



Homebuyer's Guide



*Home Buying
Process*

Real Estate & Mortgage Insights

The "Home Wealth" Effect

In America, the most common way to accumulate wealth is through home ownership.

At the time of a survey conducted by the National Association of Realtors, the "average" homeowner has \$50,000 in "unrealized wealth" in their home. Those families with incomes over \$75,000 averaged \$100,000 in "unrealized wealth." Families with incomes less than \$40,000 averaged \$40,000 in unrealized wealth.

"Unrealized wealth" just means your house is worth more than what you owe on it. This is also called "equity." Savings. You own an asset that appreciates in value.

Over the last year, the "average" house increased 7.1% in value. Since the "average" house is worth \$153,300, that means in one year the "average" homeowner accumulated \$10,884 in wealth -- by doing nothing more than making a mortgage payment (plus taxes and insurance). Since interest and property taxes reduce your taxable income, the federal government is subsidizing this increase in "home wealth."

Three out of four homeowners say their "home wealth" is greater than their "stock wealth."

The most common way to "tap in" to unrealized wealth is to refinance and pull cash out of the home, get a home equity line of credit or sell your home. At least forty percent of those who sell their home use some of the money to buy a bigger, better, or newer home.

Renting does not accumulate wealth.

Statistics and figures come from the "home wealth" survey of the National Association of Realtors conducted in August and September of 2001.

Real Property vs. Personal Property

When selling or buying a home, you need to think ahead about what you are actually selling along with the property and the house.

The general rule is, "if it attached to the structure or the ground, it is real property and stays with the house."

This confuses some people, especially when selling their first house.

For example, as a renter you may have been used to removing your curtains and taking them with you when you move. Since they are probably "attached" to the wall in some manner, the buyer may assume all window coverings are staying with the house.

This can cause a disagreement. Disagreements in real estate spread like viruses, moving from minor issues to more major issues. Emotions rule and logic melts away like a scoop of vanilla ice cream on a black asphalt playground in August. It can become an ugly sticky mess.

Disagreements have the potential to become "problems" -- except that in real estate, problems don't exist. We have "challenges" instead.

If your Realtor refers to something as a "challenge" -- you may have a problem.

So if you want to take your curtains with you, put it in the contract. Don't "assume" anything...

...because buyers and sellers can argue about the silliest things.

Believe it or not, there is a story about how a deal fell apart because the buyer wanted the sellers to leave the welcome mat. It must have been a *really nice* welcome mat. Normally, sellers are free to take their welcome mat with them when they move.

Another incident involved the gas logs in the fireplace. The sellers wanted to take them and the buyers wanted them left with the house. Normally, gas logs stay with the fireplace. Real wooden logs you are free to take with you when you move.

Chandeliers are another common argument point.

The point is that you need to think about these things in advance. If you have to unscrew a screw, claw out a nail, detach anything from the interior or exterior structure, or uproot anything from the ground -- and you want to take it with you when you move -- put it in the contract. That way there are no possible misunderstandings later.

It doesn't hurt to go through the house "room by room" with your agent so that all possible challenges are handled in advance.

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Asking the Seller to Pay Closing Costs

Some aspects of real estate become very routine to real estate agents, who deal with the same issues over and over. However, these same issues are sometimes new to buyers and sellers - and not immediately understood.

This situation came up recently between a buyer and seller.

A home was listed for sale at \$210,000. The excited buyer made an offer to buy the home at \$203,000, asking the seller to pay all of their closing costs.

The seller scratched his head. How much *are* closing costs, anyway?

Closing costs can vary widely, mostly dependent upon the cost of the mortgage loan. The "smart" thing for the seller to do is make a counter-offer and place a limit on the amount of closing costs he will pay on behalf of the buyer. Otherwise, how can the seller anticipate how much he will "net" from the sale of his home?

In this case, the seller countered with a price of \$208,000, agreeing to pay \$5000 of the buyer's closing costs.

This time the buyer scratched his head.

"That's no deal," he complained to his Realtor. "The seller just took my offer and added in the closing costs."

The buyer figured he wasn't getting anything "free" at all. By adding the closing costs to the purchase price, most of those costs would be a part of the loan. Instead of getting his closing costs paid for free, he would be paying them over the life of the mortgage loan.

"That's *exactly* how it works," explained the Realtor, smiling patiently.

"Suppose the seller had accepted your initial offer of \$203,000," continued the agent, "and your closing costs had actually *been* \$5000 -- you would still have been paying most of those closing costs over the life of the loan. The difference is that - if you had paid your own closing costs - you could have got the house for \$198,000."

