



What You Should Know About...

Managing Your Mortgage

- ▶ BUILDING EQUITY
- ▶ PLANNING AHEAD
- ▶ FINDING HELP



You have a lot invested emotionally and financially in your home. Planning to buy, looking for the right property, and finalizing the transaction are exciting and satisfying. Homeownership, however, is a unique responsibility. You need to know how to maintain and improve your home once you own it. You also need to keep up with your mortgage payments and know what to do and where to turn if you are having trouble making those payments on time. Being prepared for your responsibilities and living up to them can help you enjoy your home for many years to come.

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Your home is probably the largest and most important investment you'll ever make. It's also a dream you've worked hard to achieve. You're probably aware of all the steps—and important decisions—that went into making that dream a reality: determining your housing needs, finding a property, choosing a mortgage product and qualifying for it, negotiating a sales price, making a down payment, and completing the closing process.

If you're a first time home-buyer, though, you may not have been aware of the range of responsibilities you'd be assuming. It's important to understand all the



costs and obligations that come with owning your home—from paying a contractor to fix a leaky roof to ensuring that your mortgage payments are made on time—to help avoid potential problems and disappointments in the future.

By learning what to expect and planning ahead, you can help ensure that you'll be living happily in your home for years to come.

Benefits of homeownership

Your home is much more than just a place to hang your hat. In fact, homeownership can provide you a path towards building wealth and leaving a legacy to your heirs. As you pay down your mortgage balance, you may reach a point where you have significant **equity**. Equity is the percentage of your



home that you own, or what your home is worth minus how much you owe on all loans against it.

If you have equity in your home, you may be able to use it as a stepping stone to buy a new or larger home someday. And your home is an asset you can include when you calculate your net worth. The higher your net worth, the more secure your financial situation usually is.

There are also very personal benefits of being a homeowner. One is typically having more living space for the amount you're spending when compared to renting. There's also the satisfying experience of belonging that comes from being part of a community. In this setting, homeown-

Escrow accounts

Most lenders require you to prepay a fraction of your homeowners insurance and property taxes with each mortgage payment. The money accumulates in an escrow account set up in your name. The bills for these expenses are sent to your lender, who withdraws the money from your escrow account to make the payments.

ers can join forces to create a true sense of neighborhood. Finally, a home of your own can be the foundation on which shared family traditions, like holiday gatherings and other celebrations, are built.

What home-ownership costs

Starting off on the right foot as a homeowner requires you to monitor your financial situation carefully. One of your biggest obligations is making your mortgage payment. Depending on factors such as your mortgage product and whether your lender set up an escrow account, your monthly payment may include your **Principal** or amount you borrowed, the **Interest** you're paying on the loan, plus a monthly share of your property **Taxes** and homeowners **Insurance**. Together, they're called PITI.

But it doesn't stop there. Among the other costs of being a homeowner—which you'll have to identify and plan for—are regular monthly expenses such as:



- Utilities, including gas, water, and electric
- Municipal services, such as garbage removal
- Monthly assessments or association dues (if they apply)



- Installing fire and carbon monoxide detectors
- Checking fire extinguishers
- Scheduling annual cleaning and maintenance of heating and cooling systems
- Doing seasonal yard clean-up



In addition, in order to keep your home and property in the best possible condition, some experts recommend setting aside 1% to 3% of your home's value each year for maintenance and improvements. If you take care of things before they become problems, you can avoid unnecessary or unplanned expenses. Some examples of the ways you might use the amount you budget for maintenance include:

- Upgrading roof and gutters
- Replacing an old furnace
- Painting windows and siding
- Repairing a fireplace chimney
- Updating the bathrooms or kitchen



By keeping your property visually appealing as you're paying off your mortgage, you can help maintain and perhaps increase the value of your home and the community in which you live.

Tips for managing your mortgage

Making sure your mortgage payments are on time should be a primary focus even if it requires a few sacrifices to keep other spending in check.



You'll also want to keep up with more routine items, including:

Be sure you know the payment's due date. If you're using regular mail to send a check, be sure it arrives in time to be processed and credited to your loan account on time. You might want to arrange a direct debit from your checking account or use automatic bill pay. These electronic transfers can reduce delays and help prevent late payments. Paying late is known as being delinquent, and it hurts your credit score. Paying on time helps you build a strong credit history and can help increase your credit score.



