



Homebuyer's Guide

To Minimum Stress and Ultimate Success

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Congratulations!

You have decided to buy a home, focused your attention on a specific geographic area, and chosen the most effective way to shop – through a qualified realtor. As a trained, licensed and experienced real estate professional, your Realtor™ will help you outline and prioritize your home-buying objectives and will work as a team with your lender and other professionals such as appraisers, home inspectors and title company officers. This team will work diligently and in close communication with you to help you purchase the home you desire. Not only will the home buying process go more smoothly when you use a highly experienced and coordinated team, but also you will have an advantage over other buyers in the market who do not have professional support.

This guide will help direct you through the process and equip you with the information you need to make key decisions, starting with how to find the right real estate team to make your purchase possible.





Selecting a Realtor™

Working with a competent real estate agent means that buying a home becomes a simple, satisfying experience.

A good agent:

- Knows about all available listings in your selected area at any given time through the computerized **Multiple Listings Service (MLS)**. This knowledge allows the agent to keep you on top of the market because not all available homes have “For Sale” signs out front or ads printed in the newspaper.
- Respects your taste when selecting properties to show you.
- Helps you match what you can afford with the home that meets your needs.
- Knows what price to offer. Your **Realtor™** specializes in your area’s market, so he or she knows how to get you the best price possible.
- Understands how to negotiate. Once you have decided on a home, your **Realtor™** will write up your offer and present it to the seller. Your agent’s experience gives you the best opportunity to have your offer accepted.
- Lets you decide for yourself. A professional agent represents your interests and respects your opinions. They will not attempt to force your home-buying decisions.
- Helps keep you legally protected. Real estate laws have become increasingly complicated, and your **Realtor™** is there to guide you through them.
- Does not cost you anything. The seller pays the sales commission.

Selecting a Lender

How and When

Before making an offer on any property, buyers should have already selected a lender. In addition to providing the financing they need, lenders, along with a **Realtor™**, serve the buyer as part of a formidable purchasing and negotiating team.

Competitive rates are the single most important factor that influences customers’ decisions regarding selection of a lender.

Naturally, saving money is a priority when obtaining home financing. However, shopping for rates may not actually be the best way to save money. Borrowers should consider the fact that most lenders are subject to the same cost of loaned funds and experience similar costs of loan processing. As a result, most lenders have essentially the same rates to offer to their borrowers. Consequently, in addition to competitive rates, loan agents should provide the best possible service: accessibility, communication, responsiveness, professionalism, dependability, knowledge and experience. A lender should be able to work as a team with you and your real estate agent and share a goal in common with you – to connect you with your home in a timely and smooth manner.

An additional word of caution: soliciting interest rate quotations over the phone is not the best way to select a lender, even if you are solely interested in finding the lowest rate available to you. For instance:

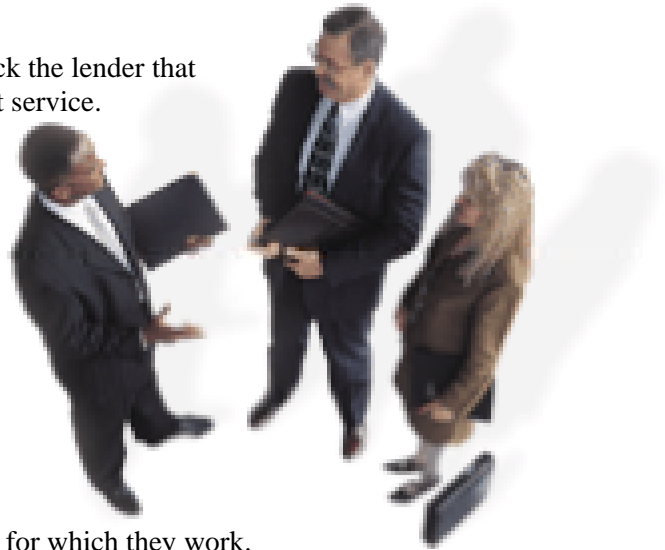
- **Interest rates** can change daily. A quote today may not be the same tomorrow or, more importantly, may not be the same on the day you are ready to close the deal and **fund** the purchase.
- Rates quoted over the phone may not be **locked**, in other words guaranteed, for a specific time in the future when the purchase is due to close. The attractive rates heard over the phone may be subject to change right up to the day your loan closes, creating uncertainty and delays at a critical time.
- The voice on the phone may not know about your financial situation or future needs, so it might quote the rates of a program for which you do not qualify.
- Thus, you will not know what else the lender can actually offer to you.

Instead, make an appointment with an experienced lender for an application interview either in person or over the phone. Only when the lender knows you and your circumstances, can he or she offer you the best loan program and rates.



Factors to Consider in a Lender

Ultimately, when choosing between lenders, home buyers should pick the lender that offers the best combination of highly competitive rates and excellent service. Therefore, when evaluating lenders, borrowers should understand the distinction between **mortgage bankers** and **mortgage brokers**.