Counteroffers went back and forth until the final figures were agreed upon.

When a seller pays your closing costs, what makes it a "deal" is that it takes you less *cash* to buy the home. You don't "save" any money -- you just save it *for now*..

..and that can be very important, especially if your funds are limited.

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Why close at the end of the Month?

Mostly, this has to do with lowering your out of pocket costs by minimizing the amount of "prepaid interest" you pay on your mortgage at closing.

Interest on your mortgage begins running from the date your transaction closes, but most loans are due on the first day of the month. So when you close, you "pre-pay" the interest between the closing date and the end of the month..

For example, if you close on the 29th of October, you prepay one day of interest to cover the rest of October's interest. Your first payment will be due December 1st, when you will actually be paying November's interest.

As a different example, if you close on the 6th of November, you prepay 24 days of interest. This means you have to bring in more cash to close your real estate purchase than would have been required by closing just eight days earlier.

However, the benefits of a late-in-the-month closing are only short-term.

With the October 29 closing, your first payment due-date will be December 1. With the November 6 closing, your first payment is not due until January 1.

It just takes less cash "out of pocket" to close near the end of the month. That is the major benefit.

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Why Search for a Realtor, Anyway?

by Terry Light for RealEstate ABC

Finding Your Realtor by "Accident":

When someone decides it is time to sell their home, they interview several Realtors from different companies to determine which one is best for them. They want someone who will represent them and someone they feel will do an effective job at marketing their home. However, when someone decides to buy a home, they usually end up with their Realtor through sheer accident. Why don't *homebuyers* search for a Realtor the same way that *homesellers* do?

Instead, homebuyers usually end up with a Realtor as a result of answering an advertisement. The advertisement will give a brief summary of a home available for sale along with the price, but it says nothing at all about the Realtor. The ad also does not say whether the property backs to a busy street or if the "ocean view" is available only by leaning out of the second story window with a pair of binoculars.

Listing Agents vs. Selling Agents

You see, there are listing agents and selling agents. Listing agents are the ones who "list" a home for sale on the Multiple Listing Service, and they deal primarily with sellers. Selling agents or "buyer's" agents do not *usually* list homes very many homes for sale. They deal mostly with homebuyers. Buyer's agents sell the homes that are placed in the MLS by the listing agents.

Most agents concentrate primarily on one side or the other. This is not a "hard and fast" rule. There are also agents who split their time equally between buyers and sellers. Often, these are the very best Realtors. The fact of the matter is, if you are *buying* a home who do you want on your side? A Realtor who deals primarily with sellers? Or one who deals mostly with buyers?

If you call on an advertisement in a newspaper or one of those home selling magazines, you are most likely calling the listing agent. Listing agents place ads for several reasons. First, they need to show the seller that they are doing something to sell their home. Second, by showing how much they advertise, they can also attract other individuals who are thinking of selling their homes. They point to their ads as an example of what they will do to market the house.

Why Agents Advertise - Is it What You Think?

What sellers don't realize is that a listing agent's main marketing emphasis is directed toward other Realtors, not the general public. Their main goal is to convince the selling agents (buyer's agents) to find buyers and make offers. This is a **good** thing because if you are selling a home, you want as many Realtors as possible bringing buyers around to take a look. Most of a listing agent's marketing efforts toward other Realtors are invisible to the general public, but it is where an effective listing agent does a home seller the most good.

One reason listing agents advertise homes in newspapers and magazines is to show their clients that they are aggressively marketing the property. When home sellers constantly see ads from a particular Realtor, they are inclined to want to list with that Realtor. So even though the ads look

like they are directed toward home buyers, they often have another purpose. To attract home sellers.

Selling agents (buyer's agents) do advertise homes for sale in order to attract buyers. However, they don't really expect you to actually purchase the home you originally call on. They would be happy if you do, but it happens so rarely that they do not expect it.

When you call on a real estate ad, you often schedule an appointment to go look at the advertised home. While you are out looking at that home, you will probably want to look at a few others, too. Eventually, you and the Realtor will zero in on what you need and like in the proper price range and you will make an offer.

That is one way of finding your Realtor by accident.

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Thinking Ahead About "Buyer's Remorse"

by Terry Light for RealEstate ABC and Inman News

If you are thinking of buying your first home, you should take out a pen and paper right now and draw a line down the center of the paper. Calmly and logically, think of all possible advantages to buying a home and write them down on one side of the page. Afterwards, you should list all the disadvantages.

