

# Activities and Tools

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## Sample Agenda for Understanding Your Options: Mortgage Refinance and Home-Equity Loans

(4 hours total)

### Opening Session

- Lecturette: Welcome
- Icebreaker: “Dots on the Wall” Activity
- Group Activity: Self-introductions
- Lecturette: Objectives, agenda, ground rules and parking lot
- Lecturette: Overview of organization’s programs and services

### Understanding Your Financial Goals

- Lecturette: Managing your money wisely
- Group Activity: “Financial Goals Values Auction”
- Lecturette: Determining your financial goals
- Individual Activity: Financial goals decision-making worksheet

### Understanding If Refinancing for a Better Rate or Term Is Right for You

- Individual Activity: “Refinancing Terms Matching” Activity
- Lecturette: What mortgage refinancing is
- Lecturette: Evaluating whether to refinance for better rates or terms
- Lecturette: Refinancing to save money on interest rates
- Case Study: “Refinancing to Save Money on Interest Rates” Case Study
- Lecturette: Refinancing to lower your monthly payment
- Lecturette: Refinancing to convert one type of mortgage to another
- Lecturette: Refinancing to build equity faster
- Lecturette: Important considerations

### Understanding If Converting Equity to Cash Is Right for You

- Lecturette: What home equity is
- Lecturette: How you can use equity without selling your home
- Lecturette: Evaluating whether or not to convert home equity to cash
- Lecturette: Determining the amount of equity you have in your home
- Lecturette: Choosing the loan product that is right for you
- Lecturette: Important considerations
- Lecturette: Home-equity loan cautions
- Individual Activity: “Home-Equity Loan Quiz”

### Understanding How to Prepare for Borrowing Again

- Lecturette: Checking your credit score
- Lecturette: Preparing a realistic spending plan
- Lecturette: Gathering your financial records
- Homework: Order credit reports and scores, create a monthly spending plan and gather financial records

### Understanding How to Shop for the Right Loan and Lender

- Group Activity: “Financing Terminology Matching” Activity
- Lecturette: Key financing terms
- Lecturette: How to choose between a fixed-rate and adjustable-rate mortgage
- Lecturette: How to decide whether to pay discount points
- Lecturette: How to choose between a private and government-assisted loan product
- Lecturette: How to find the best lender
- Lecturette: Selecting the best loan
- Homework: Find the best rate in your area for a mortgage refinance and home-equity loan

**Understanding the Loan Process**

- Group Activity: “Steps in the Loan Process Puzzle”
- Lecturette: Loan application
- Lecturette: Loan processing
- Lecturette: Loan underwriting
- Lecturette: Loan closing
- Lecturette: Loan documents

**Understanding How to Avoid Predatory Lenders**

- Lecturette: Warning signs
- Lecturette: Tips to avoid predatory lenders
- Lecturette: What to do if you think you have been victimized
- Activity: “Predatory Lending Skit”

**Understanding Your Responsibilities After Loan Closing**

- Lecturette: Importance of on-time payments
- Lecturette: Tax considerations
- Lecturette: Importance of home maintenance
- Lecturette: Importance of paying your real estate taxes
- Lecturette: What to do if you are having trouble making your mortgage payments

**Closing Session**

- Lecturette: Summary
- Group Discussion: Questions and answers
- Group Activity: “Jeopardy Game”
- Group Activity: Graduation
- Lecturette: Final remarks
- Individual Activity: Course evaluations using “Program Evaluation for Understanding Your Options: Mortgage Refinance and Home-Equity Loans”

## Workshop Materials Checklist

Location: \_\_\_\_\_

Date: \_\_\_\_\_

### Materials:

- Water-soluble markers
- Dry-erase markers
- Flipcharts
- Overhead transparencies
- Masking tape
- Scissors
- Index cards
- Pens or pencils
- Notepads
- Name tags
- Raffle tickets
- Door prizes
- Removable dots
- Local map
- Post-Its
- Clock
- Calculators
- Sign-in sheet
- Colored paper
- Refreshments
- Activities
- Course manuals

- Videos
- Handouts
- Certificates
- Evaluation forms
- Other: \_\_\_\_\_  
\_\_\_\_\_

### Equipment:

- Overhead projector
- Slide projector
- TV and VCR
- Tape recorder
- Screen
- LCD projector
- Laptop computer
- Dry-erase board
- Easels
- Other: \_\_\_\_\_  
\_\_\_\_\_

## Icebreaker: Dots on the Wall Activity Instructions

### Overview

Participants answer a series of questions about themselves by placing dots next to applicable answers on flipcharts posted around the room with questions on them. The objective is to assess where participants are in the homebuying process and what they would like to get out of the class.