- **Mortgage bankers** lend their own money. They take applications, gather borrowers' personal financial information and approve loans. They also prepare loan documents and fund loans independently. **Mortgage bankers** are full-service, **direct lenders** and have maximum control over the loan process. Unfortunately, direct lenders usually have a limited number of **loan programs, rates** and **terms**, and are subject to the **underwriting** standards imposed by the lending institutions for which they work.
- **Mortgage brokers** take applications, gather personal financial information and submit the data to an outside financing source that underwrites, approves, funds and services the loan. Since **mortgage brokers** can send the loan to many different lenders and offer a wide variety of competitive **loan programs**, they tend to offer both the best opportunity to get your loan approved as well as the best available **rates** and **terms**. However, **mortgage brokers** cannot control the process from beginning to end, as **direct lenders** can.

Some lenders are only **mortgage bankers** or **mortgage brokers**. Not all lenders have the same connections and experience. It is good idea to make sure that your lender is both a **direct lender** and a **mortgage broker** and possesses a long history and a good reputation in the business.



Section Two

Achieving Home Ownership



Purchasing Your Home:

Searching for Properties that Meet Your Needs

When you begin to search for homes, your **Realtor™** will discuss with you what features you want in a home and in which geographical areas you are interested in living. From there, your real estate professional will most likely use these comments as parameters for a computerized property search through the **Multiple Listings Service**, or **MLS**. Commonly used search parameters, and therefore factors you may want to mention to your **Realtor™**, include:

- Location
- Price
- Style of home
- Bedrooms
- Baths
- Age
- Liveable square feet
- Size of the lot
- Upslope/Downslope

The search results you will receive include a page of information regarding each home the **MLS** flagged as meeting your criteria. Each page lists additional details about the property, which will help you further narrow down your list of potential homes. In fact, in order to guide your thinking about what you need and want in a home, you may want to look at the list of features each **MLS** page includes before studying your search results. The list mentions:

- Plus rooms
- Fireplace
- Storage space such as basements and attics
- Gourmet kitchen features
- Kitchen dining space
- Master bath features such as Jacuzzi, sauna
- Built in entertainment and communications such as satellite TV, DSL, built-in sound system
- Flooring, such as stone, hardwood floors, carpeting
- Central air conditioning
- School district
- Homeowner's association
- Laundry room and hook up locations
- Yard space, decks and balconies
- View
- Pool, hot tub



What to Watch for When Viewing Homes

You have already begun to decide what kind of home you want, considering **single family homes**, **condominiums**, **townhouses** and **duplexes**, and narrowing in on neighborhoods you like. It is not always easy, however, to keep track of every possible variable important in a home, especially when it is not listed in the **MLS**. Here are some often overlooked, yet important, factors to bear in mind while working with your real estate team:

- **Explore locations further.** Compare the commute time to your job from different neighborhoods. Weigh the importance of an area's schools in your home buying decision. Also, consider neighborhoods' proximity to shopping and recreation.
- Actually driving to these locations from the home during commute hours can be a good way to **establish a sense of commute times and traffic density**.
- Likewise, **visiting a home throughout the day and night** can help you determine what the noise levels are like in the morning and evening, how light hits different rooms in the home and the front and back landscaping, and how safe you feel in the neighborhood. You can even try to imagine how light levels and the angle of the sun will change throughout the year. If the home advertises a view, can you see it clearly? From what rooms and under what conditions?
- When determining the size requirements for your home, keep in mind how **your needs for space may change in the future**.
- In addition to the size of a home, its **floor plan should flow nicely from room to room**, and should reflect the way you live. Consider the separation of public and private space. Does a home afford you enough **privacy**, both inside and out? How often do you plan to use **the kitchen, entertain, or work from home**?
- Walk up to a home thinking as a visitor would. Does the home have **curb appeal**? Also, how many cars, including yours and those of your guests can you realistically fit in the **parking space** available?

Making an Offer on Your Home and What Happens Next

After spending significant time in a home, and viewing the **disclosures** the listing agent has made available about the property's potential defects and deferred maintenance, you may decide to make an offer to buy the home. At this point, your **Realtor™**, who not only is an expert in how much homes should cost, but also at negotiating with sellers and their agents, will write an offer for you with your price and your conditional terms for acceptance of the deal. If you and the sellers come to an agreement and they accept your offer, for the purchase is opened with a title company. In **Escrow** both sides settle the terms of the deal; buyers shore up the finances they will need to purchase their home with their lender and the property officially changes hands through the services of the **title company**.

The first part of **escrow** usually involves what is known as an **inspection period**. Buyers, having already seen what the seller's have disclosed as known or potential structural problems with the house, want to know more. They can bring in their own independent **home inspectors** to give reports on a whole range of aspects of the home. Different kinds of inspections include:

- Structural pest, such as termites
- Roofing
- Heating
- Foundations and other geological condition
- Molds and other toxins

Depending on the inspector's findings, buyers may be able to make a claim for some amount of credit back on the purchase price from the seller. If both parties can agree on what adjustments can be made to the deal after inspections, the **escrow** continues. The rest of **escrow**, is largely devoted to financing the purchase. In general, securing financing is the key component in achieving home ownership. The next section of this guide addresses home financing in detail.



Financing Your Purchase: *The Loan Process*

Pre-Qualification vs. Pre-Approval

Financing the purchase of a home normally begins with the borrowers **pre-qualifying** for financing. The **pre-qualification** process involves the review of specific financial information including the applicant's income, assets, debt, source of cash for a down payment, credit and employment history. During the **pre-qualification** conference, a knowledgeable agent can determine the approximate loan amount and purchase price for which the borrowers qualify.