It's also important that you're aware of things that could increase the amount that's due with each

TIP

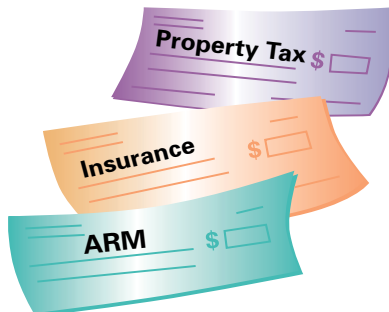
Private mortgage insurance (PMI) is typically required by lenders for borrowers whose down payment is less than 20% of the home's value. By knowing when and how you may be able to stop paying this extra insurance coverage, you may be able to save this extra expense each month.

TIP

A well-kept home can add to the market value of your property if you should ever decide to sell. Making sure your home is in good condition can also help you avoid expensive repairs in the future. For example, patching a loose shingle on your roof can prevent a major and costly leak after the next big storm.

payment. These changes are usually made once a year, but they could happen more often.

- **Property taxes.** If local property taxes go up, as they often do, the monthly amount you pay to cover them will increase.
- **Insurance.** Your homeowners insurance premiums may increase, if you modify your coverage or the insurance company raises its rates.



Working with a contractor

Hiring a contractor for jobs you can't do yourself, either because you don't have the time or the expertise, may be a new experience, but it doesn't have to be intimidating. Careful research and planning can help. Here are some tips to keep in mind:



- Ask multiple contractors to bid on the job to see who will offer you the best price. Be sure to pay attention to the timeliness and professionalism of their responses. Slow response times and unprofessional or rushed answers may foretell problems later.
- Choose a contractor who is licensed, insured and registered with the state.
- Check the contractor's references, especially customers who used the contractor for a similar project. Neighbors and friends may be able to recommend contractors they've worked with in the past.
- Contact the Better Business Bureau (www.bbb.org) or your state Attorney General's office to check if any complaints have been filed against the contractor.
- Determine exactly how you'll be paying. If the contractor offers financing, make sure you fully understand all the costs and fees.
- Read the contract carefully and make sure you understand what you're signing.
- Be vigilant. Keep track of the work as it is being done and confirm that the project has been finished to your satisfaction before you make the final payment.

- If you have an **adjustable rate mortgage (ARM)** product be sure you know exactly when and by how much your mortgage payment may increase at each adjustment. Plan for possible increases ahead of time to make sure you can continue to make your full payments on time.

If mortgage trouble arises

Even when you've planned carefully for the costs associated with owning and maintaining your home, other challenges may arise which can make paying your mortgage very difficult.

Financial hardships

Financial hardships can strike almost anyone. Even if you've planned carefully, it is possible that any one of the following can put a strain on your budget:



Whether the hardship is temporary or permanent, circumstances like these cause homeowners to struggle, emotionally and financially, which may place

Your emergency fund

Having an emergency fund, such as a designated savings account, where you keep enough to cover at least three to six months of household expenses gives you a safety net, allowing you to continue to make your mortgage payments and meet other obligations, even during a crisis.



- Large or unexpected medical expenses
- A job loss or job change
- An interruption in employment—for example, a temporary layoff or reduced hours
- Other changes in family circumstances, including death of a wage earner, divorce, or other events

a strain on keeping current with mortgage payments.

Adjustable mortgages

Even if you're healthy and have a job, making your payments on time may become difficult if you have an

adjustable rate mortgage (ARM). Unlike a fixed-rate mortgage, where the monthly payment remains the same for the life of the loan, the interest rate on an ARM is periodically adjusted throughout its term.

Many ARMs begin by charging a very low interest rate—sometimes called an **introductory rate**. But that rate may adjust upwards quickly, requiring higher payments that may put stress on some borrowers' finances.

The rate you pay may also increase annually or more frequently after that initial adjustment—though there are usually annual and lifetime caps that limit the amount of each increase. Part of your planning should focus on when your payment could change and how much higher it could be.

Ideally, you asked your lender before you agreed to your loan to tell you the maximum payments

you could be responsible for in the worst-case scenario. But if you didn't ask then, it's not too late. A responsible lender will have no



problem helping you understand your maximum potential payment so you can plan for the future.

Non-traditional loans

You may face greater challenges if your mortgage is a non-traditional loan product, such as an **option ARM**. These mortgages offer flexible monthly payment options, but paying only a small minimum amount may mean that you're not covering either the entire principal or even the interest that's due. This may increase your payments even if you make a payment every month and you're not technically behind on your mortgage. That's because your interest rate may be reset to include the unpaid amounts, suddenly requiring a much higher monthly minimum payment.