### Time

5–10 minutes

### Materials

- Flipcharts with questions and answers
- Masking tape
- Strips of removable colored dots

### Set Up

- Write each question with a set of possible answers on a separate flipchart (samples appear in the next page).
- Tape the flipcharts up around the room.
- Cut sheets of removable dots into strips and place the strips into one envelope.

### Activity

- As participants walk into the room, hand each one a strip of removable colored dots and explain that they will be used in the opening exercise and that the exercise will be explained later.
- After all participants are in the room, tell them that there are questions posted on the flipcharts that they are to answer by walking around and posting their dots next to the appropriate answers on each flipchart.
- Conduct the activity.

### Debriefing

Summarize participants' answers.

## Icebreaker: Dots on the Wall Activity — Sample Questions and Possible Answers on Flipcharts Posted on Wall

### What Are Your Financial Goals?

- Reduce regular expenses
- Pay off debt
- Accumulate savings for emergencies
- Save for retirement
- Save for your own education
- Save for your children's education
- Buy a large-ticket item
- Go on a vacation
- Start a business
- Make home improvements
- Buy a second home
- Increase net worth
- Other

### What Kind of Savings and Assets Do You Have?

- Savings account
- Home equity
- Investments

### Where Do You Live?

Local map

### When Did You Buy Your Home?

- Less than one year ago
- 1–2 years ago
- 3–4 years ago
- 5–6 years ago
- 7–9 years ago
- More than 10 years ago

### How Much Longer Do You Plan to Stay in Your Home?

- Less than one year
- 1–3 years
- 4–6 years
- 7–10 years
- More than 10 years

### What Type of Loan Do You Have?

- Fixed-rate mortgage
- Adjustable-rate mortgage
- Interest-only mortgage
- Balloon payment mortgage
- 80-20 mortgage
- Conforming conventional mortgage
- Government-assisted mortgage
- Nonprime mortgage
- Other

### What Topic Are You Most Interested In?

- Refinancing for a better rate or term
- Converting equity to cash
- Preparing to borrow again
- How to shop for right loan and lender
- Loan process
- How to avoid predatory lenders
- Responsibilities after loan closing
- Other

## Financial Goals Values Auction Instructions

### Overview

Participants evaluate and share some of their priorities in setting their financial goals, as well as appreciate the values and choices of others. This activity encourages participants to really think about what it is they want to do or achieve.

### Time

20–30 minutes

### Materials

- 20 sheets of paper with one phrase or item on each (see auction items list)
- Fake \$20 bills (about 75)
- About 15 white envelopes and 15 “\$100” labels
- A fast talker to play the auctioneer

### Set Up

- Place five \$20 bills in each of the 15 envelopes and put the \$100 stickers on each envelope.
- Tape the values on the wall where all participants can see them.
- Ask for volunteers (up to 15) to be part of the auction, and give one envelope to each volunteer.
- Ask for a volunteer to be the banker, to collect the cash when items are bought and make change when needed.
- Explain that the remaining participants are observers whose role is to pay attention to things such as which items sold for the most and the least, and the body language and comments of the bidders.
- Before the bidding begins, read through the complete list of items to be auctioned.
- Tell the auction participants to bid on those things that are most important to them personally, to bid in multiples of 20, to bid out loud so everyone can hear each bid, and not to be afraid to bid against each other.

### Activity Begins

- Start the bidding. The bidding process should be fast-paced and fun.
- When all the items are sold, ask the observers to report their findings, opinions and observations.

### Debriefing

- Who got the values they wanted the most?
- Why did you choose your value(s)?
- Why is it important to set financial goals?

### Sample Auction Items

Reduce expenses

Pay off debt

Accumulate savings for emergencies

Buy a car

Save for retirement

Pay for your own education

Pay for your children's education

Buy a boat

Go on vacation

Start a business

Make home improvements

Buy a second home

Buy furniture

Buy a larger home

Pay for your children's weddings

Increase insurance coverage

Diversify investments

Buy rental property

Buy a new wardrobe

Buy electronic equipment

Buy new appliances

Increase net worth

## Refinancing Terms Matching Activity Instructions

### Overview

Participants test their knowledge of key terms related to refinancing.

### Time

5–10 minutes

### Materials

- Copies of the “Refinancing Terms” activity
- Pencils

### Set Up

- Make enough copies of the “Refinancing Terms” activity for all participants.

### Activity

- Give each participant a copy of the activity.
- Explain to the participants that they are to match the definition with the appropriate term.
- Conduct the activity.
- After five minutes, ask for participants’ answers.
- Review the correct answers.

### Debriefing

- Which terms were easy to identify? Which ones were more difficult?
- Why is it important to understand refinancing terms?
- Did this activity help you learn more about the key terms related to refinancing?

## Refinancing Terms Matching Activity

Draw a line from the refinancing term on the left to its definition on the right.