Nonetheless, in a market with many qualified buyers and a limited number of properties, it becomes important that potential buyers become **pre-approved**. Since **pre-approval** strengthens their buying position greatly, buyers should not start their home search until receiving a formal **pre-approval**. A **pre-approval** involves obtaining a completed loan application and verifying information borrowers provide about their income, assets, debts, and credit history with supporting documentation such as pay stubs, tax returns, bank statements and credit reports.

The agent submits this information to a preliminary review using an automated **underwriting** system which evaluates all of the information and approves the loan. Upon receiving a **pre-approval**, the loan agent issues a **pre-approval** letter to the **Realtor™**. That letter is typically submitted to a seller along with the purchase offer.

How an Underwriter Looks at Your Loan

When a loan is submitted to an **underwriter** for validation, it goes directly into the hands of an individual whose job it is to approve or decline your application on the basis of your ability to repay the loan.

The **underwriter** must take all of the following into consideration when making the loan decision:

- **Your employment history**- Lenders consider a stable history of employment in the same line of work to be ideal.

- **Your income** – The underwriter looks carefully at your capacity to repay the loan. Your job stability and gross income, in relation to your expenses, are critical in this regard.

- **Your credit history** – Your credit history is an indication of your financial character, or your willingness to repay your loan. The **underwriter** looks closely at your past payment record, commonly known as a **credit report**, in determining this.

- **Your assets** – The money you have available for a **down-payment, closing costs, cash reserves** (money left over after close of **escrow** to cover two to three months' mortgage payments) and other liquid assets.

- **Your debts** – The **underwriter** will be concerned with the amount of debt you have because it effects your qualification and your ability to repay the loan.

- **The property** – Because the property is the lender's collateral for the loan, the value, marketability and condition of the property are extremely important.

On most real estate loans, lenders require borrowers to meet certain **ratios** of monthly debt divided by income. There are usually two **ratios** that must be met. The first **ratio** is a **housing expense ratio**, which is the sum of the loan's monthly principal and the interest payments, and the monthly cost of taxes and insurance; divided by gross monthly income. The second **ratio** is the **total debt ratio**; housing expenses plus all other debt obligations divided by gross monthly income.

In addition to reviewing debt **ratio** guidelines, **underwriters** like to see compensating factors or facts about the borrower's financial condition, the property purchase or the overall loan structure that are positive. Some of these include:

- A new payment less than, equal to or slightly higher than the current rent or mortgage payment
- Amount of **cash reserves** after close of **escrow**
- Increasing earning capabilities
- History of an ability to save money
- Large cash **down payment** in proportion to purchase price



Steps to Obtaining a Loan



- Step 1: The Loan Application** - The process begins with the initial interview where the lender obtains an application and evidence of income and assets. Lender also opens **escrow** with the **title company**.
- Step 2: Ordering Supporting Documentation** - Within 24 hours of application, the lender requests a **credit report**, an **appraisal** of the property, verifications of employment and **funds to close**, mortgage or landlord ratings, a **preliminary title report** and any other necessary supporting documentation.
- Step 3: Collection of Documentation** - Within one or two weeks, the lender begins to receive the supporting documentation. The lender checks it for accuracy and completeness and requests any additional verifying items needed.
- Step 4: Loan Submission** - Once all the necessary documentation is in, the loan package is assembled and submitted to the **underwriter** for approval.
- Step 5: Loan Approval** - Within 24 to 72 hours after submission, all parties are notified of the approval and any loan closing contingencies are cleared. Borrower receives an **estimate of closing costs** from the lender. The closing process begins.
- Step 6: Loan Documents Drawn** - Within one to three days after the loan approval, the loan documents are completed and sent to the title company. The borrowers will then sign the final documents and are told how much money they will need to close the loan.
- Step 7: Funding** - Once all of the loan documents are signed, the lender reviews them. When the forms are properly executed, a check is issued to fund the loan.
- Step 8: Recordation** – The **title company** then must record the legal documents necessary to transfer the property into the buyer's name. Also, the **deed of trust** is recorded to show the new loan on the property. **Escrow** is now officially closed and you own your home.



Escrow Flow Chart

1. Write offer - Purchase Agreement
2. Offer accepted by seller - “In Contract”
3. Escrow is opened at title company with earnest money escrow deposit
4. Property inspections are scheduled
5. Appraisal is scheduled
6. Reports received – accepted or negotiated
7. Formal Loan Approval received
8. Contingencies removed
9. Loan Documents ordered and signed
10. Loan Documents returned to lender
11. Lender funds the loan; borrowers’ funds delivered
12. Deed of Trust is recorded; ownership transfers



Loan Programs

Below is a brief explanation of some of the most commonly used loan programs:

- **Fixed Rate Loan** – A **fixed rate loan** has an **interest rate** that remains constant throughout the life of the loan, usually 15 or 30 years.
- **Adjustable Rate Mortgage (ARM)** – An **ARM** is a loan having an **interest rate** that can change, either upward or downward, at specified periods during the life of the loan. The change in the **interest rate** is usually tied to a published financial **index** over which the lender has no control.
- **Midterm ARMs** – These loans are generally 30-year loans, with the **interest rate** fixed for the first 3, 5, 7 or 10 years, after which they become adjustable rate loans for the remainder of the thirty-year term.

