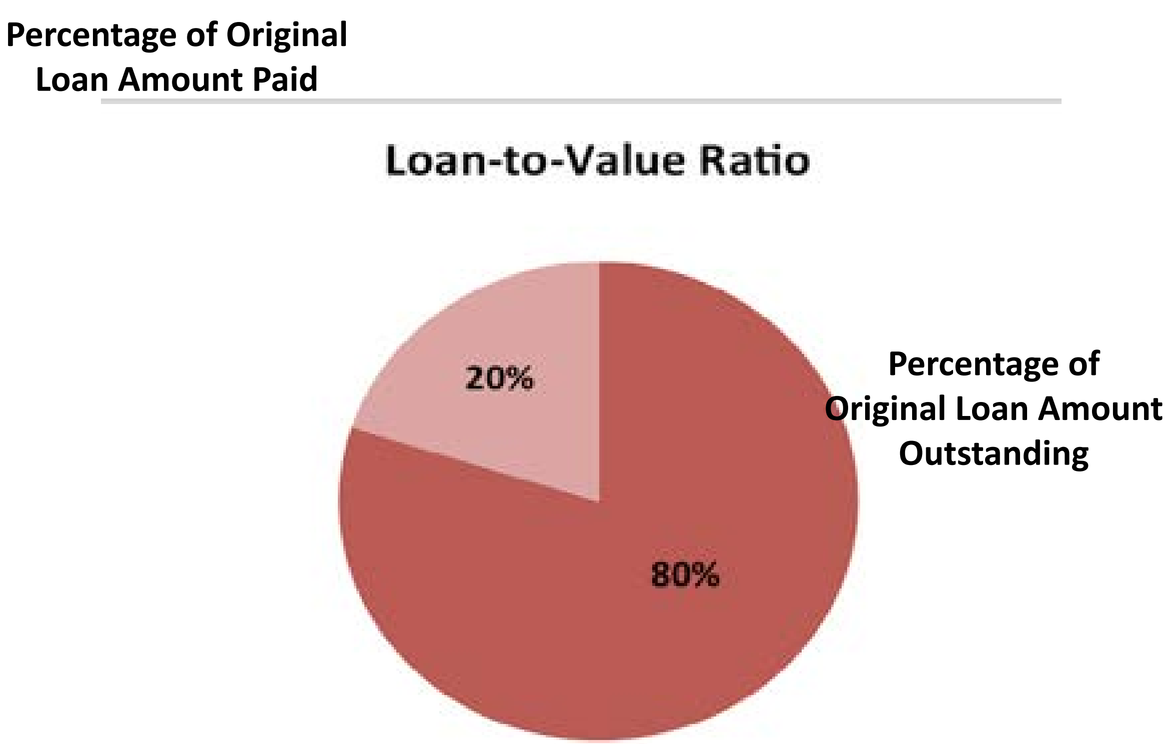
Here's the formula for calculating LTV:

LTV = (Loan Amount / Appraised Value or Purchase Price of the Property) x 100

For example, if you are purchasing a home for $200,000 and you take out a mortgage for $160,000, the LTV ratio would be:

LTV = ($160,000 / $200,000) x 100 = 80%

In this case, your LTV ratio is 80%, meaning you are borrowing 80% of the home's value and you are making a 20% down payment.w



Knowledge Check 9

One of Rebecca's clients, Julie, bought a home and received post-purchase counseling ten years ago. She is considering refinancing her home and recently set up an appointment with Rebecca to discuss this option. Which statement describes the **least** beneficial outcome of a refinance for Rebecca?

A. She will pay a monthly mortgage payment that is $20 less than her initial payment.
B. She will have a fixed-rate loan rather than an adjustable-rate loan that had a low initial rate.
C. She is required to pay for mortgage insurance on her original loan and owes 72% of the home's value.
D. She will have a significantly lower interest rate.