<b>Term</b>	<b>Definition</b>
1. Refinancing	a. An agreement between a lender and a borrower that changes the terms of a loan.
2. Fixed-Rate Mortgage	b. A loan with fixed monthly payments based on a 30-year schedule of payments on which the entire balance of the loan comes due at the end of a set period.
3. Adjustable-Rate Mortgage	c. A home loan that has rights subordinate to the rights of the first mortgage.
4. Break-Even Point	d. A loan in which the interest rate remains the same over the life of the loan.
5. Balloon-Payment Mortgage	e. An agreement by which a lender places its lien position behind that of another lender.
6. Second Mortgage	f. A loan that changes on a regular schedule based on a national economic index and the lender's margin.
7. 80-20 Mortgage	g. The process of taking out a new mortgage and using the money to pay off your current mortgage.
8. Prepayment Penalty	h. A type of 100 percent financing which combines two loans.
9. Subordination	i. A fee charged on some loans to a borrower who pays off a loan before it is due.
10. Loan Modification	j. How long it would take a borrower to recoup the total costs of refinancing.

## Refinancing Terms Matching Activity — Answer Key

Term	Definition
1. Refinancing	g. The process of taking out a new mortgage and using the money to pay off your current mortgage.
2. Fixed-Rate Mortgage	d. A loan in which the interest rate remains the same over the life of the loan.
3. Adjustable-Rate Mortgage	f. A loan that changes on a regular schedule based on a national economic index and the lender's margin.
4. Break-Even Point	j. How long it would take a borrower to recoup the total costs of refinancing.
5. Balloon-Payment Mortgage	b. A loan with fixed monthly payments based on a 30-year schedule of payments on which the entire balance of the loan comes due at the end of a set period.
6. Second Mortgage	c. A home loan that has rights subordinate to the rights of the first mortgage.
7. 80-20 Mortgage	h. A type of 100 percent financing which combines two loans.
8. Prepayment Penalty	i. A fee charged on some loans to a borrower who pays off a loan before it is due.
9. Subordination	e. An agreement by which a lender places its lien position behind that of another lender.
10. Loan Modification	a. An agreement between a lender and a borrower that changes the terms of a loan.

## Refinancing to Save Money on Interest Rates Case Study Instructions

### Overview

Participants help the Johnsons determine if refinancing for a lower rate makes sense based on their financial situation. The objective is to teach participants about calculating someone's break-even point to determine whether or not it makes sense for that person to refinance for a lower rate so that they will know how to do it for themselves.

### Time

30–40 minutes

### Materials

- Written copies of the case study for all participants
- Paper and pencils for all participants
- Calculators
- Overhead transparencies with completed worksheet for refinancing to save money on interest rates
- Transparency markers

### Set Up

- Make enough copies of the three-page case study for all participants.
- Print completed "Worksheet for Refinancing to Save Money on Interest Rates" onto an overhead transparency.

### Activity

- Distribute copies of the case study to participants and ask them to divide up into small groups.
- Read the case study aloud.
- Give the groups 10–15 minutes to pretend that they know the Johnsons and are helping them determine whether or not refinancing for a lower rate makes sense based on their financial situation. Ask groups to complete the worksheet for refinancing to save money on interest rates based on the information in the case study.
- Bring the group back together and share the completed worksheet for refinancing to save money on interest rates with the class using an overhead projector.

### Debriefing

Do you now feel ready to calculate your break-even point and determine if and how refinancing for a lower rate makes sense for you? Why or why not?

## Refinancing to Save Money on Interest Rates Case Study

Now that we have covered all the basic information you need to know to calculate your break-even point, you are ready to help the Johnson family figure out whether or not it makes sense for them to refinance for a lower rate based on their financial situation. Read the following information and determine whether it makes sense for them to refinance for a lower rate by using the worksheet for refinancing to save money on interest rates and 2005 tax rate schedule.

### Personal Information

Jack and Amy Johnson live in a three-bedroom home with their children, Kate and Alex. They bought their home three years ago with a \$200,000, 30-year, fixed-rate mortgage at a 7 percent interest rate. Their loan does not have a prepayment penalty. They are interested in refinancing for a lower rate, but they don't know where to begin.

Perhaps you can help them get started by calculating their break-even point. The Johnsons checked their current lender for the refinancing rate and terms being offered to them. The loan offered was a **5.5 percent interest rate for another 30-year fixed-rate loan**. They plan on staying in this home for at least another three years.