Other common types of loans include:

- **Buydown** – A **buydown** is a **fixed rate loan** where the **interest rate** and payment are reduced for a specific period of time by paying the interest in advance. Either the buyer or the seller can pay for the **buydown**.
- **Balloon Loan** – A **balloon loan** is a **fixed rate loan** that is **amortized** over a 30-year period, but becomes due and payable at the end of a shorter **term**: i.e. 5, 10, 15 years. Some of these loans have an option to be extended with a new rate or rolled into another type of loan. Usually, the rates on these loans are lower than a regular 30-year **fixed rate loan**.

More on ARMs:

Lenders usually charge lower initial **interest rates** for **ARMs** than for **fixed rate loans** because the borrower is sharing the risk if interest rates go up. **ARMs**, therefore, are less expensive in the beginning than fixed rate loans. This may mean that a borrower can qualify for a larger loan if they select an **ARM**. Borrowers run the risk of payments becoming burdensome, however, if rates rise substantially.





Indices: Index ARM's

Interest rate changes are tied to changes in an **index rate**. An **index** usually moves with the general trend of the economy. The most commonly used indices include:

- **Six Month Certificate of Deposit (Six Month CD)** – This **index** is a weekly average of **interest rates** paid on banks' **Six Month CDs**. This **index** is generally considered to react quickly to changes in the market.
- **One Year Treasury (One Year T-Bill)** – This is the weekly average **yield** on the **U.S. Treasury Securities** adjusted to a constant **maturity** of one year. This index generally reacts quickly to market changes.
- **11th District Cost of Funds Index (COFI)** – The average cost of deposits and borrowings for **Savings & Loans in the Federal Home Loan Bank's 11th District**, which consists of California, Arizona and Nevada. This **index** is slow moving due to the size of the deposits (approximately \$3.5 Billion) and generally lags behind market fluctuations.
- **London InterBank Offered Rate (LIBOR)** – The **LIBOR** is an average of the daily lending rates from several major English banks, used as a common international **interest rate index**. Like the **CD**, it tends to react quickly to changes in the market.
- **Prime Rate** – The Prime is the lowest commercial rate charged by banks on **short-term loans** to their most credit-worthy customers. Mortgage rates and consumer loan rates are generally close to the prime rate, but exceptions occur.



Margin

To establish the actual **ARM** rate that is used to calculate payments, percentage points are added to the **index** value. These percentage points are called the **margin**. The lender establishes the **margin** at the inception of the loan and it remains constant for the **term** of the loan. To calculate the interest rate at the time of adjustment, add the **index** to the **margin** ($Rate = Index + Margin$).

Periodic & Lifetime Caps

The **note** supporting an **adjustable rate loan** contains a schedule that states the frequency of the adjustment. A typical example would be a one-year **ARM** based on the **One Year Treasury Index**. This loan would have a low start rate. After the 12th month, it would adjust, and would continue to adjust annually for the term of the loan. **ARMs** are usually named for the frequency of the rate and payment adjustments. A loan that adjusts annually with the rate based on the **One Year Treasury** is called a **One Year T-Bill ARM**.



To make **ARMs** an attractive alternative to **fixed rates**, lenders build in **caps** or limits so that the adjustment cannot be too severe. For example, on the **1 Year T-Bill ARM**, there is usually a 2.00% annual **cap**. This means that the rate for year two is fully **indexed rate**, ie. the index plus margin. For example, if a loan starts at 5.00% and has a 2.00% annual **cap**, the maximum rate for the second year would be 7.00% and the maximum for the third year would be 9.00% regardless of what *Index + Margin* you may equal.

In addition to these **periodic caps**, **ARMs** will also contain a **lifetime cap** or ceiling. That is the maximum rate for the life of the loan, regardless of what the market dictates. This amount can be considered the worst case **interest rate** and will usually exceed current fixed **interest rates**.

Payment Caps and Deferred Interest (Negative Amortization)

In addition to **periodic caps**, there are **payment caps**. This is a fine, but important distinction. These loans will not have a built in **periodic cap**, usually just a **lifetime cap**. What they offer is a **payment cap**. This is the maximum that the payment can increase in any given period. Lenders still calculate the rate based on *Index + Margin*, but they offer a minimum payment that may be less than one generated by a fully **indexed rate**. The difference in the payment is called **deferred interest**.

Lenders will review the loan annually to determine if the minimum payments have covered the fully **indexed payment**. This difference is then added to the loan balance, hence the term **negative amortization**. A borrower may avoid **negative amortization** by making the **fully indexed payment**. **Cost of Funds (COFI)** loans are usually structured this way.

11th District Cost of Funds ARMs and Monthly Treasury Index (COFI/MTA)

Called the “dinosaur” of the adjustable market, the **COFI** is the slowest moving adjustable **index** offered. The **MTA** is also a slow moving **index** and used by some lenders instead of the **COFI**. Typically used for purchases, these programs will provide the most stable adjustable payments over any other adjustable loan **index** while providing monthly payment options. These options include:

- **Principal** and Interest payments over 30 years
- **Principal** and Interest payments over 15 years
- **Interest Only** payments
- **Minimum** or **Deferred Interest** payment (Calculated by lender each month after the first year)

80/10/10 and 80/15/5 Financing

The above programs provide one of the best ways to remove **mortgage insurance** on purchases when the borrower can only make 5% or 10% down payment. These programs, the loan agent obtains two forms of financing, a **first mortgage** and a **second mortgage**. In a conventional program, the **first mortgage** is for 80% of the purchase price, and the **second mortgage** may vary; 10% (**80/10/10**) or 15% (**80/15/5**). The remainder of the **down payment** is cash from the borrower. This type of financing accomplishes several tasks:

- It removes **private mortgage insurance (PMI)**
- It provides the borrower an increased interest write-off not found with **pMI**
- It allows more options for **refinancing** in the future, once the property has appreciated in value.



