

# Financial Empowerment Curriculum

## Moving Ahead Through Financial Management

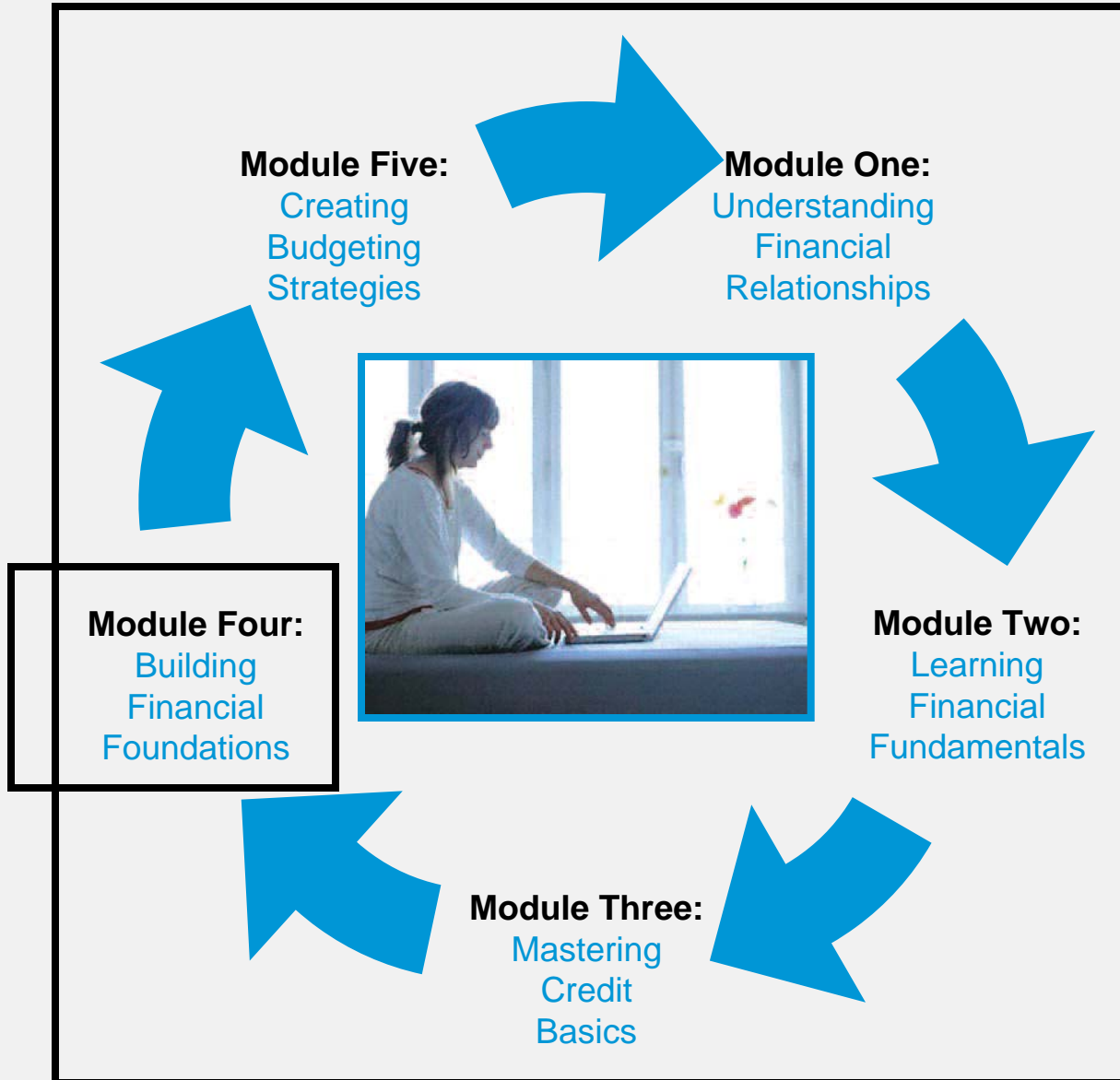


### Module Four:

## Building Financial Foundations

Homes, Loans and Automobiles

# Financial Empowerment Curriculum





## Module Four Objectives

- Explain the various types of financial paperwork that exists.
- Describe the difference between the various loan options.
- Apply for a loan and recall how to prepare for the application process.
- Recall the various home options to consider when seeking financial living independence.
- Describe the path to achieve home ownership.

# Module Four Opening Exercise



- Before we begin to discuss how to apply for a loan, buy a car or purchase a home, I want you to take a moment to reflect on your personal experience.
- On a scale of 1-10, how comfortable are you with the loan application process?
- Why would you rate yourself the way you did? What life experiences have provided you the opportunity to apply for a loan?
- Be prepared to share your ideas and thoughts with the class.
- You have five minutes.

