



## UNIT 8 – 1

# Home Ownership in Tough Times

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Home ownership may be a desirable thing, but it also takes a lot of work and sacrifice. For example, one of the main things that a homeowner must do is to establish priorities in life. For example, some expenses are simply more of a priority than others – and making the monthly mortgage payment is right at the top of the list!

This unit is all about Plan A – staying healthy, earning a decent income, paying all the bills on time, keeping up with the mortgage, and eventually retiring the mortgage. That way if everything works out as planned, you will be able to enter your retirement years with the house paid off and enjoy life like you always thought you would. We also know that life doesn't always unfold as planned, and some people have tragically reached the point of **foreclosure**, the formal legal procedure in which the lender seeks to regain property pledged as collateral against a mortgage because the borrower has defaulted on payments.

Hopefully this will never happen to you, but as we said earlier, one of the best defenses in life is to have a good offense. In other words, when it comes to your mortgage, be proactive, learn to recognize the early warning signs of financial trouble, and take every possible step to remedy it if you can.

And if you ever find yourself in foreclosure, there are still some things that you can do. However, like most problems in life it's generally easier to avoid them in the first place than to have to deal with them later. If all else fails you may have to go to Plan B, but let's see if it's possible to avoid it in the first place.

### Case Study Application

The couple in the case study on the next page are clearly beginning to face hard times as so Plan A may no longer be an option for them. Time will tell.



## **CASE STUDY: THE NEIGHBOR'S DILEMMA**

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Bill's next door neighbors have lived there for about five years. They have a big house for a family with only one preschooler, and they always seem to have several new cars in the yard. The house is also relatively new, and because they have an interest-only (I-O) mortgage, they have not reduced the principal on the mortgage.

The family likes to take expensive vacations, and dining out is one of their regular Friday night pastimes. Family expenses are beginning to creep up on them, however, and the exclusive private school tuition they want to pay for their child is beginning to become a point of serious contention between the parents. Some of the regular family expenses have been covered with credit cards, but some cards are already maxed out, and so it seems as if the minimum monthly payments are doing little more than servicing interest on several perpetual loans.

The big problem, they think, is that both parents rely on jobs that pay commission on sales. Both are also on the road a lot, and with high gas prices and a slowing economy, they are having serious problems making ends meet. Up until now they have made all of the mortgage payments on time, but they are falling behind in other areas and so they are thinking about getting additional credit cards to support their lifestyle until their financial situation improves.

### **Recognize the Warning Signs**

Foreclosure doesn't just happen or come out of thin air. Instead, it usually sneaks up on people and then surprises them when they least expect it. However, there are also some warning signs along the way which, if detected in time, will give you the chance to take some corrective steps. Specifically, people should be on the lookout for one or more of the following:

- Arguing over which bills to pay.
- Being unable to pay some bills on time.
- Getting new credit cards to help make the payments on old ones.
- Having one or more credit cards maxed out.
- Making minimum monthly payments on credit cards.
- Relying on credit cards to meet everyday living expenses (gas, groceries, even utilities).



Credit cards are extremely useful, of course, but the problem for the consumer is one of keeping the payments current so that one doesn't fall behind. The problem for the credit card company is just the opposite – they don't start to make their money until the consumer does fall behind, and when they do, interest on the unpaid balance can be quite steep, generally four or five times higher than the interest charged on the standard home mortgage.

The standard credit card has become a fixture of modern life that few of us can do without. Almost everybody uses one (or more) to make purchasing convenient. And, because they are so easy to get and use, they have increasingly become the preferred method of financing even when the user can not afford to service additional debt. In this regard, overuse of the standard credit card has become a leading indicator of mortgage foreclosure.

- How many of the credit card warning signs do Bill's neighbors have?
- Are the financial difficulties faced by Bill's neighbors likely to cause other problems?

### Analyzing your Budget Situation

If you are falling behind financially, now is the time to take a long hard look at your current budget situation. After all, there may still be some things that you can do to get your financial situation back on track.

While there are a number of ways to do this, one of the most useful is to sit down and make up a budget (or make it up again if you've done it before), and try to account for every single penny that you spend. The budget can easily be done on a spreadsheet like the one on the next page, and it should have enough rows for every expenditure that you make.

The budget should serve as both a planning and an analytical document. For example, you want to do more than have a single column for the budgeted expenditures, you should have another for the actual expenditures in the category as well as one that records the difference. Finally, include a final column for comments.

Of course it's always nice to have the budget worksheet completed for a month or more so that you can view longer run plans, but even the process of setting one up will likely be of tremendous help as you are bound to find numerous little expenses that can be easily reduced – and collectively represent large potential savings.

As you fill out the worksheet, you may want to add or delete rows to make the exercise better fit your situation. However, the main thing to remember is to try to account for every possible expenditure so that you can better picture of things.



Budget Category	Est. Monthly Budget	Actual Spending	Difference	Comments
<b>Income:</b>				
Net pay				
Interest				
Other				
<b>Housing Expenses:</b>				
Mortgage Pmt				
Electric				
Gas				
Water				
Sewer				
Homeowner assn				
TV/Cable				
Internet				
Cell phone				
Taxes				
Other				
<b>Medical Expenses:</b>				
Dental				
Family doctor				
Eyeglasses				
Medicines				
Orthodontist				
Other				



<b>Transportation Expenses:</b>	<b>Est. Monthly Budget</b>	<b>Actual Spending</b>	<b>Difference</b>	<b>Comments</b>
Car payments				
Car Insurance				
Gas				
Parking & tolls				
Repairs				
Mass transit				
Other				
<b>Food &amp; Entertainment:</b>				
Groceries				
Movies				
Sports				
Meals out				
Other				
<b>Children/Family/Pets</b>				
School tuition				
Lunch money				
Allowances				
Child care				
Laundry/dry cleaning				
Dancing lessons				
Soccer				
Veterinary				
Other				



<b>Credit Cards &amp; Other Loans:</b>	<b>Est. Monthly Budget</b>	<b>Actual Spending</b>	<b>Difference</b>	<b>Comments</b>
Student loans				
Credit card #1				
Credit card #2				
Credit card #3				
Credit Card #4				
Other				
<b>Misc Expenses:</b>				
Clothing				
Home repairs				
Furniture				
Yard maintenance				
Birthdays/holidays				
Church/charity				
Other				
<b>TOTAL MONTHLY INCOME</b>				
<b>TOTAL MONTHLY EXPENSES</b>				
<b>DIFFERENCE</b>				

- Are Bill's neighbors acting as if their spending plans are guided by such a budget?
- Do you think that such an approach would be of help to them?