The Components of a Mortgage Payment

Your monthly housing expense is made up of several components; **Principal, Interest, Taxes** and **Insurance**, commonly referred to as **PITI**. A mortgage payment generally includes amounts for principal (**P**) and interest (**I**). **Terms** of the loan may require, or borrowers may choose to pay a **pro-rated** portion of annual taxes (**T**) and homeowner's insurance (**I**) monthly along with **principal** and interest.

Principal

Principal is the amount of money loaned, excluding interest, and also the remaining balance of a loan, excluding interest. Interest is calculated based on the **principal**.

Interest

The charge, in dollars, for the use, or loan, of the money is known as interest.

Taxes

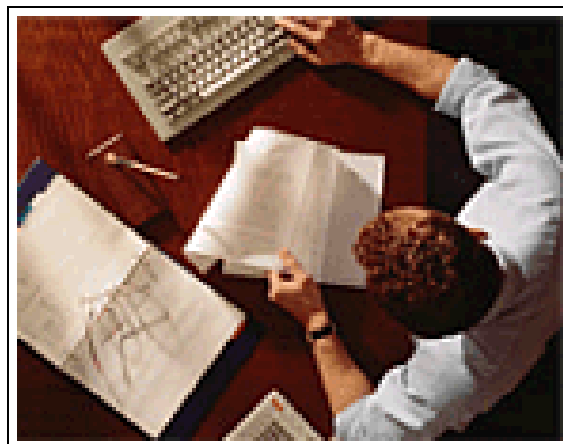
The county assessor determines the property tax based on the value of your home. Two tax installments are due each year.

Hazard Insurance

Hazard insurance is a contract between homeowner and insurance company in which the insurance company pays for loss from certain hazards, including fire. You obtain homeowner's insurance from your own insurance agent. The standard policy pays replacement costs, minus depreciation based on actual cash value.

Private Mortgage Insurance (PMI)

Lenders want to make loans to homebuyers even if down payments are minimal. However, loans with small **down payments** involve substantially more risk for the lender. To offset this risk, lenders typically require the additional protection of **PMI** to cover potential losses in case the loan goes into **foreclosure**. Without an 80/10/10 or 80/15/5 program, with loans **Down payments** less than 20% usually require **PMI**.





Paying Points

Points represent interest paid at the time of the loan closing to reduce the **interest rate**. One **point** equals one percent of the loan amount. For example, one **point** on a \$300,000 loan equals \$3,000 added to **closing costs**. A one-**point** loan will almost always have a lower **interest rate** than a zero-**point** loan from the same lender. Therefore, paying **points** is a trade off between paying a fixed amount of money at closing in order to receive a lower **interest rate** and lower monthly payments.

Generally speaking, one should only pay **points** if you plan to keep the loan for at least four to five years. Because **points** are **prepaid interest**, the loan should be kept long enough to recoup these costs through lower monthly mortgage payments.

If homebuyers are considering moving again within a four-year period, or if the general **interest rate** market is declining, they should consider a no-**point** loan. If the plan is to keep the property for an extended period of time and the **interest rate** market is increasing, paying **points** is appropriate. Nonetheless, because each case is different, it is recommended that borrowers seek the assistance of a financial advisor or mortgage planner before making a decision.

The tax treatment of **points** depends on what the loan is being used for. **Points** are normally 100% tax deductible in the year a home is purchased. This is true even if the seller is paying for the buyer's **points**.

In a **refinance** transaction, **points** must be **amortized** over the life of the loan. For example, on a 30-year loan, each year one can deduct 1/30th of the **points**. If a property is subsequently **refinanced** or sold and the loan paid off, the remaining **unamortized points** can be deducted in the year of the subsequent **refinance** or sale.





Closing Costs

Below are some of the **closing costs** that borrowers will incur with their loans. Some are one-time fees, or **Non-Recurring Closing Costs (NRCCs)**, while others; like interest and taxes, are costs that recur over the life of the loan. When homebuyers apply for their loan, they receive a **Good Faith Estimate of Settlement Charges** from the proposed lender and a booklet explaining these costs in detail. Borrowers should set aside funds beyond the **down payment** to cover these costs.