Other types of non-traditional mortgages also involve unique

risks with the potential for sudden rate increases. For example, with an interest-only mortgage, you begin with an introductory period—often five to seven years—where your payments cover only the interest portion of what you owe your lender. When the introductory period ends, your payments increase to cover the

Negative amortization

Negative amortization occurs when a payment received for a given period is not enough to cover the amount of interest that is due for that same period of time. The shortfall in interest due is then added to the principal balance due, causing a situation in which the loan, rather than decreasing (or amortizing), actually increases.

Review your loan documents or call your lender to determine if your loan could amortize negatively. You want to be sure you understand what the implications are for future loan payments and how this may impact paying off your loan.

unpaid balance of your loan principal. You need to plan ahead for these larger payments. They may be difficult to manage if you were stretching to afford the interest-only payments during the initial period.

In other words, some non-traditional mortgage loans may benefit you in the short term, but you'll have to plan carefully and anticipate the amounts that your payments could increase over the long term.

Seeking financial solutions

If you're finding it hard to make your monthly mortgage payments and pay your other bills on time, don't delay. The first step is to compare the amount you need to stay up-to-date with your payments with what you have available.

If there's a gap, can you increase your income or reduce expenses



enough to meet your monthly payments? If not, you should act before your situation becomes more serious. The sooner you do, the more time you may have to find potential solutions and keep your home.

Where do you turn?

If you're in mortgage trouble—ideally before you miss that first payment but even if you've already fallen behind by a month or two—it's best to have an honest discussion with your lender. Knowing all the facts about your situation will help your lender determine which potential solutions may be available for you.

Be sure to gather all facts before your consultation and be candid about your financial difficulties. For example, provide proof that your hours at work were reduced or that you've been coping with overwhelming and unexpected medical expenses.

While it may be uncomfortable at first to share the details of your situation, it's important to remember that your lender wants to do what can be done to make sure you stay in your home and continue to pay off your loan. The good news is that there may be either short- or longer-term solutions your lender can offer you, which can bring

relief to your household budget in the form of lower monthly payments.

It's also important to remember that lenders don't want to be in the business of owning and maintaining foreclosed homes. The earlier you begin a candid discussion about your financial challenges with paying your mortgage, the more likely it is that a solution may be found.



If you are hesitant to call your lender, you should seek advice from a trusted and knowledgeable third party. You may consider contacting a HUD-certified mortgage counselor, who can provide you with the information and support you need to cope with the challenges you're facing.

Mortgage counseling

The idea of discussing your financial problems with a stranger might make you a bit uncomfortable, but here are some tips for improving your mortgage counseling experience:

- **Find a trustworthy counselor:** Seek counseling through a reputable organization. Check with the government’s Department of Housing and Urban Development (HUD) or your local NeighborWorks® organization.
- **Be prepared:** You should have copies of all your major bills on



hand, including your mortgage statement and loan number. This will allow your counselor to get an accurate picture of your financial situation and provide you with personalized advice.

- **Be candid:** While it’s understandable you may be a bit uncomfortable sharing the details of your financial challenges, remember that the role of your mortgage counselor is to help you—not to judge you. You’ll end up with more accurate advice if you describe your situation as completely and honestly as you can.
- **Be realistic:** Your counselor has many tools to assist you, and may even be able to help you open the lines of communication with your lender. But he or she can’t force your mortgage company to eliminate debt or offer you a solution.

TIP

Many lenders have several departments involved in receiving and following up on missed mortgage payments. If you have been very clear about how your circumstances have changed and do not seem to be receiving a good response, you may wish to ask to speak to someone in the “loss mitigation” department. Typically, these employees are trained specifically for handling calls from borrowers with unexpected financial challenges.

TIP

Here are some mortgage counseling resources:

- The Department of Housing and Urban Development (HUD). Visit www.hud.gov to find a complete listing of HUD-certified housing counseling agencies by state. You can also phone 800-569-4287 for this information.
- Free, nonprofit counselors available 24 hours a day by calling the Homeowner’s HOPE™ Hotline at 1-888-995-HOPE (4673); service provided by the Homeownership Preservation Foundation. Visit them at www.995hope.org.

888-995-HOPE



For general credit counseling, you may want to contact:

- National Foundation for Credit Counseling (NFCC) at www.nfcc.org or call 800-388-2227.

You can access the NFCC’s Homeowner Crisis Resource Center (HCRC) at www.housinghelpnow.org.



