

INDIVIDUAL BORROWING LESSON:

LENDERS AND BORROWERS: STUDENT HANDOUT

Teacher Answer Sheet

Borrower (House Buyer) Questions:

- ∞ What are the benefits of home ownership? (Answers include pride of ownership; possible investment gains; ability to customize the home; security.)
- ∞ What things should a potential homeowner do before being able to buy a home? (Answers include maintain a steady income; save money; pay other loans on time; establish a good credit score; seek preapproval for loans; research the housing market and mortgage loan options.)
- ∞ What would make a borrower more likely to qualify for a prime mortgage rate and terms? (Answers include a good credit score; more than 10 percent down payment.)
- ∞ How important is it for a borrower to have an ongoing relationship and good customer service from the mortgage lender? (Consider how you would feel and what you would expect if your cell phone company was bought by a new company and you no longer knew the people at your local store. Similarly, what impact might it have on you if after you signed your loan it was sold to another bank?) (Answers include an ongoing relationship leads to greater trust in what lenders say to you and in your ability to ask for explanations on an ongoing basis; good customer service and a personal relationship might allow

you to better renegotiate terms if your financial situation changes because the bank wants to keep you as a customer.)

Mortgage Lender (Bank) Questions:

- ∞ What factors will you consider when considering making a loan?
(Answers include credit history; size of loan compared to value of the home; ability to pay the loan back.)
- ∞ Where can you find more money to make more loans? (Answers include customer deposits; selling the loans to other banks.)
- ∞ To what degree is a good customer service relationship with the borrower important to you? (Consider that you will probably sell the loan to another bank soon after you make the deal with the borrower.)
(Answers may include very important if there is a long-term relationship with the customer as with a neighborhood bank, or not as much if there is no other relationship with the customer.)
- ∞ What incentive do you have to offer subprime loans to borrowers?
(Answers include being able to sell loans to secondary markets; being able to receive higher interest payments.)