- **Loan Origination Fee** – This fee covers the lender’s loan processing costs. It is a one-time fee. It can be a flat fee or expressed as a percentage of the loan amount.
- **Loan Discount** – Often called **points**, a loan discount is a one-time charge used to adjust the yield on the loan to what market conditions demand. One **point** is equal to 1% of the loan amount.
- **Appraisal Fee** – This is a one-time fee that pays for an **appraisal**, or the statement of property value made by an independent fee **appraiser**.
- **Credit Report Fee** – This one-time fee covers the cost of the **credit report**.
- **Title Insurance Fee** – In a purchase transaction, there are two **title policies**, a buyer’s **title policy**, which protects the new homeowner, and a **lender’s title policy**, which protects the lender against loss due to a defect in the **title**. These are both one-time fees.
- **Miscellaneous Title Charges** – The **title company** may charge fees for a **title search**, **title examination**, document preparation, **notary** fees, **recording** fees and a **settlement** or closing fee. These are all one-time charges.
- **Document Preparation Fee** – There may be a separate, one-time fee that covers preparation of the final legal papers, including the **note** and **deed of trust**.
- **Prepaid Interest** – Prepaid interest depends on the day of the month on which a loan closes. If a loan closes at the beginning of the month, the charge will most likely be the maximum amount. If the loan closes near the end of the month, the buyers will most likely only have to pay a few days’ interest.
- **Private Mortgage Insurance (PMI) Premium** – In instances of smaller **down payments**, **PMI** protects the lender against loss due to **foreclosure**.
- **Taxes & Hazard Insurance** – Based on the month a loan closes, property taxes will be **prorated** between the buyer and the seller. The homebuyer must also pay an entire year’s hazard insurance premium, also known as homeowners’ insurance as part of the recurring closing costs.



The Role of the Title Company

Most **title companies** will provide the following services:

- Request a **title report** and **title insurance** policies
- Pay off existing loans when necessary
- Adjust taxes and insurance between the buyer and seller
- Compute interest on loans
- Acquire hazard insurance documents
- Have the buyer and seller sign the documents
- Record the appropriate documents
- Distribute documents and disburse money as instructed by parties involved (buyer, seller, lenders, etc)

Title companies conduct **title searches**, which are histories of previous owners of properties, and document all prior transactions, existing **liens**, **encumbrances** or other factors of that effect the title to properties. Homebuyers receive a **Preliminary Title Report** that covers all of these items.

The Mortgagor's or Buyer's Policy – Protects the buyer from flaws in **title**.

The Lender's Policy – Protects the lender against loss due to unknown **title** defects or other matters that effect **title** but are not known at the time of sale. This policy is mandatory with all new loans.

When a loan is approved and the loan documents are drawn by the lender, they are sent to the **title company**. The homebuyer and the seller sign relevant documents, and the homebuyer is informed of the amount of money needed to close the loan. The buyer may also be required to provide any additional documentation that the lender needs. Next, the lender reviews the signed loan documents and, if everything is satisfactory, the lender funds the loan. The title company then records the **deed of trust**, transferring the property from the seller to the buyer, and **escrow** is closed.





Common Ways to Hold Title

A Single Man / Woman

A man or a woman who is not legally married (i.e. John Doe, a Single Man)

An Unmarried Man / Woman

A man or woman who, having been married, is legally divorced (i.e. John Doe, an Unmarried Man)

A Married Man / Woman, As His / Her Sole and Separate Property

When a married man or woman wishes to acquire title in his or her name alone, the spouse must consent by signing a quitclaim deed or other similar instrument, thereby relinquishing all rights, title and interest in the property. (i.e. John Doe, A Married Man, as His Sole and Separate Property)

Joint Tenancy with Right of Survivorship

A joint tenancy estate is defined in the Civil Code as follows: "A joint interest is one owned by two or more persons in equal shares by a title created by a single will or transfer when expressly declared in the will or transfer to be a joint tenancy." A chief characteristic of joint tenancy property is the right of survivorship. When a joint tenant dies, title to the property immediately vests in the survivor or surviving joint tenants. As a consequence, joint tenancy property is not subject to disposition by will. (i.e. John Doe and Jane Doe, Husband and Wife, as Joint Tenants)

Community Property

The California Civil Code defines Community Property as property acquired by husband and wife or either during marriage when not acquired as the separate property of either. Real property conveyed to a married man or woman is presumed to be community property unless otherwise stated

Holding property as Community Property can have certain tax advantages upon the death of a spouse. See an attorney or accountant for additional details.

Under community property, both spouses have the right to dispose of one-half of the community property by will, but all of it will go to the surviving spouse without administration if the other spouse dies without a will. If a spouse exercises his or her right to dispose of one half, that half is subject to administration in the estate. (i.e. John Doe and Jane Doe, Husband and Wife, as Community Property)

Community Property with Right of Survivorship

Community Property of a husband and wife, when expressly declared in the transfer document to be community property with the right of survivorship and which may be accepted in writing on the face of the document by a statement signed or initialed by the grantees, shall, upon the death of one of the spouses, pass to the survivor, without administration, subject to the same procedures as property held in joint tenancy.

Tenancy in Common

Under tenancy in common, the co-owners own undivided interests, but unlike joint tenancy, these interests need not be equal in quantity or duration and may arise from different times. There is no right of survivorship; each tenant owns an interest that on his or her death vests in his or her heirs or devisees. (i.e. John Doe, a Single Man, as to an undivided 3/4th interest, and George Smith, a Single Man, as to an undivided 1/4th interest as Tenants in Common)

Trust

Title to real property in California may be held in a title holding trust. The trust holds legal and equitable title to the real estate. The trustee holds title for the benefit of the trustor / beneficiary, who retains all of the management rights and responsibilities.

A Glossary of Mortgage Terms

- A -

Abstract (of title)

A written summary of the title history of a particular **piece** of real estate.

Acceleration Clause

A provision of a mortgage or note which provides that the entire outstanding balance will become due and payable in the event of default.

Adjustable Rate Mortgage (ARM)

A mortgage in which the interest rate is adjusted periodically, based on the movement of a financial index.

