FOLLOWING UP

Receiving the keys is just the first step in becoming a homeowner. Whether you are purchasing a new or used home, there are a number of responsibilities you should follow through on to ensure a happy home.

For example, don’t forget to ask for all the warrantees and operating manuals for your home’s materials and appliances. Here are some other topics that are key:

Basic home maintenance tips
Maintenance costs
Hazards
Insurance
Have a financial cushion
Managing your mortgage obligations

Basic Home Maintenance Tips
Caring for a home is part of the joy and pride of home ownership. Taking care of your home properly will help retain and even increase its value. Some maintenance tips include:

- Changing heating and air conditioning filters at least once a month. Tip: If you prefer, you can invest in good quality filters that last longer. In the spring, have your air conditioning unit professionally serviced; in the fall do the same for your heating unit.
- Having your water heater professionally cleaned at least once a year.
- Checking your roof for leaks and clean gutters at least once per month.
- Calling a plumber once a year to check your faucets and toilets.
- Changing the batteries of your smoke detector(s) and carbon monoxide detector(s) twice a year.
- Maintaining home warranty plans, which cover all heating, air, plumbing and electrical systems as well as appliances. These are usually available at time of purchase and you can often negotiate to have the seller pay the cost for such a plan—check with your lender or Realtor for more information.

Enrolling in a home maintenance workshop at a local hardware store such as Home Depot or Lowe’s can give you the confidence to make your own repairs or improvements. These classes can be very instructive. They may offer discount cards or coupons on purchases in their store.

Check your local government agencies. Some offer financial assistance programs that pay for maintenance expenses.

Maintenance Costs
The expenses of owning a home go beyond the monthly mortgage and utility payments, and can create financial difficulties, particularly for first-time homebuyers who have minimal savings. Mechanical failures in the plumbing, electrical and heating systems seem to occur at the worst possible times, but have to be repaired. If you have purchased an older home, complete replacement of water heaters, furnaces or kitchen appliances may be needed. You should have drawn up a budget before beginning your search for a home,
making allowances for such expenditures. If you did not, it is time that you begin to accumulate adequate reserves to deal with such emergencies.

In a new home, your immediate expenses may be confined to landscaping, interior decoration and furnishings. Under normal conditions, mechanical items and appliances will be under warranty for six months to a year and will not require a large amount of money, but may need minor repairs.

In an older property, replacement of major items can be very expensive. You should have determined the age of the furnace, hot water heater, air conditioning system, kitchen appliances and the roof. Your home inspector’s report probably noted the ages of these major items. If they are older than half their expected useful life, you will need to plan for the costs of replacement.

Set up a budget and plan for both regular maintenance and major repairs. Establish an emergency fund for repairs and appliance replacement. Know what sources of financing are open to you when a major item such as the roof or heating system has to be replaced. These are things that can cost thousands of dollars and you may have to finance them through a home equity loan, a second mortgage or an installment loan. Determine which kind of loan you are likely to qualify for, outline the pros and cons of the alternatives, and have a plan for dealing with a major expense.

Your budget should also include a reserve for making your mortgage payments in the event of illness or loss of income in the future.

Hazards
Many hazards can develop in your home that may cause serious harm or loss. Although homeowners insurance is there to help, prevention is your best insurance against these types of risks.

According to the U.S. Consumer Product Safety Commission (CPSC), deaths, injuries and property damage from consumer product incidents cost the nation more than $700 billion annually.

This agency provides information and tools to protect the public from unreasonable risks of serious injury or death from consumer products under the agency’s jurisdiction. The CPSC helps to protect consumers and families from products that pose a fire, electrical, chemical, or mechanical hazard or can injure children.

Insurance
Unfortunately, catastrophes and losses to properties may occur at any time. Out of the 20 most costly weather-related losses in the year 2000, 10 of them occurred in the United States.

Your homeowners insurance protects your home in case of damage or loss from hazards that are covered by your policy.