Then save the list in a place you will be certain to remember.

Sound silly?

Of course it sounds silly. Who needs to write down their reasons for buying a home? After all, home ownership is the central theme to living the "American Dream."

Naturally, while in hot pursuit of this dream you are going to be excited about the future -- researching neighborhoods, searching MLS sites on the internet, viewing homebuyer's magazines full of appealing homes that are just "minutes from the beach" with "fantastic views" and "cozy family rooms."

Next comes the really good stuff -- looking at houses. Full of imagination and optimism for the future, you wander about each home envisioning a happy and contented life for you and your family. The first house may be "too big," and another may be "too small," but you are certain to find one that seems "just right." So you make an offer and wait anxiously and excitedly for the counter-offer. Finally, you and the seller agree on terms and you have bought yourself a brand new home!

Congratulations! Break out the champagne and celebrate!

However...

Later that night or perhaps the next day, you start to worry about whether you made the right decision. Doubtful thoughts will intrude. Can you afford it? Is it the right time? Should you have waited? What if you lose your job? What if this happens? What if that happens? Anxiety and stress set in. Sleep may be hours in coming.

This is a normal response to buying a home and is called "Buyer's Remorse." You have just made the single biggest purchase you have ever made in your life and it can be downright scary. Logic deserts you. Worry takes over.

Remember your list?

Back when you were thinking semi-logically, you were fairly rational about home ownership. You catalogued the good and the bad, weighed them against each other, and decided that buying a home was the smart thing to do. Reviewing the list will help resolve your buyer's remorse.

You will not be totally stress-free, but it will help.

Of course, in spite of this advice you will probably not take the time to make that list **now** – **before** you buy a home. Hardly anyone ever does.

So when buyer's remorse sets in and you remember reading this column, here is what you do -- get a piece of paper and draw a line down the center. Then...

You know the rest.

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How Do I Prepare For Closing?

By Sandy Gadow

Double-Check the Money

Prior to the actual closing day, there are several things you should do to be certain that your real estate transaction will close on time, and that everything will go smoothly. A day or two before closing, you should review your final closing statement or HUD-1 Statement, whichever is used in your area of the country. You should go over all the calculations and be certain that you are given credit for all your deposits and any other credits due to you from the seller or for other items agreed upon between buyer and seller. Go over all the lender and title and escrow fees, to be sure they are what you had been told and that you agree to them. Check the math calculations on the closing statement. Errors do occur.

Review the Documents

Carefully review the preliminary report or the guarantee of title insurance, to verify the exact legal description of the property and any liens, encumbrances or other items which may have been discovered on the property. Be sure that all items are removed that you did not agree to. Verify that the title or escrow agent has your correct vesting, or the way you want to take title to the property. This is important because to correct a vesting on a deed later on is time consuming and can be avoided if care is taken when escrow is closed.

Re-Inspect the Property

Besides the paperwork which you must review and verify, you should reinspect the property once again just prior to closing. Is everything the way you expect it to be? Have all the necessary repairs or other corrective work been done that were promised to you? This is important so that you don't arrive at your new house and find unexpected surprises.

Check and Double-Check

The most important thing to remember is that before closing you want to be certain that all the conditions of the purchase contract have been met. You want to be sure that all directions given to the closing agent have been performed. Before signing your name to any closing documents, check and double check that everything is correct, interest rate, fees charged and condition of the property.

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Home Buying Articles & Advice

Things Not to Do Before Purchasing a Home

No Major Purchase of Any Kind

Review the article titled, "[Don't Buy a Car](#)," and apply it to any major purchase that would create debt of any kind. This includes furniture, appliances, electronic equipment, jewelry, vacations, expensive weddings...

...and automobiles, of course.

Don't Move Money Around

When a lender reviews your loan package for approval, one of the things they are concerned about is the source of funds for your down payment and closing costs. Most likely, you will be asked to provide statements for the last two or three months on any of your liquid assets. This includes checking accounts, savings accounts, money market funds, certificates of deposit, stock statements, mutual funds, and even your company 401K and retirement accounts.

If you have been moving money between accounts during that time, there may be large deposits and withdrawals in some of them.

The mortgage underwriter (the person who actually approves your loan) will probably require a complete paper trail of all the withdrawals and deposits. You may be required to produce cancelled checks, deposit receipts, and other seemingly inconsequential data, which could get quite tedious.