- The Association of Independent Consumer Credit Counseling Agencies (AICCCA) at www.aiccca.org, (866) 703-8787, or assoc@aiccca.org



Other local assistance may also be found by visiting NeighborWorks® at www.nw.org.



A mortgage who's who

As you reach out to your lender to explore potential solutions to your mortgage problem, you may hear about some of these real estate professionals. Knowing a little about what each one does may help you understand the process a bit better:

- **Mortgage broker.** A mortgage broker can be viewed as a middleman—a third party who tries to match those applying for a mortgage loan with lenders offering mortgage loans, unlike a loan officer who usually works directly for a specific bank or other lender.
- **Appraiser.** An appraiser is the person who conducts an evaluation of the home being

purchased, assigning an estimated value to the home and property. Accurate appraisals help lenders set borrowing limits, while also helping homebuyers understand the estimated value of the asset they are interested in purchasing.

- **Home inspector.** The home inspector conducts a review of the interior and exterior of the home being purchased, noting the condition of the structure, appliances, and other physical features.
- **Lender.** The lender is the bank, savings and loan company, credit union, mortgage finance company, or investment bank that

receives an application from the borrower and makes a lending decision. If it's approved, the organization lends the money to the borrower to purchase the home.

- **Servicer.** The servicer, who may not be the lender, is the organization to whom mortgage payments are typically sent and who answers borrowers' questions. Lenders usually pay servicers to perform these functions on their behalf.
- **Investor.** Sometimes lenders sell their mortgage loans to investment firms, which package or bundle the loans into securities and sell them to investors.

borrowers make on their loans. They also take the risk that borrowers may not make their payments or go into foreclosure.

- **Trustee.** A trustee is typically a neutral third party—neither lender nor borrower—who holds temporary title to the home and property until the lien is paid in full. If your loan becomes delinquent and the lender provides proof of delinquency to the trustee, the trustee has the right to foreclose and sell your home.

Investors own the rights to the payments

TIP

As you're investigating solutions to your mortgage problem, you should try to be realistic about what you might have to sacrifice to resolve the issue. You'll also have to be honest with yourself about your financial situation and whether or not you will be able to make the changes required for any of the potential solutions to work.

You can find more information about potential solutions on the HUD website at www.hud.gov. Click on "Guide to Avoiding Foreclosure" or type "foreclosure" or "avoiding foreclosure" in the search box.



Possible options

When you're working with your lender on possible options to help you with your financial hardship, the potential solutions you may be offered will vary based on the lender's policies, the type of mortgage product you have, the exact details of your particular situation and other factors.

Some of these options may be available if you're having problems paying your mortgage because of a temporary hardship and others if the hardship is permanent.

Most options that lenders may have available include reducing your monthly payment and interest rate or working within your budget to assist you in bringing you current on your payments.

These options can be referred to as **refinancing** (where your lender may be able to write you into a new loan which may have lower, more affordable monthly payments, although you will have to qualify, which may be difficult if you have been delinquent on your current loan), a **forbearance**, a **repayment plan**, a **loan modification**, or a **stipulation agreement**.

Other options

After exploring all alternatives, you may come to the conclusion that you do not or will not have

the resources to catch up on the payments you owe your mortgage company. Even if you determine that your home is more than you can afford, there are some alternatives to foreclosure to consider. Some of these options can help minimize the damage done to your credit report and credit score, which may make it easier to start fresh and regain your financial footing.

Be sure to find out if there will be any tax implications when considering any of the following options.

Some options that may be available to you are:

- **Sell your home.** If you plan to sell your home, your lender might agree to delay foreclosure until you can complete the sale. This option also allows you to keep the equity you've built in your home, which you may lose in the case of foreclosure. Be sure to move quickly, though, as potential buyers may stall or stick to very low offers if they know that foreclosure is looming.



Fees

Even if you're able to keep your home through an agreement with your mortgage company or by refinancing with a different lender, you may be responsible for all the late fees that accumulated when you missed mortgage payments, as well as any attorney's fees associated with the collection process.

Your lender may expect you to pay these fees as a part of whatever workout solution you agree to. If you refinance, you may also have to pay any fees you owe to your old lender along with the balance of the loan as well as any fees charged along with refinancing the new loan. If your mortgage loan has a prepayment penalty, you'll have to weigh its cost against finding a mortgage with better terms.

- **Short sale.** If your property value is not enough to pay the loan in full, your lender may agree to take the amount you can sell your home for even if it is less than the full amount you owe. This option, sometimes called a "short sale" or "short payoff," may require you to sign a promissory note (or loan) for the difference or a portion of the difference.