Knowledge Check 10

Identify factors that could typically qualify or disqualify a client for home improvement financing. Match options "A" or "B" with the applicable scenario on the right.

A. Qualifier
B. Disqualifier

___ 1. A credit report showing two tax liens on the property.

___ 2. $500 owed in debt payments each month and an income of $6,000 each month—Individual lenders may have their own DTI requirements. This means that your total monthly debt payments, including your mortgage payment and all other outstanding debts, should not exceed 43% of your gross monthly income.

___ 3. Credit score of 750 on a range between 300 and 850.

___ 4. $100,000 remaining on the original mortgage, loan request of $60,000, and current value of home at $170,000.

___ 5. A credit report with a judgment and a delinquency.

___ 6. $2,000 owed in debt payments each month and an income of $2,500 each month.

___ 7. Credit score of 550 on a range between 300

Selling a Home

Process of Selling a Home

Let's move on to learn about selling a home by re-entering Drew's post-purchase counseling session. You'll see how Rebecca:

- Compares the benefits of using a real estate agent or broker to selling a home independently.
- Mentions the listing agreement.
- Warns of predatory practices.
- Recommends finding a home to move into before selling a current residence.
- Suggests preparing for the home inspection.
- Emphasizes the importance of disclosing the property's past repair history.

Drew: Thank you for all the information. I have one last thing I'd like to talk to you about. There is a slight possibility that I may be transferred and would need to sell my home.

Rebecca: Even if you don't get transferred, there may come a time when you want to sell your home. Let's talk about how that process works.

Drew: I think I have some idea. While I was purchasing my townhome, I saw what a home seller generally does. For example, my home's previous owner had a real estate agent just like I did.

Her agent listed the property, held the open house that I attended, was available later to show me the home privately, represented the seller in the offer process, and negotiated with my agent on what needed to be fixed before I moved in.

Rebecca: Exactly. Many individuals choose to have a real estate agent or broker assist them in selling their homes. At the beginning of this partnership, the home seller and agent or broker sign a contract, often called a listing agreement. This contract authorizes the agent or broker to list the property and outlines other details of the partnership.

A few benefits of using a real estate agent or broker include:

- Receiving advice about pricing your home accurately.
- Obtaining assistance advertising the home.
- Sharing the responsibility of showing the home to potential buyers.
- Having help negotiating the sale and coordinating the details of the closing.

However, you are not required to use an agent or lender, and you can choose to sell it on your own instead. With access to the Internet, you can effectively advertise your home and find step-by-step guidance on selling it. If you decide to take this route you will avoid paying commission to the agent or broker, which is typically a percentage of the final sale price.

DREW: I'll have to further consider the pros and cons of using a real estate agent or broker when the time comes to sell my home.

REBECCA: Whether or not you choose to work with a real estate agent or broker, there are a few tips that I believe will be helpful to keep in mind when you decide to sell your home.

As always, you'll need to do your research first. Be cautious of scams and predatory practices. One such scam involves duplicate property listings. A scammer finds a new listing on a real estate website and then posts it as their own on other websites. The scammer typically proceeds with the home sale until a potential buyer pays a deposit, and then disappears.

Atypical situations, such as real estate brokers who demand an upfront commission, should raise a red flag as well. While there are other possible arrangements, the seller usually pays commission for both the buyer's and the seller's real estate representative, but it is usually negotiated as a percentage of the sales price. With upfront commissions, agents may simply pocket the money and run.

Second, it's a good idea to know where you are moving before you put your home on the market. Once you accept an offer, the buyers can back out and lose their earnest money, but you, as the seller, cannot cancel the sale.

Third, prepare for your home inspection. Usually contracts carry a condition that allows a buyer to back out if major issues arise in the home inspection. Your home may have a better review in the inspection if you take the time to repair any electrical or plumbing problems, clean everything thoroughly (e.g., carpets, floors, walls, inside cupboards), remove trash and clutter, and carry out other maintenance tasks.