Perhaps you become exasperated at your lender, but they are only doing their job correctly. To ensure quality control and eliminate potential fraud, it is a requirement on most loans to completely document the source of all funds. Moving your money around, even if you are consolidating your funds to make it "easier," could make it more difficult for the lender to properly document.

So leave your money where it is until you talk to a loan officer.

Oh...don't change banks, either.

Should You Change Jobs?

For most people, changing employers will not really affect your ability to qualify for a mortgage loan, especially if you are going to be earning more money. For some homebuyers, however, the effects of changing jobs can be disastrous to your loan application.

What's More important - Buying a House? Or a Home?

Are You Buying a House or a Home?

As you read and study about buying real estate, you will often find the words "house" and "home" used interchangeably. There is a huge difference between a house and a home.

A house can be a place to eat, sleep, park your car, and put all your "stuff" (including other family members). It is a material possession and an investment. A home is where you feel comfortable, warm, safe, and protected.

A home is where you live.

A house is something you buy logically. A home is an emotional purchase. When buying real estate you have to balance your emotional wants and your logical needs because there will almost certainly be a time when the two conflict.

Example

For example, you may want a house with a view, but the payment is higher than you feel comfortable with on a thirty-year fixed rate mortgage.

What do you do?

Purchase the house anyway and budget more carefully for the next few years? Buy the same house without the view and get it cheaper? Make a larger down payment by borrowing from your 401K or family members, so you get a lower payment? Get an adjustable rate mortgage with a smaller payment instead of a fixed rate loan? Or buy a smaller house and still get the view?

When viewing the house, most people look at it emotionally and envision it as a safe, happy, comfortable home. Later, when making the offer or filling out a mortgage application, your logic may begin to kick in, instead. That's when "buyer's remorse" may come up, but...that's a different article.

Balancing Act

The trick in buying real estate is to view all decisions with both a logical perspective and an emotional perspective. If a situation presents itself that requires a trade-off, decide on whether there is a huge conflict or a small one. Logic should win the big conflicts, but emotion should always be a factor, even winning the small ones.

You will find yourself owning a warm, happy, safe home – and an investment for the future at a price you are willing to pay.

Why Buying a Home is a Good Idea

The Best Investment

As a fairly general rule, homes appreciate about four or five percent a year. Some years will be more, some less. The figure will vary from neighborhood to neighborhood, and region to region.

Five percent may not seem like that much at first. Stocks (at times) appreciate much more, and you could easily earn over the same return with a very safe investment in treasury bills or bonds.

But take a second look...

Presumably, if you bought a \$200,000 house, you did not pay cash for the home. You got a mortgage, too. Suppose you put as much as twenty percent down – that would be an investment of \$40,000.

At an appreciation rate of 5% annually, a \$200,000 home would increase in value \$10,000 during the first year. That means you earned \$10,000 with an investment of \$40,000. Your annual "return on investment" would be a whopping twenty-five percent.

Of course, you are making mortgage payments and paying property taxes, along with a couple of other costs. However, since the interest on your mortgage and your property taxes are both tax deductible, the government is essentially subsidizing your home purchase.

Your rate of return when buying a home is higher than most any other investment you could make.

Buying a Home With Resale Value - Location

Buying a Home With Resale Value

There are many things that should be considered when buying a home. Since most homebuyers expect to buy a bigger and better home someday in the future, resale value is an important factor in decision-making. You use the proceeds from selling one home to buy the next one.

While no one can guarantee that your home will grow in value, there are steps you can take that maximize your potential gain.

"Location, Location, Location"

"Location, location, location," is a common and almost hackneyed phrase in real estate literature. Your agent may even throw it at you when you ask for advice about buying a home. However, what does "location, location, location," actually mean? Why repeat it three times?

Mostly, "location" is repeated to emphasize that it is extremely important to the resale value of your home. The idea is to buy a house that will appeal to the largest number of potential future homebuyers. A careful choice of location can minimize potential negative influences on future resale value, and maximize positive influences.

Focusing on resale value requires you to make several different "location" choices. The first choice you have to make is "which community?" At the very least, you should narrow your choice down to just a few local communities.

Buying a Home With Resale Value - the House

Buying a Home With a View

Homes with a pleasant view of the horizon often sell at a premium above similar homes without the view. However, if a view is important to you, buy it mostly for your own pleasure and not as an investment. Though you may place a considerable dollar value on the view, future buyers may not be so like-minded. It may take you longer to find a buyer when it comes time to resell the house. Or you may end up dropping your price to more nearly match other sales prices in the neighborhood.

In short, if you are buying a house with a view, try to pay as little extra as possible. Otherwise, you might not get your money back.