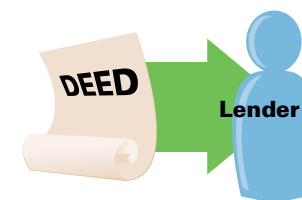


- **Assumption.** If your loan is an assumable mortgage and you can find someone qualified to assume your mortgage debt, you may be able



to have that person assume the responsibility for your monthly mortgage payments.

- **Deed in lieu of foreclosure.** You might voluntarily turn over ownership of your property to your lender as a method of avoiding foreclosure and canceling your debt. While this won't save your home, it may help your chances of getting another mortgage loan someday. This option may also have significant tax implications, and it may not be possible if you've used the home as collateral to secure other loans.



A delinquency timeline

If you fall behind on your mortgage, your loan will be described as delinquent. Lenders handle individual mortgage delinquencies differently, based on a number of factors. One of the important issues is the point at which you begin to work with them to find a solution. The sooner you make contact, the greater the potential for a resolution. The best time is when you recognize you have a problem but before you've missed a payment.

This timeline provides a general overview of the different stages of delinquency:

- **Current.** Your account is current if a full payment is received by your due date. While there is likely some grace period after this due date by which payment can be received before it's considered late, it's best to ensure your full payment is received no later than its due date. If your payment is not received on the due date, you may receive letters or phone calls from your lender, reminding you of or asking about your payment.

- **Delinquent.** If a full payment is not received by your due date, your account is considered delinquent. If the payment is not received within 30 days after it is due, you are likely to receive phone calls, letters, or both from your lender regarding your mortgage payment. You will also be charged a late fee.
- **Seriously delinquent.** After two missed payments, your loan may be considered seriously delinquent. At this stage, your lender may start a pre-foreclosure process that may include sending a Breach Letter or Notice of Default letter to you.
- **Foreclosure.** Generally, after your payment is 90 days past due (although this time frame varies by lender and the state where you live), your lender will probably begin foreclosure efforts, which may eventually lead to the loss of your home.

Remember that this summary provides a general overview of the various points in mortgage delinquency. It is important to contact your lender not only as soon as you find yourself having difficulty making your mortgage payment, but also throughout the process, as options for staying in your home or avoiding foreclosure may still be available.

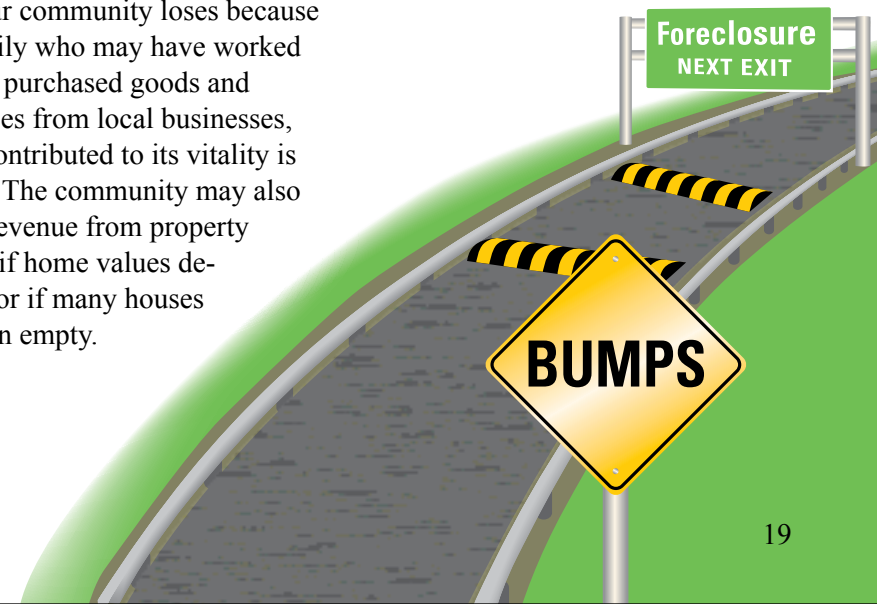


The consequences of foreclosure

Foreclosure impacts many people. You and your immediate family lose your home and whatever money you invested in the property. You may have to face leaving extended family, friends and schools behind as you seek a new place to live. Your credit score and credit report will be seriously damaged, which may make it difficult to borrow again in the near future and may also affect what you pay for insurance and other expenses.