What to Do In Case of a Loss
Read the Homeowner Duties list below to learn what you should do in case of a loss. Then, read the Insurance Company Duties to learn how the company will respond to your claim.
Homeowner Duties

1. Provide prompt written notice to the insurance company that you had a loss or damage. Note: If a theft was involved, you must notify the police.

2. Take steps to protect the property from further damage.

3. Provide a complete inventory of damaged personal property showing the quantity, description and amount of loss.

4. Provide receipts and documents if asked to verify the amount claimed.

Insurance Company Duties

1. Receive and process the written notice from the homeowner about the loss.

2. Send the homeowner a request to complete a Proof of Loss Statement certifying the loss occurred.

3. Upon receipt of the written notification, begin the claim investigation.

4. Notify the homeowner in writing whether the claim will be paid, denied or delayed for further investigation.

Your homeowners insurance company will issue a check to settle a claim for a loss to your insured home or property. Your mortgage loan includes a clause that usually requires your lender's name as a co-payee on any claim checks issued to you.

Caution: Consider making minor damage repairs yourself. Claims for minor damages may be lower than your deductible and may cause your insurance premiums to increase.

Have a Financial Cushion

Whether this is your first home or a move-up, careful planning and budgeting are key to meeting your new financial obligations.

Problems you once turned over to the landlord (or your parents) are now your responsibility. And the expenses of maintaining a larger home often grow along with its size.

Planning for unexpected situations, as well as the routine costs of owning a home, can help you avoid foreclosure or bankruptcy when emergencies arise.

*Be prepared for homeownership: add the unexpected to your budget.*

The expense of owning a home goes beyond a monthly mortgage and utility payments. Homebuyers with minimal cash reserves can often find themselves in financial difficulties. Here are some common reasons:

- Failures in plumbing, electrical and heating systems (which seem to occur at the worst possible times) must be repaired
- In older homes, complete replacement of water heaters, furnaces or kitchen appliances may be needed, and can be very expensive
- Even new homes require landscaping, interior decoration and furnishings

The budget you created *before* beginning your home search should have included just such expenditures. If not, it’s time to start accumulating adequate reserves to deal with the above, as well as with emergencies or to make your mortgage payment in case of illness or loss of income.

In the meantime, now what sources of financing are open to you in an emergency—you may have to use a home equity loan, a second mortgage or an installment loan.

Managing Your Mortgage Obligations

Acquiring your first home, or a larger one to meet growing family needs, usually focuses all of your attention on accumulating the down payment and qualifying for the loan on the property you have selected. There is a sense of relief when the loan is finally closed and you have settled in the house. It will not take long, however, before you will have to face the financial responsibilities that come with homeownership.

If you are a first-time homebuyer, many of the problems that you simply turned over to the landlord (or your parents) are now yours to fix and pay for. If you have moved from a small house into a larger one, you may find the expenses of maintaining the property have grown along with its size. In either case,
careful planning and budgeting are essential in order to guard against financial problems in the future. Your home is a major investment and you have a great deal to lose if you don’t make your mortgage payments or fail to maintain the property. Planning for unexpected situations as well as the routine costs of owning a home can help you avoid foreclosure or bankruptcy when emergencies come up or “life happens.”

**When is a Mortgage Delinquent?**

Payment is considered late if the lender receives it after the due date set out in your mortgage. A history of chronic lateness will harm you if and when a real emergency occurs. Serious consequences begin when a payment is more than 15 days late.

**15 days late:** The lender usually charges a late payment fee (the timing and amount of late charges vary from lender to lender).

**Two or more mortgage payments owed:** Unless specific arrangements are made with your lender, you must make all payments and late charges before another payment is accepted and the loan is considered current.

**Three or more mortgage payments are due and unpaid:** The loan may be given to the lender’s attorney and foreclosure proceedings initiated. The entire balance of the loan may be due and payable immediately. In addition to the loan payments due, you are liable for legal fees incurred by the lender. At this point, you are in serious danger of losing your home.