Amortization

Repayment of loan by installment payments. As the payments are made, the debt is reduced so that at the end of fixed period or term, no money will be owed.

Annual Percentage Rate (APR)

The annual percentage rate refers to the total cost of the loan, expressed as a yearly rate.

Application Fee

That part of the closing costs pre-paid to the lender at time of application to cover initial expenses.

Appraisal

A report made by a qualified person as to the value of a property as of a given date.

Assessed Value

The value placed on a piece of real estate by the taxing authority for the purpose of taxation. Also called an assessment.

Assumption of Mortgage

The purchaser takes over mortgage payments for the balance of the loan, assuming primary liability. Unless specifically released by the lender, the seller remains secondarily liable.

- B -

Balloon Mortgage

A mortgage with periodic payments that do not fully amortize the loan. The outstanding balance of the mortgage is due in a lump sum at the end of the stated term.

Bridge Loan

A short-term loan secured by the equity in an as-yet-unsold house, with the funds to be used for a down payment and/or closing costs on a new house. There is no payment of principal until the house is sold or the end of the loan term, whichever comes first. Interest payments may or may not be deferred until the house is sold.

Broker

The person who, for a commission or a fee, brings parties together and assists in negotiating contracts between them.

Buydown

Money advanced by an individual (e.g. builder, seller, buyer, lender, developer) to lower monthly mortgage payments for a few years or the whole term.

- C -

Cap (interest rate)

The maximum interest rate increase allowable on an adjustable rate mortgage. Does not result in negative amortization. See Negative amortization.

Cap (payment rate)

The maximum payment amount increase allowable on an adjustable rate mortgage. May result in negative amortization. See Negative amortization.

Certificate Of Title

A statement that shows ownership of property, stating that the seller has clear legal title.

Closing

The concluding day of the real estate transaction, when title and deed pass from seller to buyer, the buyer signs the mortgage and pays the purchase price and closing costs.

Closing Costs

Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Also called "settlement costs."

Closing Statement

A financial disclosure giving an account of all funds received and expected at closing, including the escrow deposit for taxes, hazard insurance and mortgage insurance for the escrow account.

Commission

An agent's or broker's fee for bringing the principals together and helping to negotiate a real estate transaction, often a percentage of the sales price or flat fee.

Commitment

An agreement, frequently in writing, between a lender and a borrower to loan money at a future date, subject to certain conditions.

Comparables

Refers to similar properties used for comparison purposes in the appraisal process. These properties will be reasonably the same size and location, with similar amenities and characteristics, so that the approximate fair market value of the subject property can be determined.

Condominium

Ownership of a single unit in a multiunit building or complex of buildings. Along with this goes a share of ownership of the common areas.

A Glossary of Mortgage Terms

Contingency

A condition that must be met for a contract or a commitment to remain binding.

Conventional Mortgage

Any mortgage loan that is not insured by FHA, guaranteed by VA, or funded by a government authorized bond sale or grant.

Convey

To transfer real estate from one person to another by deed.

Credit Report

The report to a prospective lender on the credit standing of a prospective borrower.

- D -

Deed

A legal written document by which title to property is transferred.

Default

Failure to fulfill the terms as agreed in the mortgage note.

Down Payment

The difference between the sale price of a property and the mortgage amount.

Due-On-Sale

A clause in a mortgage which gives the lender the right to require immediate repayment of a mortgage balance if the property changes hands.

- E -

Earnest Money

The deposit money given to seller or his agent by the potential buyer at the time of the purchase offer. If the offer is accepted, the money will become part of the down payment.

Easement

A right to the limited use of land owned by another. An electric company, for example, could have an easement to put up electric power lines over someone's property.

Encumbrance

Anything that affects or limits the title to a property, such as outstanding mortgages, easement rights or other liens such as unpaid taxes.

Equity

The value in which the owner has in real estate over and above the mortgages against it. When the mortgage and all other debts against the property are paid in full, the owner has 100% equity in his property.

Escrow

Funds and/ or deed left in trust to a third party. Generally, a portion of the monthly mortgage payment is held in escrow by the lender to pay for taxes, hazard insurance and yearly mortgage insurance premiums.

- F -

First Mortgage

A mortgage that has a primary lien against a property.

Fixed-Rate Mortgage

A mortgage with an interest rate and monthly payments that remain constant over the life of the loan.

Fixture

Property, such as a hot water heater or plumbing fixture, that has become permanently attached to a piece of real estate and goes with the property when it is sold.

Flood Certification

An independent agency report required by the lender to determine whether a property is located in a flood hazard zone. Such condition would then require a federally mandated flood insurance policy.

Foreclosure

A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

- G -

Graduated Payment Mortgage

A fixed rate loan with monthly payments that start low, increasing by a fixed amount for a specific number of years. After that period, the payments typically remain constant for the duration of the loan.

Gross Income

Normal income, including overtime, prior to any payroll deductions, that is regular and dependable. This income may come from more than one source.

- H -

Hazard Insurance

Insurance protection against damage to a property from fire, windstorms, and other common hazards.

Homeowner's Insurance

An insurance policy that covers the dwelling and its contents in case of fire or wind damage, theft, liability for property damage and personal liability.

HUD-1 Form *See Real Estate Settlement Statement.*

- I -

Income Property

Real estate that is owned for investment purposes and not used as the owner's residence.