Lastly, disclose the property's repair history. This is always a best practice, and in some states it is also a legal obligation. Disclosing this information helps buyers understand what problems could arise in the future and could protect you from potential lawsuits.

DREW: It seems like there is a lot of work involved in selling a home. I recall from the last session that you recommended I purchase a home only if I would not need to move in the near future. I am beginning to understand the value of following that advice!

Drew has no further questions about the home selling process, so Rebecca wraps up the meeting.

Note: When selling a manufactured home on leased land, the landlord or manufactured home community must approve the new buyer for a lease in most cases. The new buyer can purchase the home, but they may have to move it to a new site if they are not approved for a lease at the current site.

Knowledge Check 11

Which of the following is true about the process of selling a home?

A. The seller should disclose the property's repair history.
B. The seller can always trust real estate agents to protect their best interest.
C. The homebuyer cannot negotiate to have any repair work completed on the home.
D. The seller must hire a real estate agent or broker to sell the home.

Summary

In this module, you learned to:

1. Apply knowledge of the consequences related to neglecting housing obligations, including mortgage payments, property taxes, and compliance with financial requirements and regulations of homeowners associations.
2. Prepare a maintenance plan for at least one major household system including the system's life cycle, use, and repair strategies.
3. Apply knowledge of safety-related strategies for the interior and exterior of the home when discussing with clients how to promote a safe living environment, reducing the risk of accidents and the impact of disasters.
4. Create an emergency preparedness plan to assist clients with coping during a disaster.
5. Discuss specific energy efficient strategies that clients may employ.
6. Utilize your knowledge of specific home improvement financing options, such as FHA 203k and HELOC, to counsel clients on applying for financing for repairs or renovations on their properties.
7. Assess a client's options to refinance an existing mortgage using their credit report, recent mortgage statements, estimated property value, and applied knowledge of available loan programs
8. Apply knowledge of the home sales process to prepare clients to avoid predators and select professionals to support the process.

Appendix

Knowledge Check Answer Key

1. **(A) "Yes, assessments are always difficult to pay because they are always announced just a few weeks before the funds are due."**

   Generally, upcoming assessments will be announced six months to a year in advance, allowing time for homeowners to save money for the assessment.

   Incorrect answers: (B) "Special assessments are funds collected to pay for large projects such as repairing the roof of a condominium complex."—Homeowners or community associations may collect a special assessment, also known as a community assessment, to pay for large maintenance projects that benefit the entire community, such as repairing the roof of a condominium complex. These differ from the regular HOA fees, which generally cover routine community maintenance such as landscaping, snow removal, and garbage pick-up; (C) "The possible consequences of late payment or non-payment are similar to that of property taxes and HOA fees."—Late or unpaid property taxes and HOA fees have a negative affect on credit scores, and may lead to late fees, liens, and challenges with selling or refinancing. These are also all consequences of late or unpaid special assessments; and (D) "The previous homeowner should have disclosed information regarding pending assessments before you purchased the home."—A home seller must notify homebuyers of any upcoming assessments that have been announced. In these situations, the seller typically deposits funds to cover the assessment in an escrow account. If the seller does not disclose information about an upcoming assessment and arrange an escrow account before the sale, the buyer may request the funds when they receive the notice of the assessment.

2. **Correct matched items:**

(A) Ginette	(B) Nathan
2. Restricted use of common facilities—Each association is different, but frequently those who do not comply with the regulations of the association are restricted from using common association facilities.	1. Late payment fees—Generally late payment fees *are* charged if a mortgage payment is made after the due date grace period.
4. Lien placed on property—It's possible that a homeowners association could place a lien on the property of an individual who violates HOA bylaws.	3. Mortgage in default—A loan is considered in default when a mortgage payment has not been made after 60 to 90 days. Once in default, a lender can exercise legal rights defined in the contract to begin foreclosure proceedings.
5. Violation fees—Individuals who violate HOA bylaws are typically responsible for a variety of financial obligations, including a violation fee.	