Prospective borrowers:	Jack and Amy Johnson
Combined annual income:	\$60,000
Savings:	\$2,000
Debts (other than the mortgage):	\$400/month

Current monthly principal and interest payment: .....	\$1,332
Current loan balance: .....	\$193,000
New monthly principal and interest payment: .....	\$1,096
Closing costs for new loan: .....	\$3,000

## Worksheet for Refinancing to Save Money on Interest Rates

Costs	Current Mortgage	Refinance Loan
A. Loan amount	1.	2.
B. Interest rate	1.	2.
C. Monthly principal and interest payment amount	1.	2.
D. Tax rate (see next page for 2005 tax rate schedules)	1.	2.
E. After-tax payment amount [C x (1-D)]	1.	2.
F. Difference in after-tax payment amounts (E1-E2)		2.
G. Total closing costs		2.
H. Months to break even (G2 ÷ F2)		2.
I. How long you plan to stay in your home in months (years x 12)		2.
J. Total savings (F2 x I2)		

## 2005 Tax Rate Schedule

### Filing Status: Single

Income Range	Tax Rate
\$0 to \$7,300	10%
\$7,300 to \$29,700	15%
\$29,700 to \$71,950	25%
\$71,950 to \$150,150	28%
\$150,150 to \$326,450	33%
\$326,450 to no limit	35%

### Filing Status: Married Filing Jointly or Qualifying Widow(er)

Income Range	Tax Rate
\$0 to \$14,600	10%
\$14,600 to \$59,400	15%
\$59,400 to \$119,950	25%
\$119,950 to \$182,800	28%
\$182,800 to \$326,450	33%
\$326,450 to no limit	35%

### Filing Status: Married Filing Separately

Income Range	Tax Rate
\$0 to \$7,300	10%
\$7,300 to \$29,700	15%
\$29,700 to \$59,975	25%
\$59,975 to \$91,400	28%
\$91,400 to \$163,225	33%
\$163,225 to no limit	35%

### Filing Status: Head of Household

Income Range	Tax Rate
\$0 to \$10,450	10%
\$10,450 to \$39,800	15%
\$39,800 to \$102,800	25%
\$102,800 to \$166,450	28%
\$166,450 to \$326,450	33%
\$326,450 to no limit	35%

**Worksheet for Refinancing to Save Money on Interest Rates — Answer Key**

<b>Costs</b>	<b>Current Mortgage</b>	<b>Refinance Loan</b>
A. Loan amount	1. <b>\$200,000</b>	2. <b>\$193,000</b>
B. Interest rate	1. <b>7%</b>	2. <b>5.5%</b>
C. Monthly principal and interest payment amount	1. <b>\$1,332</b>	2. <b>\$1,096</b>
D. Tax rate	1. <b>0.25</b>	2. <b>0.25</b>
E. After-tax payment amount [C X (1-D)]	1. <b>\$999</b>	2. <b>\$822</b>
F. Difference in after-tax payment amounts (E1-E2)		2. <b>\$177</b>
G. Total closing costs		2. <b>\$3,000</b>
H. Months to break even (G2 ÷ F2)		2. <b>17</b>
I. How long you plan to stay in your home in months (years X 12)		2. <b>36</b>
J. Total savings (F2 X I2)		<b>\$6,372</b>

## Home-Equity Loan Quiz Instructions

### Overview

Participants recall what they learned about home-equity loans after they have learned about this subject.

### Time

5–10 minutes

### Materials

- Copies of the “Home-Equity Loan Quiz” for all participants
- Pencils

### Set Up

Make enough copies of the “Home-Equity Loan Quiz” page for all participants.

### Activity

- Give each participant a copy of the quiz.
- Explain to the participants that they are to indicate whether they think the answers are true or false.
- Conduct the quiz.
- After five minutes, ask for participants’ answers.
- Review the correct answers.

### Debriefing

Did this activity help reinforce what you learned about home-equity loans?

## Home-Equity Loan Quiz

1. When you borrow against your home equity, your new payments will probably be lower.  
 True  False
2. The interest rate on a cash-out refinance loan is usually higher than the rate for the loan that is being paid off.  
 True  False
3. A home-equity loan and a home-equity line of credit are the same thing.  
 True  False
4. Anyone can get a reverse mortgage.  
 True  False
5. If you need to make repairs to your home, your only option is to draw on your home equity to pay for the repairs.  
 True  False
6. Using your home equity to consolidate debts usually leads to lower total interest costs.  
 True  False
7. The only way to determine your home's value is to hire an appraiser.  
 True  False
8. If your home is valued at \$230,000, and you presently owe \$180,000, you have \$180,000 in home equity.  
 True  False
9. When you borrow against your home equity and fail to make the loan payments, you could lose your home.  
 True  False
10. If you need to pay for something that will take time and require multiple payments, like college tuition over four years, a home-equity line of credit is probably a good option for you.  
 True  False

