



It's Your **Move**

A Real Estate
Consumer Education
Course

CASE STUDIES



Missouri
REALTORS®

Dedicated to the American Dream

CASE STUDY #1: A History of Bad Credit

You are a freshman in college with a part-time job, working approximately 20 hours a week. With the money you earn, you are able to pay for rent, utilities, gasoline, groceries and other miscellaneous expenses. You receive an application from a credit card company stating you have been pre-approved for credit. The fine print indicates a credit report may be ordered to determine your eligibility before you receive the card.

You fill out the application just to see if you'll be accepted, and you are! You immediately phone a few friends and invite them out to dinner, your treat, and you pay with your credit card. It isn't an emergency, but it is a whole lot of fun. You can pay later when your bill comes. Eventually, you have had a few more dinners, charged a little gas, purchased a few items and have now overspent the maximum allowed on the card. Realizing you can't possibly pay off the entire amount charged, you start paying the minimum balance due. Unfortunately, it is such a small amount the majority of the payment is applied to the interest and very little to what is actually owed.

In the meantime, your hours at work have been reduced and your paycheck is small. You're now making just enough money to cover the necessities – rent, utilities, groceries and gas to provide transportation to school and to your job. Now, you don't even have enough money to make minimum payments.

You decide to ignore the notices and eventually the account is turned over to a collection agency. You throw away the letters sent by the agency and eventually they threaten to take you to court. You do not try to work with the agency or the credit card company and devise a plan to avoid both. You move to a cheaper apartment, failing to notify the post office of the change. You can't afford a phone so there is no listing. Eventually the agency lists you as a "skip." You no longer receive notices from the agency and you no longer think about the debt.

It is now four years later, and you have just graduated from college. You are sending out resumes and applying for jobs. However, you don't seem to be getting a very good response; in fact, you can't even get an initial interview. After several rejections, you decide to call one of the personnel offices. They curtly ask you to read the rejection letter carefully. You do so and find that you have not been granted an interview based on information obtained from your personal credit record.

The letter lists the name, address and telephone number of the credit reporting agency from which they have received your file.

What is a credit reporting agency? You can't imagine what this has to do with you. You haven't had credit in years. Granted, when you had it, you didn't manage it very well; in fact, you didn't manage it at all. But you haven't heard anything from the credit card company and that was so long ago.

Now you are worried. How can you get a job when you can't even get an interview? What should you do?

As instructed, you contact the credit reporting agency listed on the rejection letter. Within a few days, you receive a copy of your file; name, address, Social Security number and date of birth. It all matches; the file appears to belong to you. You now look at the content of the file. There is one item, a credit card with a balance still owed and a notation, "charged off account." How can anything so old still be on your credit record?

After your initial shock, you contact the credit reporting agency to find out if this information can still be a part of your record. The agency informs you that there is a federal law called the Fair Credit Reporting Act that allows creditors to place credit information on file for seven years after the last date of activity. Credit reporting agencies do not make rejection decisions; they only retain the information.

You start to explain why you were delinquent paying the credit card bills. The credit reporting representative provides you with the name, address and telephone number of the credit card company so you can establish a payment arrangement. It is also suggested that you contact the companies who made inquiries into your file to let them know that you have arranged to pay off the debt. They may even be willing to grant a job interview.

Not only can poor credit jeopardize your reputation, it may also prevent you from renting an apartment or buying a home.

With your class, discuss how you can prevent this from happening to you.

CASE STUDY #2: Teresa's Checklist

Teresa has just finished high school. She's happy about her new office job in her hometown. Now, she wants her own apartment.

Teresa does not have a vehicle so she must depend upon public transportation. Her parents are apprehensive about her moving out on her own and insist she do everything possible to find a safe, convenient and reasonably comfortable place to live.

Teresa is an organized person. Before beginning her search, she makes a list of things to check as she looks at apartments. Thus far, her list includes the rent, closet space and distance to the bus stop.

What other items do you think should be included on Teresa's list?

CASE STUDY #3: From the Landlord's Point of View

Bill's married brother, Marshall, has lived in another town for several years. While home on vacation, Marshall tells Bill he and his wife are about to purchase a duplex (a two-family home) in the community where they now live. They plan to live in one side and rent out the other.

Bill is particularly interested in the duplex purchase because he has been studying real estate in a high school course. Bill asks Marshall what kind of rental agreement they will use for the rental side of the duplex. The couple is undecided, so Bill suggests they require a 12-month lease which spells out the tenant's responsibilities. Bill and Marshall sit down to write out the terms of the lease which should include everything Marshall and his wife would need to protect their property and their investment.

What terms you would suggest they include?

CASE STUDY #4: An Apartment with Problems

You live in an apartment with problems! Some you can solve, some you cannot. Here's the situation:

- You accidentally break a full-length mirror which is mounted on a bedroom door by the apartment owners. *Who is going to pay for replacing it; you or the landlord? Why?*
- The sun has faded the wallpaper in one room, and it has been decided by you and your landlord it needs to be re-papered. *Is the cost going to be on you or the landlord? Why?*
- One of the wall sockets in the living room seems to spark inside each time you plug something in. You can hear it "crackle" and can faintly smell hot metal. You feel it should be repaired. *Will this cost be on you or the landlord? Why?*
- On two occasions, you have noticed a rat run from the apartment garage to a small hole under the foundation of the building. You tell the landlord. *Does he have to do something about the rats? If so, why?*

What terms you would suggest they include?

CASE STUDY #5: A Perfect Home?

Richard and Claire are looking for a larger home. They know the equity in their current house will be more than enough to make a down payment. They've found a 35-year old house with a huge yard that has captured their hearts. The house is a good buy. Both Richard and Claire have demanding jobs and two active teenagers. They wonder if they can manage the problems that come with the house. The yard has many trees, shrubs and plants which will warrant a lot of care. The house needs repairs including a new roof, paint and a garage door, among several other things.

Richard and Claire have gone back to look at the house a dozen times. They've gotten so emotionally attached to it they can hardly consider looking at others. Yet, they know a big yard and an older home in need of repair may take more time than they have.

What's the solution? What would you do if you were a member of this family? Why do emotions play such a big part in choosing a home? What may happen if Richard and Claire buy this house? What if they don't?

Discuss as a class.

CASE STUDY #6: Sell or Remodel

Our friends Richard and Claire did buy the older house 10 years ago (*see CASE STUDY #5*). Now, their children are grown and living on their own.

Both Richard and Claire still work and with college tuitions a thing of the past, they can finally afford to finish fixing up their home; a more modern kitchen, turning the screened porch into a sunroom, adding a separate shower unit to the second-floor bathroom and permanent siding on the outside. All of these improvements will make the house more livable and more valuable.

The house is also more room than they now need. The large yard still requires a lot of care and the improvements they are considering will cost a lot of money. Maybe a condominium or smaller house is a better solution.

Write down every reason you can think why they should stay in their home and then make a list as to why they should sell their home. If they sell, should they rent a very nice apartment or is homeownership still the best option?