# Module Four:

## Building Financial Foundations

### Financial Paperwork

Loan Options

Loan Application Process

Home Options

Home Ownership

# Financial Paperwork



## Be mindful as you collect and hide financial documents.

- If you cannot get access to your birth certificate or Social Security Number, you can use your driver's license or state ID card to request a copy of your birth certificate or SS card later.
- You need only the most recent copy of your bank, investment or credit card statements.
- If you cannot find paper copies of documents, request an electronic copy be sent to a private email account or pick it up in person.
- Don't worry if you can't access your utility or other monthly expenses because your most recent bank statement will provide information about monthly expenses (or if you pay via money orders, make copies of the statements).

# Financial Paperwork



## Store document in the following categories:

- Financial Records
  - Retirement, life insurance
- Legal Documents
  - Child support or custody papers, divorce decree
- Property Documents
  - Record of repairs, large purchases, lease agreements
- Health Records
  - Immunizations, statement from doctors
- Expense Documents
  - Credit card statements, utility bills

# Module Four:

## Building Financial Foundations

Financial Paperwork

**Loan Options**

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# Loan Options



## What is an unsecured loan?

An unsecured loan is a loan obtained without collateral (such as a house or car). This loan is also called a signature loan. There are three main types of unsecured loans:

- I Owe You (I.O.U.) Loan
- Credit Card Loan
- Secured Loan

# Loan Options



## What is an secured loan?

Secured loans are those loans that are protected by an asset or collateral of some sort (such as a car or house). From a lender's point of view, these types of loans are less of a risk because the lender can recover their loss by the asset used for the loan.

- Debt Consolidation Loan
- Car Loan
- Mortgage Loan

# Loan Options



## Before you buy a car, consider the following:

- The primary difference between loans for new and used cars is that new car loans tend to come at a lower interest rate.
- You should be very careful when shopping for a car loan to ensure that they get the best loan for their needs.
- Visit [www.edmonds.com](http://www.edmonds.com) to determine how much of a car loan you can afford.
- As a general rule, loans with short terms are better because borrowers pay less interest, and the lower the interest rate, the less costly the used car financing. However, the monthly payment will be higher.

# Loan Options



The following chart provides an overview on mortgage loans.

Loan Type	Loan Features	Perfect if You:
<b>Fixed-Rate Loan</b> (e.g., 30, 20, 15, or 10 years)	<ul style="list-style-type: none"> <li>• Fixed interest rate and monthly payment over the entire term of the loan</li> <li>• Higher interest rate and monthly payment than adjustable rate loans</li> </ul>	<ul style="list-style-type: none"> <li>• Don't plan to sell or refinance for 10 years or more</li> <li>• Prefer the security of having the same monthly payment with no pressure to refinance later</li> </ul>
<b>ARM Loan</b> (e.g., 1, 3, 5, 7, or 10 years)	<ul style="list-style-type: none"> <li>• Lower starting interest rate and monthly payment than fixed-rate loans</li> <li>• May eventually go higher than a fixed-rate loan</li> </ul>	<ul style="list-style-type: none"> <li>• Want the lowest possible interest rate and monthly payment</li> <li>• Are comfortable with changing interest rates and monthly payments</li> </ul>
<b>Balloon Loan</b> (e.g., 5 or 7 years)	<ul style="list-style-type: none"> <li>• Lower starting interest rate and monthly payment than fixed-rate loans</li> <li>• Full balance of loan is due at end of term (5 to 7 years)</li> </ul>	<ul style="list-style-type: none"> <li>• Plan to only live in your home for a short time but want a stable interest rate</li> </ul>
<b>Sub-Prime Loans</b> (e.g., 2, 3, 15 or 30 years)	<ul style="list-style-type: none"> <li>• May contain a prepayment penalty</li> </ul>	<ul style="list-style-type: none"> <li>• Want a home, but don't qualify for the lowest rate and best terms and can afford paying more for the loan</li> </ul>

# Loan Options



## Before you apply for a mortgage, be familiar with:

- Prepayment penalties are monetary penalties should a borrower payoff a loan earlier than was originally agreed.
- Negative Amortization (Neg Am) may be appealing to first time buyers who can't afford huge upfront mortgage payments, however may result in unmanageable monthly payments in the end.
- Predatory lending is the practice of using unfair, deceptive, and abusive tactics in lending money.
- Payday loans are short-term loans are offered to individuals without regard to credit. Though these loans are relatively easy to obtain, they are granted at unreasonably high interest rates.

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**Loan Application Process**

Home Options

Home Ownership

# Loan Application Process



## The following are used to evaluate loan applications:

- **Employment History:** Most lenders look for two consecutive years of employment within the same industry.
- **Credit History:** You must demonstrate that you can manage credit responsibly. Lenders look for a history of on-time payments.
- **Outstanding Liabilities:** Your total monthly payments for debts should not exceed 42 percent of your monthly earnings.
- **Cash and Asset Reserves:** Lenders may request information about your cash available (checking and savings).