## Home-Equity Loan Quiz — Answer Key

1. False. When you are converting your equity to cash, you are borrowing more money, not saving money. Your new monthly payments will probably be higher, and your interest rate may also be higher.
2. True.
3. False. A home-equity loan is where you borrow a set amount of money. A home-equity line of credit is a specialized form of a home-equity loan, where the balance can go up or down.
4. False. A reverse mortgage is available only if all the owners on the title to the home are at least 62 years old.
5. False. You may have other options. Depending on the situation, repairs may be covered under a home warranty or manufacturer warranties, your homeowners insurance policy, or a homeowners association's insurance policy. Or, there may be grants or low-interest loans available through a local nonprofit or government agency.
6. False. Using your home equity to consolidate debts often leads to higher total interest costs. If you wrap your credit balances into a 30-year, cash-out refinance loan, you will have a longer term and higher long-term costs.
7. False. To get a free, fairly accurate estimate of your home's value, you can check with your local tax assessor's office or a local real estate professional.
8. False. The difference between your home's value and your loan balance is your home equity. In this case, you would have \$50,000 in home equity (\$230,000–\$180,000).
9. True.
10. True.

## Monthly Spending Plan

The following spending plan is broken down into several types of expenses: fixed, periodic fixed, flexible and indebtedness. Depending on your situation, some expenses (for example, a cell phone) may be considered flexible rather than fixed expenses. Be sure to adjust the categories to reflect your needs and lifestyle.

Monthly Expense	Budgeted Amount	Actual Spent	Difference
<b>Fixed Expenses</b>			
<b>Housing</b>			
Mortgage			
Heating (gas or oil)			
Electricity			
Telephones (land lines and cell phones)			
Other:			
<b>Transportation</b>			
Gas			
Car Payment			
Public Transportation or Taxi			
Parking and Tolls			
Other:			
<b>Insurance</b>			
Health (medical and dental, if not payroll-deducted)			
Life			
Disability			
Other:			
<b>Childcare</b>			
Childcare or Babysitters			
Child Support or Alimony			
<b>Fixed Expenses Subtotal:</b>			
<b>Periodic Fixed Expenses (Divide annual payment by 12)</b>			
<b>Housing</b>			
Homeowners Insurance (if not included in mortgage)			
Real Estate Taxes (if not included in mortgage)			
Water or Sewage			
Trash Service			
Other:			
<b>Transportation</b>			
Car Insurance			
Car Inspection			
Car Repairs and Maintenance			
License Plates and Registration Fees			
Other:			
<b>Periodic Fixed Expenses Subtotal:</b>			

Understanding Your Options: Mortgage Refinance and Home-Equity Loans

Monthly Expense	Budgeted Amount	Actual Spent	Difference
<b>Flexible Expenses</b>			
<b>Food</b>			
Groceries			
School Lunches			
Work-Related (lunches and snacks)			
Other:			
<b>Housing</b>			
Home Maintenance and Furnishings			
Cleaning Supplies			
Lawn Care			
Other:			
<b>Medical</b>			
Doctor			
Dentist			
Prescriptions			
Other:			
<b>Savings</b>			
Emergency Fund			
Financial Goals Fund			
<b>Clothing</b>			
Clothing			
Laundry and Dry Cleaning			
Other:			
<b>Education</b>			
Tuition			
Books, Papers and Supplies			
Newspapers and Magazines			
Lessons (sports, dance, music)			
Other:			
<b>Donations</b>			
Religious or Charity			
Other (if not payroll deducted):			
<b>Gifts</b>			
Birthdays			
Major Holidays			
Other:			
<b>Personal</b>			
Barber or Beauty Shop			
Toiletries			
Children's Allowances			
Tobacco Products			
Beer, Wine, Liquor			
Other:			

## Understanding Your Options: Mortgage Refinance and Home-Equity Loans

Monthly Expense	Budgeted Amount	Actual Spent	Difference
<b>Entertainment</b>			
Movies, Sporting Events, Concerts, Theater, Etc.			
Video Rentals			
Internet Service			
Cable/Satellite TV			
Restaurants and Take-Out Meals			
Gambling or Lottery Tickets			
Fitness or Social Clubs			
Vacations/Trips			
Hobbies or Crafts			
Other:			
<b>Miscellaneous</b>			
Checking Account, Money Order Fees, Etc.			
Pet Care or Supplies			
Postage			
Pictures and Photo Processing			
"Mad" Money			
Other:			
<b>Flexible Expenses Subtotal:</b>			
<b>Indebtedness Expenses</b>			
<b>Debts</b>			
Student Loan			
Credit Card (monthly minimum*)			
Credit Card (monthly minimum*)			
Credit Card (monthly minimum*)			
Medical Bills			
Personal Loan			
Other:			
<b>Indebtedness Subtotal:</b>			
<b>Total Monthly Expenses</b> (fixed + periodic fixed + flexible + indebtedness)			
<b>Income</b>			
<b>Total Monthly Net Income</b>			
<b>Additional Savings</b>			
<b>Amount Left Over for Savings</b> (total monthly net income – total monthly expenses)			

\* Although it is strongly recommended that you pay more than the monthly minimum payment due, lenders will use this amount when calculating monthly debt obligations.