**Planning for Unexpected Changes to your Income**

The primary causes of foreclosure and bankruptcy are not poor planning, but illness, loss of employment or marital problems.

Few of us factor these things into our plans, but all of us should have some idea of what we can do if trouble strikes. It’s much easier to look at alternatives before problems occur. If you know a layoff or major medical operation is pending, address the situation as soon as possible. Don’t risk losing your home, too. Talk to your lender early.

If you have equity in your house, you may be able to acquire a second mortgage or equity line of credit in order to consolidate your bills. This can improve your financial situation in an emergency, but be careful—you are incurring greater indebtedness. Unless there is a solid plan for meeting these new obligations during your reduced financial circumstances, don’t add to your debt.

If you simply can’t generate the funds on your own, there are many legitimate organizations dedicated to helping people in short-term trouble. Many churches, civic groups, and non-profit housing assistance or counseling agencies have or know of programs. State and local housing agencies are also places to seek help. Remember that time is both your enemy and your friend—use it wisely and take some preliminary steps before real trouble strikes.

**What to do if financial trouble hits**

Here’s the good news: no lender wants to foreclose on a mortgage. Foreclosures cost more than can be made back, so lenders foreclose only as a way of limiting losses on a defaulted loan. If you do get behind on your payments, your lender likely will work with you to bring the loan current. In order to do so, however, you must **stay in communication with your lender** and be honest about your financial situation.

Your lender’s willingness to help you with current problems will depend heavily on your past payment record. If you have made consistently timely payments and had no serious defaults, you will find the lender much more receptive than if you have a record of unexplained chronic late payments.

If you are falling behind in your payments, or know that you are likely to in the immediate future, contact your lender right away about alternative payment arrangements.

Your lender will ask for information about your monthly income and expenses. Be sure to use realistic figures based on your current financial situation. The lender will also ask about your assets and liabilities, including all debts and monthly payments and when they are due. If the lender needs proof of income (pay stubs, unemployment check stubs, tax returns, etc.) he or she will let you know. Remember, your lender does not want to foreclose.

**Your lender wants to work with you**

An agreement between you and your lender to prevent the loss of your home is called a loan workout plan. It will have specific deadlines you must meet to avoid foreclosure, so it must be based on what you really can do to make you loan up-to-date again.
The nature of the workout plan will depend upon the seriousness of the default, your prospects for obtaining funds to cure the default, whether your financial problems are short term or long term and the current value of your property.

- If the default is caused by a temporary condition likely to end within 60 days, the lender may consider granting you “temporary indulgence.” An example of where this would be considered is a house that has been sold but the sale has not settled; another is a pending insurance settlement. The lender will want documented evidence, such as the sale contract, before granting indulgence.
- If you suffered a temporary loss of income but can demonstrate that your income has returned to its previous levels, you may structure a “repayment plan.” This workout requires normal mortgage payments to be made as scheduled, along with an additional amount that will cure the delinquency in no more than 12 to 24 months. In some cases, the additional amount may be a lump sum due at a specific date in the future. Repayment plans are probably the most frequently used type of workout agreement.
- It may be impossible for you to make any payments at all for some time. If you have a had a good record with the lender, a “forbearance plan” will allow you to suspend payments or make reduced payments for a specified length of time. In most cases the length of the plan will not exceed 18 months and will stipulate commencement of foreclosure action if you default on the agreement.

A workout plan is a last-ditch effort by you and your lender to keep you in your home. It is not a substitute for good financial planning, and likely will not be available if your payment record is poor. Lenders will work closely with good borrowers who are having a period of real emergency and hardship, but are not inclined to cooperate with those who demonstrate little financial discipline.

Clearly, having a good payment record is important, as is communicating with your lender at the first sign of trouble and being honest about any impending difficulties. Remember, there’s no shame in having problems; hiding them just makes overcoming them even harder.

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All loans are subject to individual approval.