3. **(B) Estimated life of home television**

   A television is not considered a critical household system that would need to be included in the system maintenance plan.

   Incorrect answers: (A) Items covered by their home warranty or a product warranty—Home warranties offer protection for mechanical systems like HVAC and attached appliances against unexpected repairs not covered by homeowner's insurance. Other systems are often covered by individual home appliance warranties. Homeowners can save a significant amount of money if they replace systems using a warranty; (C) Savings for purchasing a refurbished system rather than a new system—Homeowners can purchase refurbished appliances to save money up front; and (D) Upkeep techniques that may extend the life of a system—There are many proactive steps homeowners can take to prevent repairs from being necessary and to increase the life of a household system.

4. **Correct matched items**

   (E) Client 5 recently purchased a home that needs major structural repairs. As she makes those repairs, she would like to make it more energy efficient, but she is not certain how to begin: 1. The federal government maintains two websites that will help you assess which projects will give you the greatest energy savings and comfort benefits.

(B) Client 2 is considering purchasing ENERGY STAR appliances to reduce her energy bills, but she is not certain it is feasible because they can be more expensive up front: 2. Consider the long-term savings that will come from making energy efficiency home improvements. Investing in energy efficiency up front can generate lower energy bills, entitle you to federal tax credits, and qualify you for an Energy Efficient Mortgage.

(D) Client 4 would like to reduce his utility bills so he can put more into savings. He'd like to do this without spending any money: 3. Consider adopting these simple habits: Fix leaking faucets, keep lights off in unoccupied rooms, unplug equipment when not in use, and reduce the temperature of the water heater.

(A) Client 1 has recently moved to a new state with his family. He has heard that the area is sometimes affected by tornadoes that could potentially damage his home: 4. The federal government maintains a website that demonstrates how to prepare families and homes for each type of major hazard and disaster. Review this website and consider carrying out the home improvement and home maintenance steps recommended.

(C) Client 3 wants to make sure her home is safe for her daughter as she begins to crawl and walk: 5. In order to prevent injuries in your home, you can apply common home safety maintenance practices such as fixing loose handrails or carpeting on stairs, checking for exposed wires, and removing clutter.

5. **(D) Identification bracelets for each family member**

   Identification bracelets for each family member are not critical components of an emergency preparedness plan.

   Incorrect answers: (A) A home escape route—This is a critical component to emergency preparedness plans for most types of buildings: schools, churches, offices, and homes; (B) Meeting location outside the immediate area—It is recommended for families to establish a location to meet outside of the neighborhood when it is impossible to return home or there is an evacuation. This will preferably be a place where the family can live temporarily; and (C) Safe room—Each emergency preparedness plan should list a safe room, typically an interior room with no or few windows.

6. **(B) HELOC**

   A HELOC is a good fit for Kim since she can use the line of credit to pay for various components of the project over the course of a year.

Incorrect answers: (A) Home Equity Loan—There is a better fit for Kim since she specifically would like to pay for various components of the project throughout the year; (C) Streamlined 203k Loan—Because Kim is planning a major remodeling project that includes structural changes, Rebecca would not recommend the Streamlined 203k. Additionally, this loan is limited to a six-month time frame and Kim expects her project to take about a year; and (D) Title I Loan—Rebecca would not likely recommend a Title I loan since the cost of the improvement project may exceed $25,000.

7. **(C) FHA Title I Loan, (E) USDA Section 504 Home Repair Loan and Grant Program**

   Manufactured homes that are classified as personal property on land that is leased or owned are acceptable collateral for FHA Title I and USDA Section 504.

   Incorrect Answers: (A) Home Equity Loan (B) HELOC, (D) FHA 203k Loan–each of these financing options require the collateral to be real property.

8. **Correct matched items:**

   (B) HELOC: 1. A client's home improvement plan consists of multiple expenses that may be paid over an extended period of time.