Source: CreditSmart curriculum by Freddie Mac.

## Financing Terminology Matching Activity

### Overview

Participants review some of the terminology associated with mortgage refinancing. The objective is to help participants remember the financing terminology they learned when they bought their homes before going into depth about how to shop for the right lender and loan for refinancing their mortgage for different terms or borrowing against their home equity.

### Time

15–20 minutes

### Materials

Colored paper with financing terms and definitions. (Cut out the terms and definitions on the next pages or make your own.)

### Set Up

- Put each term and definition on a separate piece of paper.
- Mix up the terms and definitions.

### Activity

- Give each participant a piece of paper with a mortgage term or definition.
- Ask everyone to stand.
- Explain that each person now has a piece of paper with either a mortgage term or a definition. Each person must find the person who has the piece of paper with the corresponding term or definition (example: 4 Cs of Credit = Capital, Credit History, Capacity and Collateral). Let them know that when two people are matched, they should stand near the edge of the room to make space for those who remain unmatched.
- Conduct the activity.
- After all participants appear to be matched, ask everyone to read their terms and definitions aloud in turn.
- Review the mortgage terms and the correct definitions using an overhead, flipcharts or PowerPoint.

### Debriefing

- How many of you were familiar with most of the mortgage terms?
- Which terms were unfamiliar to you?

### Financing Terms and Definitions

**Loan-to-Value:** The ratio of the loan balance you owe, compared to the appraised value of a home.

**Principal:** The total amount borrowed from a lender, not including interest.

**Closing Costs:** Expenses over and above the purchase price of a manufactured home that are incurred by financing and the transfer of ownership.

**Term:** The amount of time you have to pay off a loan.

**Interest Rate:** The cost of borrowing money.

**Annual Percentage Rate:** The total cost of credit, including the interest, points and certain other fees charged by a lender.

**Point:** One percent of the loan amount.

**Escrow Account:** A special account set up by the lender to collect and pay for real estate property taxes, homeowners insurance and mortgage insurance, if required, as part of your monthly loan payment.

**Loan Fees:** Costs associated with obtaining a mortgage.

**Rate Lock-In:** A legal commitment between a borrower and lender to guarantee a loan at a specific interest rate for a certain period of time.

**Discount Point:** A prepaid finance charge paid in exchange for a lower interest rate on a mortgage loan.

**Origination Fee:** A fee charged by some lenders to cover the administrative costs in preparing and evaluating your loan.

## Financing Terminology Matching Activity — Terms and Definitions

*Term:*

**Loan-to-Value**

*Definition:*

The ratio of the loan balance you owe, compared to the appraised value of a home.

*Term:*

**Principal**

*Definition:*

The total amount borrowed from a lender, not including interest.

*Term:*

**Closing Costs**

*Definition:*

Expenses over and above the purchase price of a manufactured home that are incurred by financing and the transfer of ownership.

*Term:*

**Term**

*Definition:*

The amount of time you have to pay off a loan.

*Term:*  
**Interest Rate**

*Definition:*  
The cost of borrowing money.

*Term:*  
**Annual Percentage Rate**

*Definition:*  
The total cost of credit, including the interest, points and certain other fees charged by a lender.

*Term:*  
**Point**

*Definition:*  
One percent of the loan amount.

*Term:*  
**Escrow Account**

*Definition:*  
A special account set up by the lender to collect and pay for real estate property taxes, homeowners insurance and mortgage insurance, if required, as part of your monthly loan payment.

*Term:*

**Loan Fees**

*Definition:*

Costs associated with obtaining a mortgage.

*Term:*

**Rate Lock-In**

*Definition:*

A legal commitment between a borrower and lender to guarantee a loan at a specific interest rate for a certain period of time.

*Term:*

**Discount Point**

*Definition:*

A prepaid finance charge paid in exchange for a lower interest rate on a mortgage loan.

*Term:*

**Origination Fee**

*Definition:*

A fee charged by some lenders to cover the administrative costs in preparing and evaluating your loan.

## Steps in the Loan Process Puzzle

### Overview

Participants determine the correct order of the major steps of the mortgage loan process. The objective is to give participants an overview of the steps in the mortgage loan process.

### Time

10–15 minutes

### Materials

- Puzzle pieces with steps for the mortgage loan process
- Envelopes

### Set Up

- Make enough copies of the pages with the puzzle pieces for small groups (4 to 5 participants), partners or individuals, depending on the size of the class.
- Make individual puzzle pieces.
- Divide puzzles into envelopes (one puzzle per envelope), and label “Steps in The Mortgage Loan Process.”