Your community loses because a family who may have worked there, purchased goods and services from local businesses, and contributed to its vitality is gone. The community may also lose revenue from property taxes if home values decline or if many houses remain empty.

Finally, and despite what some believe, lenders also lose every time a home goes into foreclosure. In fact, a foreclosure often ends up costing lenders a lot of money. Your lender would much rather have you continue to pay off your mortgage throughout the term of your loan than end up owning your home. Unfortunately, it is sometimes unpreventable.



Protecting yourself from scams

Being faced with a financial hardship which is jeopardizing homeownership can leave many people vulnerable to others who take advantage of such situations. If you are experiencing such difficulties—particularly if you're behind on your mortgage and seeking a solution—you can help protect yourself from becoming a victim if you're aware of some of the tactics that scammers use.

In general, you should be very wary when an individual or a company (other than your lender or a certified HUD counseling agent) offers to step in and rescue you from foreclosure. If somebody offers you a deal to save your home that sounds too good to be true, it probably is. Additionally, knowing some common tactics used by scammers may help keep you from becoming a victim. Here are some things to watch out for:

- **Phantom help:** In this type of scheme, scammers present themselves with misleading titles such as “distressed property consultants” and offer to “buy you time” to deal with your financial issues. They



collect fees up front, claiming that they'll negotiate with your lender on your behalf, but they actually do nothing for you and run off with your money.

- **Equity skimming:** In this foreclosure rescue scheme, a scammer offers you what looks like a solution that will let you keep your home, but they actually trick you into signing over your home and your equity to them. Before you know it, you're essentially a tenant paying high rent to the scammers.
- **Bait and switch:** Similar to equity skimming, this scenario involves scammers convincing



you to turn over ownership of your home to them—typically with a document called a quitclaim deed. They promise that you'll be able to buy back the home once your finances are in order, but they often sell the home to another buyer before you can repurchase it and pocket the profits.

- **Lease buyback:** These scammers lure you in by promising to line up an investor who will help you keep your home by temporarily taking over ownership while you pay rent and rebuild your credit history. Although they promise that you'll be able to buy the house back, the investor actually takes out a larger mortgage on the property, and the investor and the scammer walk off with your equity. At that point,

the larger mortgage on the property is too much for you to qualify for or afford.

To help protect yourself against these scams, keep these guidelines in mind:

- Never sign any papers under duress.
- Never sign agreements you don't understand completely, or those with blank lines or spaces.
- Don't sign over your deed to a third party or agree to any deal that lets you rent the property and buy it back later.
- Don't make your mortgage payments to anyone other than your lender or servicer.
- Get it in writing. If someone is offering you a solution, ask that person to put it in writing.
- When in doubt over any deal or resolution involving your home, call your mortgage company or an attorney.

If something doesn't sound right to you, walk away.

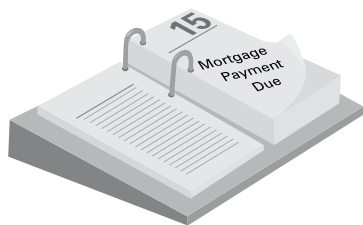


Conclusion

Homeownership is often called the American dream. It can be a very rewarding experience, and one that leads to building wealth. It's important to know all the aspects and costs of owning your own home—from the details of your monthly mortgage payment, to what it costs for regular maintenance and upkeep. It's also important to know that if trouble arises, it's best to ask your lender or another trusted third party for help sooner rather than later.

Here are some things to keep in mind:

- **Keep up to date on your mortgage.** Your mortgage payment should be one of your primary concerns. Always follow the terms of your loan and pay on time to avoid costly fees and other consequences. If your insurance and property taxes aren't included in your mortgage payment, as they usually are, you have to plan for them as well.



- **Keep track of your variable expenses.** You're responsible for a variety of other household expenses every month. These include bills for utilities such as gas and electricity. You might investigate annual payment plans so you can budget for what will be due each month.



- **Anticipate periodic expenses.** While they may be due less frequently than your monthly bills, you should stay aware of other costs associated with owning a home—such as quarterly or annual fees for membership in your local homeowner association as well as the cost of maintenance and repairs to your property.



- **Save for a rainy day.** To protect yourself, you may want to keep at least the equivalent of three to six months of household expenses in a savings account or another liquid account that will allow quick access to your funds.



If you're smart with your money, plan ahead, stay proactive, and avoid financial traps and schemes, you'll be better able to protect your dream and ensure it becomes and stays a reality.

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