   (C) FHA 203k Loan: 2. A client intends to purchase a home that needs major repairs and will make those repairs with funding rolled into the mortgage loan.

   (E) Streamlined 203k Loan: 3. There are a handful of minor repairs that a client would like to make to the home that he is buying. He expects that they will be complete in just a few months.

   (F) Energy Efficient Mortgage: 4. A client would like to add insulation to the basement and attic as well as seal air leaks in order to reduce the home's energy consumption.

   (D) Cash-Out Refinancing: 5. A client leverages home equity through a new, larger loan to access funding to make improvements to the home.

   (A) Home Equity Loan: 6. A client's home improvement plan consists of a large one-time expense.

9. **(A) She will pay a monthly mortgage payment that is $20 less than her initial payment.**

   Since Julie will likely have to pay closing costs to refinance, a new interest rate that only reduces her monthly payment by $20 may not be worth it. If the savings were a significant amount each month, refinancing could be a good idea.

   Incorrect answers: (B) She will have a fixed-rate loan rather than an adjustable-rate loan that had a low initial rate—Refinancing may be a good idea for Julie if she wants to stabilize her interest rate and monthly payment by switching from an adjustable-rate mortgage to a fixed-rate mortgage; (C) She is required to pay for mortgage insurance on her original loan and owes 72% of the home's value—Since Julie owes less than 80% of her home's value, it could be worth refinancing to get a loan that does not require her to pay for mortgage insurance; and (D) She will have a significantly lower interest rate—If the new mortgage will have a significantly lower interest rate than Julie's original mortgage, it could be worth refinancing and paying the associated closing costs.

10. Correct matched items:

(A) Qualifier	(B) Disqualifier
2. $500 owed in debt payments each month and an income of $6,000 each month—Individual lenders may have their own DTI requirements. This means that your total monthly debt payments, including your mortgage payment and all other outstanding debts, should not exceed 45% of your gross monthly income.	1. A credit report showing two tax liens on the property—Lenders are not likely to approve a client for financing if the client's credit report shows a low credit score, collections, judgments, or liens.
3. Credit score of 750 on a range between 300 and 850—Lenders will typically approve a client for financing if the client's credit score is high and other factors are favorable.	4. $100,000 remaining on the original mortgage, loan request of $60,000, and current value of home at $170,000—Lenders are not likely to approve a client for financing if the client's loan-to-value ratio exceeds 80%.
8. $200,000 remaining on the original mortgage, loan request of $50,000, and current value of home at $400,000—Lenders will typically approve a loan if the client's loan-to-value ratio remains less than 80% and other factors are favorable.	5. A credit report with a judgment and a delinquency—Lenders are not likely to approve a client for financing if the client's credit report shows a low credit score, collections, judgments, or liens.
	6. $2,000 owed in debt payments each month and an income of $2,500 each month—Lenders are not likely to approve a loan if the client's debt-to-income ratio is greater than 36%.

(A) Qualifier	(B) Disqualifier
	7. Credit score of 550 on a range between 300 and 850—Lenders are not likely to approve a client for financing if the client’s credit report shows a low credit score, delinquencies, judgments, or liens.

11. (A) The seller should disclose the property’s repair history.

Disclosing the property’s repair history is a best practice for home sellers and in some states is also a legal obligation.

Incorrect answers: (B) The seller can always trust real estate agents to protect their best interest.—Clients should be wary of predatory practices when selecting a team of professionals to assist them in selling their home; (C) The homebuyer cannot negotiate to have any repair work completed on the home—In many cases, the real estate agents or brokers for the buyer and the seller will negotiate terms, such as completion of any potential repair work before closing; and (D) The seller must hire a real estate agent or broker to sell the home—Although a seller can sell a property on their own, most sellers depend on a real estate agent or broker to sell a home. Real estate agents or brokers usually list a property, hold an open house, show the home privately, represent the seller in the offer process, and negotiate with the buyer’s agent or broker on what needs to be fixed by the seller.