### Activity

- Give each team or individual an envelope containing the puzzle.
- Explain to the participants that the envelopes contain the 4 major steps of the loan process. They are to organize the steps in the order in which they think the steps would occur. Then list some of the activities that occur during each step.
- Conduct the activity.
- After 5–10 minutes, ask each team or individual to report out on the puzzle. Compare and discuss the results.
- Review the correct order of the steps of the mortgage loan process using an overhead, flipcharts or PowerPoint. Include details about the activities that occur during each step.

### Debriefing

- Do you agree with the “correct” order? If not, why not?
- Are there any important steps you would add or remove?
- Did this activity help you learn more about the steps in the mortgage loan process? Were there any steps that surprised you?

### Puzzle Pieces

Loan Application

Loan Processing

Loan Underwriting

Loan Closing

## Steps in the Loan Process Puzzle — Puzzle Pieces

**Loan Application**

**Loan Processing**

**Loan Underwriting**

**Loan Closing**

## Predatory Lending Skit

### Overview

Participants watch a role play designed to give them the opportunity to understand the challenges of shopping for a refinance or home-equity loan.

### Time

20 minutes

### Materials

- Props, such as a colorful sign for lender, fake money, chairs, clipboard, employee-of-the-month poster, etc.

### Set Up

- Ask for two volunteers to act in the role play as the borrower and the lender.

### Activity

- Give participants background about the situation and tell them they are to watch the skit and look out for things that go wrong when shopping for a loan.
- Conduct the role play.
- Ask for participants to report on the things they saw go wrong and ideas they have for improving the shopping process.

### Debriefing

Do you now feel more prepared to shop around for a refinance or home-equity loan? Why or why not?

### Skit Background

Marty is a homeowner with good credit. He bought his first home a few years ago and now wants to borrow against his home equity to make some home improvements. He has about \$30,000 in home equity through his regular mortgage payments and appreciation. One day on his lunch break, he stops at a lender's office with a big, colorful sign that reads: "Easy home-equity loans here." Sam is fond of convenience, so he stops in for a look. He is looking to borrow about \$10,000 and wants his new monthly payment to be well under \$100 per month.

Carl is the top loan officer with this lender. He is anxious to keep his employee-of-the-month status, but home-equity loan originations have been a little slow lately. Carl is very charismatic, likes to ease people's fears about borrowing against their home equity, and always encourages people to borrow more money than they had planned. He would like to have a signed loan application by the end of the day.

## Jeopardy Game

### Overview

Participants review topics covered throughout the course, in various categories. This fun activity gets the entire class involved in the learning process. It encourages good-natured competition and is an excellent confidence-building tool for the prospective borrower. Jeopardy is most effective when used to review the key elements at the end of the training.

### Time

30–40 minutes

### Materials

- 5 colors of pocket folders (6 of each color)
- Masking tape
- Half-page labels
- Flipchart
- Markers
- Prizes

### Set Up

- Choose 5 categories. Make labels for the categories. Place each label on a different color pocket folder.
- Choose 5 questions for each category. Print the Jeopardy answers on white paper and place them inside the appropriate color pocket folders. Make 5 sets of labels of "\$100," "\$200," "\$300," "\$400" and "\$500." Place the labels on the folders.
- Print the winning questions on the backs of the pocket folders.
- Hide two Daily Doubles.
- Tape all the pocket folders onto the wall.

### Activity

- Divide participants into two teams on opposite sides of the room. Have each team choose a team name.
- Explain the rules of the game.
- Conduct the activity and record the scores.
- When all the questions have been answered, give the winning team a prize.

### Jeopardy Rules and Instructions

- Each team must select a team captain to answer for the team after conferring with the team members.
- All answers must be in the form of questions.
- Teams can choose any category for any dollar amount.
- Flip a coin to determine which team goes first.
- After the first round, the two teams take turns choosing and answering questions.
- If a team answers incorrectly, the other team gets an opportunity to answer (except on Daily Doubles).
- No points are subtracted (except on Daily Doubles).
- On a Daily Double, a team may wager up to the amount it has won so far. If the team answers correctly, it receives the amount it wagered. If the team answers incorrectly, it loses the amount it wagered. The other team may not try to answer.
- There is no Final Jeopardy.
- The team with the most money at the end wins.

## Jeopardy Categories, Questions and Answers

### IT'S JEOPARDY

#### REFINANCING FOR A BETTER RATE OR TERM

\$100 Q: How long it would take for someone to recoup the total costs of refinancing.

\$100 A: What is the break-even point?

\$200 Q: A fee charged by some lenders for paying off a mortgage early.

\$200 A: What is a prepayment penalty?

\$300 Q: The type of refinancing that helps build equity faster.

DAILY DOUBLE

\$300 A: What is a loan with a shorter term?

\$400 Q: An agreement by which a lender places its lien position behind that of another lender.

\$400 A: What is subordination?

\$500 Q: Refinancing that requires limited documentation and underwriting.