A Glossary of Mortgage Terms

Interest

A charge paid for the use of money.

Interim Financing *See Bridge Loan.*

- J - *No Terms Listed*

- K - *No Terms Listed*

- L -

Land Contract

When the buyer agrees to make payments directly to the seller at pre-negotiated terms. The seller agrees to deed the property to the buyer upon completion of the agreement. The buyer becomes the owner of equity in this type of sale. (Also see Owner Financing)

Lien

A legal claim on a property used as security for a debt.

Loan-To-Value Ratio

The relationship between the amount of the mortgage and property value, usually shown as a percentage.

- M -

Market Value

The price at which a property will sell, assuming a knowledgeable buyer and seller, both operating without undue pressure.

Mortgage

A contract in which a borrower's property is pledged as security for a loan which is to be repaid on an installment basis.

Mortgage Note

A written promise to pay a debt at a stated interest rate during a specified term. The agreement is secured by a mortgage.

Mortgagee

The lender in a mortgage contract.

Mortgagor

The borrower in a mortgage contract.

- N -

Negative Amortization

A loan in which the outstanding principal balance goes up instead of down because the monthly payments are not large enough to cover the full amount of interest due. Also called deferred interest.

- O -

Offer to Purchase

A written proposal to buy a piece of real estate that becomes binding when accepted by the seller. Also called a sales contract.

Origination Fee

A fee charged for the work involved in the evaluation, preparation and submission of a proposed mortgage loan.

Owner Financing

A purchase in which the seller provides all or part of the financing.

- P -

PITI

An acronym for payments to lender that cover principal, interest, taxes and insurance on a property.

Plat

A map of a piece of land showing boundary lines, streets, actual measurements and easements.

Point

A fee paid to the lender on closing day to increase the effective yield of the mortgage. A point is one percent of the amount of the mortgage loan. Also called a discount point.

Prepayment Penalty

A charge paid to the lender by the borrower if a mortgage loan is repaid before a contractual term is over.

Pre-Approval

A commitment by a lender to extend credit provided that specific conditions are met.

Pre-Qualification

A preliminary assessment of a buyer's ability to secure a loan, based on a specific set of lending guidelines and buyer representations made. This is not a guarantee or commitment by a lender to extend credit.

Prime Rate

The interest rate charged by banks to their preferred corporate customers, it tends to be an estimator for general trends in short term interest rates.

Principal

The amount borrowed or remaining unpaid; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

PMI (Private Mortgage Insurance)

Insurance written by a private company to protect the lender against loss caused by mortgage default.

- Q -

Qualifying Ratios

Guidelines applied by lenders to determine how large a loan to grant a home buyer.

- R -

Real Estate Settlement Statement

Final settlement statement often referred to as the HUD-1 form, used to itemize buyer, seller, broker, and lender charges and credits at closing.

A Glossary of Mortgage Terms

Realtor

A real estate broker or sales associate affiliated with the National Association of Realtors.

Recording Fee

The charges made by the register of deeds to record the legal documents.

Refinancing

Repaying a debt with the proceeds of a new loan, using the same property as collateral or security.

- S -

Second Mortgage

A loan on property which already has an existing mortgage (the first mortgage). The second mortgage is subordinate to the first.

Secondary Mortgage Market

The buying and selling of existing mortgages through agencies (i.e. Fannie Mae, Freddie Mac).

Survey

A map prepared by an engineer or surveyor charting a particular piece of real estate.

- T -

Title

Ownership of a property. A clear title is one without any outstanding liens or encumbrances. A cloud on title refers to any outstanding liens or encumbrances which could impair the title.

Title Insurance Policy

Protection against financial loss arising from defects in the title occurring before purchase.

Title Search

A check of public record to disclose the past and current facts regarding ownership of a particular piece of property.

Transfer Tax

City, county or state taxes imposed when property passes from one party to another.

Truth-In-Lending

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.

- U -

Underwriting

The process of evaluating a loan application to determine the risk involved for the lender.

- V -

VA Loan

A long-term, low- or no-down payment loan guaranteed by the Department of Veterans Affairs. Restricted to individuals qualified by military service or other entitlements.

VA Mortgage Funding Fee

A premium of up to 1-7/8 percent (depending on the size of the down payment) paid on a VA-backed loan. On a \$75,000 fixed-rate mortgage with no down payment, this would amount to \$1,406 either paid at closing or added to the amount financed.

Variable Rate Mortgage (VRM) *see adjustable rate mortgage*

Verification of Deposit (VOD)

A document signed by the borrower's financial institution verifying the status and balance of his/her financial accounts.

Verification of Employment (VOE)

A document signed by the borrower's employer verifying his/her position and salary.

- W -

Warehouse Fee

Many mortgage firms must borrow funds on a short term basis in order to originate loans which are to be sold later in the secondary mortgage market (or to investors). When the prime rate of interest is higher on short term loans than on mortgage loans, the mortgage firm has an economic loss which is offset by charging a warehouse fee.

Wraparound mortgage

Results when an existing assumable loan is combined with a new loan, resulting in an interest rate somewhere between the old rate and the current market rate. The payments are made to a second lender or the previous homeowner, who then forwards the payments to the first lender after taking the additional amount off the top.

- X - *No Terms Listed*

- Y - *No Terms Listed*

- Z - *No Terms Listed*