EMERGENCY PREPARATION PLAN EXAMPLE

Emergency Preparation Plan

Family Name

____

Household Address

____

City ______________________________ State _________ Zip _______________

Household Phone

____

Household Email

____

Plan Updated *(date)*

____

Household Contact

Family Member	*Cell Phone*	*Email*

Pet Information

Name	*Type*	*Color*	*Registration #*

Plan of Action

1. Potential Disasters. *We will be prepared for the following dangers or disasters which are likely to occur in our neighborhood or region:*

2. Escape Route. *If evacuation is necessary, we will use one of the following safe escape routes from our home:*

3. Neighborhood Meeting Place. *If separated during an emergency, we will meet at this location near our home:*

4. Backup Meeting Point. *If we cannot return home or are asked to evacuate, we will use a pre-determined safe escape route to meet at this alternate outside of our neighborhood:*

Backup Meeting Place:

Escape Route:

Alternate Escape Route:

5. Communications. *If we are separated, we will stay in touch using the following methods:*

- First attempt, communicate via call, text, or social media status update.
- If we cannot connect via mobile phone or social media, we will connect with our emergency contact outside of our immediate area:

Name	*Phone*	*Email*

- We can also register at "Safe & Well" at www.redcross.org/get-help/disaster-relief-and-recovery-services/contact-and-locate-loved-ones.html or by calling (800) 733-2767, if we are not able to reach anyone through the methods above.

6. School/Daycare Plan. *Family members in school or daycare will be evacuated to:*

Name of Child	*Evacuation Site & Contact*
	Address: *Contact Person:*
	Address: *Contact Person:*
	Address: *Contact Person:*

7. Safe Room. *If local authorities direct us to take shelter in our home, we will meet in a safe place where we can seal windows, vents, and doors, and listen to emergency broadcasts for instructions:*

8. Family Member Responsibilities in the Event of a Disaster

Task	*Description*	*Responsible*
Disaster Kit	*In case of evacuation, stock and maintain disaster kit. Include items for an emergency shelter and remember medications and eyeglasses.*	
Be Informed	*For current updates and relevant information, maintain access to local broadcasts via radio, TV, email, or text alert.*	
Medical Attention	*In case of evacuation, ensure that the household medical information is accessible.*	

Task	*Description*	*Responsible*
Financial Information	*Obtain copies of bank statements and cash in the event ATMs and credit cards do not work due to power outages. Bring copies of utility bills as proof of residence in applying for assistance.*	
Pet Information	*Evacuate pets. Keep list of pet-friendly motels and animal shelters. Assemble the pet disaster kit.*	
Plan Updates & Communication	*Share the completed plan with household members. Meet every 6 months or as needed to discuss plan changes or updates.*	

9. Additional Information. *List any other information not included above.*

For more facts and advice about what you should do if an emergency or disaster occurs, visit www.RedCross.org.

Creating an Energy Efficient Home

www.energystar.gov/campaign/home?s=mega

Emergency Preparedness Campaign

www.ready.gov

Energy Star Website

www.energystar.gov

Federal Emergency Management Agency Guidelines

https://www.fema.gov/about/reports-and-data/guidance

Federal Tax Credits for Consumer Energy

https://www.energystar.gov/about/federal-tax-credits

FHA-Approved HUD Lender List

www.hud.gov/program_offices/housing/sfh/lender/lenderlist

HERS Index

https://www.hersindex.com/

Home System Life Expectancy Resource

www.nachi.org/life-expectancy.htm

HUD Housing Counseling Disaster Recovery Toolkit

www.hudexchange.info/programs/housing-counseling/housing-counseling-disaster-recovery-toolkit/

Ready Emergency Supply list

https://www.ready.gov/sites/default/files/2021-02/ready_checklist.pdf

USDA Section 504 Home Repair Program

www.rd.usda.gov/programs-services/single-family-housing-programs/single-family-housing-repair-loans-grants

U.S. Department of Energy

www.energy.gov