\$500 A: What is streamline refinancing?

#### SHOPPING FOR A LOAN

\$100 Q: A loan in which the interest rate does not change during the entire term of the loan.

\$100 A: What is a fixed-rate loan?

\$200 Q: A type of mortgage loan not insured by the federal government.

\$200 A: What is a conventional loan?

\$300 Q: A type of loan in which the interest rate changes periodically, up or down, usually once or twice a year.

\$300 A: What is an adjustable-rate loan?

\$400 Q: A special account set up by a lender to pay for real estate property taxes and insurance when they are collected as part of your monthly loan payment.

\$400 A: What is an escrow account?

\$500 Q: The ratio of the loan balance you owe, compared to the appraised value of a home.

\$500 A: What is loan-to-value (LTV)?

### CONVERTING EQUITY TO CASH

- \$100 Q: A loan that allows someone to borrow more money by replacing the old mortgage with a larger one.
- \$100 A: What is a cash-out refinance loan?
- \$200 Q: A specialized form of a second lien, where the balance can go up or down.
- \$200 A: What is a home-equity line of credit?
- \$300 Q: A second mortgage for a set amount of money.
- \$300 A: What is a home-equity loan?
- \$400 Q: A loan that is available only if all the owners on the title to the home are at least 62 years old.
- \$400 A: What is a reverse mortgage?
- \$500 Q: The sum of all the mortgages on a property divided by the value of the home.
- \$500 A: What is the combined loan-to-value (CLTV)?

### MISCELLANEOUS

- \$100 Q: A legal commitment between a borrower and lender to guarantee a loan at a specific interest rate for a certain period of time.
- \$100 A: What is interest rate lock-in?
- \$200 Q: A prepaid finance charge paid in exchange for a lower interest rate on a loan.
- \$200 A: What is a discount point?
- \$300 Q: A document that discloses the terms and cost of a mortgage loan, including the APR.
- \$300 A: What is the Truth-in-Lending Statement?
- \$400 Q: The legal process used to force the payment of a debt secured by collateral whereby the property is sold to satisfy the debt.
- \$400 A: What is foreclosure?
- \$500 Q: The maximum principal loan balance from which someone can deduct mortgage interest paid on home-equity debt.
- \$500 A: What is \$100,000?

**PREDATORY LENDING**

\$100 Q: The recommended number of lenders to compare when shopping for a loan.

\$100 A: What is three?

\$200 Q: A loan with fixed monthly payments based on a 30-year schedule on which the entire balance of the loan comes due at the end of a set period of time.

\$200 A: What is a balloon-payment mortgage?

\$300 Q: A right provided under federal law to borrowers who are refinancing or borrowing against their home equity that allows them three days after signing the loan documents to cancel the contract.

**DAILY DOUBLE**

\$300 A: What is the Right of Rescission?

\$400 Q: An optional form of life insurance that pays off a mortgage if the borrower dies.

\$400 A: What is mortgage-life insurance?

\$500 Q: A dispute resolution mechanism, whereby an independent, neutral third party is appointed to oversee a dispute and render a final binding decision.

\$500 A: What is arbitration?

## Program Evaluation for *Understanding Your Options: Mortgage Refinance and Home-Equity Loans*

Please help us understand how well we did today. We value your comments.

1. **Are you now more confident that you can obtain a refinance or home-equity loan?**  
 Very Confident     Modestly Confident     Not Very Confident     Not at All Confident
2. **How would you rate this training overall?**  
 Excellent     Good     Fair     Poor
3. **How did it compare to what you were told you would learn? Did you learn . . .**  
 More than you expected     About as much as you expected     Less than you expected
4. **How effective was the instructor(s)?**  
 Excellent     Good     Fair     Poor
5. **How engaging or exciting was this course?**  
 Very engaging     Somewhat engaging     Not very engaging     Not at all engaging
6. **How would you rate the materials and handouts used?**  
 Excellent     Good     Fair     Poor

### How well did this course help you understand the following?

7. When it makes sense to refinance or borrow against your home equity     Excellent     Good     Fair     Poor
8. Financing terms related to refinance and home-equity loans     Excellent     Good     Fair     Poor
9. The steps involved in obtaining a refinance or home-equity loan     Excellent     Good     Fair     Poor
10. The financial requirements of obtaining a refinance or home-equity loan     Excellent     Good     Fair     Poor
11. The responsibilities involved after obtaining a refinance or home-equity loan     Excellent     Good     Fair     Poor

### 12. How did you find out about the counseling program?

- Radio     TV     Print media     Billboards or signs     Referral from friends  
 Referral from lender (bank or mortgage co.)     Referral from city or county government office

**Additional Comments:** \_\_\_\_\_

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<b>For Staff Use Only</b>	Location:	Date:	ID #:
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