# Loan Application Process



## The following is good to know before applying for a mortgage:

- Loan prequalification is a process that pre-approves a homebuyer for a specific loan amount when purchase a home. It helps you look for homes you can afford and gives you a competitive advantage.
- The mortgage application not only asks for information about you but also requires information about the property (since it will be used as collateral). The property information can be found in the appraisal.
- Before submitting a mortgage application, many home loan experts recommend that borrowers check their credit.
- Another important part of a mortgage application is the documentation a borrower provides since it confirms all the information is accurate.

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Home Ownership

# Home Options



## If you decide to leave your abuser, you have housing options:

- Transitional housing programs can be an option for someone who is leaving an emergency shelter or is not yet in a position to afford living completely independently.
- Before you rent, determine how much you can afford. It is recommended that your rent to 25%-30% of your income.
- If you are on a lease or rental agreement with your abuser, lease bifurcation you may allow you to remove your name or have the abusers name removed from the lease.
- The Section 8 program makes privately owned rental housing affordable to low-income households. It provides rent subsidies (either rental certificates or vouchers) for eligible tenants.

# Home Options



## Consider the following before signing a lease:

- Do not put money down unless you're sure you want the unit.
- Calculate the anticipated costs of utilities (i.e., heat, electricity) when determining whether you can afford an apartment.
- Check the apartment to ensure that it's in acceptable condition and put all agreements for repairs in writing.
- Evaluate how the superintendent or landlord responds to emergencies.
- Talk with prospective neighbors about the landlord.
- Visit the property at night and during the weekend to become more familiar with the community.

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# Home Ownership



## Before buying a home, ask yourself these questions:

- Do you have a steady income and a stable job?
- Do you plan to stay in the same city for at least three to five years?
- Do you have a budget? Do you stick to it?
- Do you have a good credit history?
- Do you have savings for a down payment and closing costs?
- Have you researched programs that offer down payments and closing costs for survivors of domestic violence?
- Have you looked at low- and moderate-income mortgage programs?
- Have you taken homebuyer-education classes?

# Home Ownership



## Below are some additional tips when looking to buy a home:

- **Get help before you sign.** If you're concerned about being a victim of predatory lending, have a counselor review the loan documents.
- **Read the fine print.** Watch for balloon payments, high interest rates and fees, and credit life insurance.
- **Shop around.** Comparison shop to get a loan with the best terms.
- **Avoid high-pressure sales.** Take your time when comparing lenders.
- **Review total costs.** A low monthly payment isn't always a deal.
- **Watch what you sign.** Never sign a blank document or any document the lender promises to fill in later.

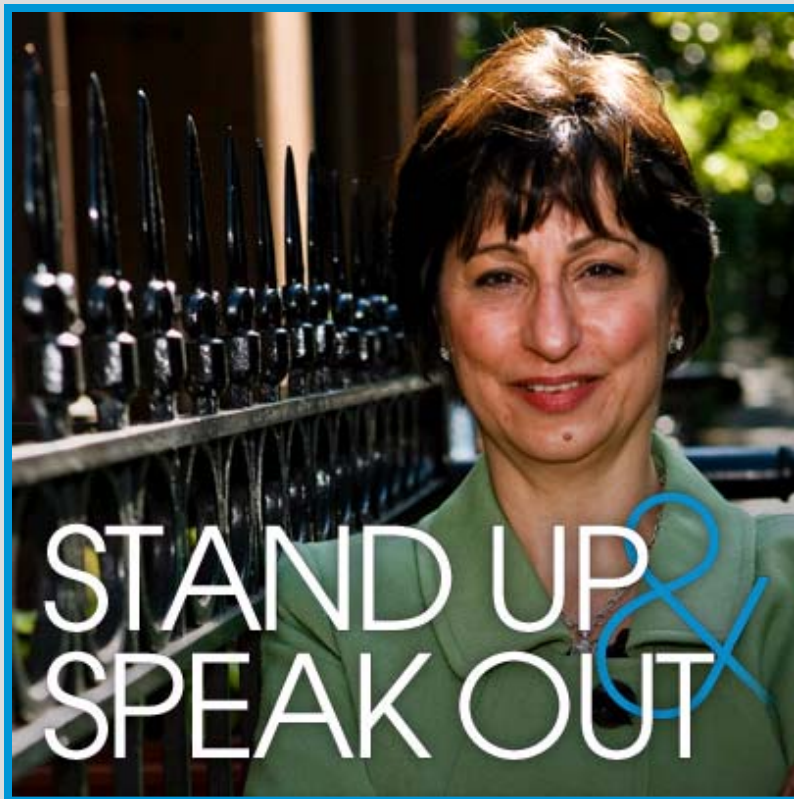
# Module Four Review Exercise



- Think about what we have discussed during the past hour.
- What do you believe was the most important piece of information you learned today?
- What is one action item you will commit doing to improve your current situation?
- Be prepared to share your ideas and thoughts with the class.
- You have five minutes.

# Financial Empowerment Curriculum

## Moving Ahead Through Financial Management



**THANK  
YOU!**