Lot and Landscaping

Even though most real estate value is usually concentrated in the building, the lot is important, too. Obviously, it should be as level as possible. Assuming the property is in a typical neighborhood, the lot should be rectangular – no odd shaped lots or oddly situated lots.

Yard sizes are smaller in modern homes than in older homes, but there should still be a decently sized front and back yard. Do not buy a house where the entire back yard is taken up by a swimming pool, for example.

Do not purchase an over-landscaped property, either. You would normally pay a premium for that, which you may not be able to recover when you sell. You will get your best value if the house is moderately landscaped or under-landscaped for the area. You can always improve the landscaping during your ownership by improving the grass and adding bushes and trees. Just do not spend too much.

House Size

In each residential neighborhood, houses will vary in size and rooms, but they should not be too different. If resale value is an important consideration, you should not buy the largest model in the neighborhood. When determining market value, the homes nearest to yours are most important. If most of the nearby houses are smaller than your house, they can act as a drag on appreciation.

On the other hand, if you buy a small or medium house for the neighborhood, the larger homes can help pull up your value. This is one of those times where determining your "wants" versus your "needs" can be extremely important. Buying what you **need** in a more prestigious neighborhood may provide more financial reward than getting what you **want** in a less desirable neighborhood.

Bedrooms and Bathrooms

Three and four bedroom houses are the most popular among homebuyers, so if you can stick in that range you will have more potential buyers when it comes time to resell. Five is okay, too, as long as you do not have to pay too much extra for the additional bedroom.

There should always be at least two bathrooms in a house, preferably at least two and a half. One bathroom with a place to wash up for day-to-day visitors, one for the master bedroom, and at least one to be shared by the other bedrooms.

Closets, Garages and Laundry

Walk-in closets are extremely desirable for the master bedroom. For the rest of the house, just be sure there is plenty of closet space. Don't forget space for linens and towels.

Garages add to the resale value and you should always make sure to get at least a two-car garage. Lately, three-car garages have become desirable in some areas of the country.

The laundry facilities should be located somewhere convenient on the main floor of the house, but not in a place it will create an eyesore. Think about whether you want to walk up and down stairs when carrying loads of laundry.

The Kitchen

Family activity centers around the kitchen, so this is the most important room of the house. Larger kitchens are better, and they should be provided with modern appliances. Obviously, the dining room and breakfast nook should be located adjacent to the kitchen. In newer houses, the family room should also be extremely close to the kitchen.

There should be easy access to the back yard, as there will be occasions for barbecues and outdoor entertaining. In addition, it should be a short trek between the garage to the kitchen so hauling groceries in from the car does not become a horrendous chore.

Fireplaces

The only room where you absolutely have to have a fireplace is the family room. A fireplace in the living room may be nice, but you pay extra for it and will probably rarely use it. At best, it serves as a focal point of the living room, but does not add much in real value.

Swimming Pools

Swimming pools do not provide as much added value as they once did. Safety issues about families with younger children have become more publicized than in the past, so families with small children tend to avoid homes with pools. As a result, having a pool may actually reduce the number of potential homebuyers when you try to resell the home.

Buy a home with a pool for your own enjoyment, not as an investment.

Since we are on the subject of swimming pools, here is a word of advice: If you want a pool, buy a home that already has a pool. Paying a contractor to install one for you is like throwing money away. You will never get a dollar-for-dollar return on your investment

Factors Affecting Your Offer Price

How Property Condition Affects Your Offer

Since you have toured the property you are interested in, you should know how it compares to the general neighborhood. All you have to do is put the home in one of three categories - average, above average, or below average.

When evaluating a home's condition, there are a number of things you should consider. Structural condition is most important - items such as walls, ceilings, floors, doors and windows. Then paint, carpets, and floor coverings. Pay special attention to bathrooms and bedrooms and whether the plumbing and electricity work efficiently. Look at the fixtures, such as light switches, doorknobs, and drawer handles. The front and back yards should be in reasonably good shape.

The missing ingredient will be information on the condition of the homes from your comparable sales list. Provided you chose the right agent to represent you, they will have actually visited most of those homes and be able to provide key insights.

How Home Improvements Affect Your Offer Price

Even when comparing exact model matches within a tract of homes, you should note whether the previous owners have made any substantial improvements. Cosmetic changes should be largely ignored, but major improvements should be taken into account. Most important would be room additions, especially bedrooms and bathrooms. Other items, like expensive floor tile or swimming pools should be taken into account, too, but should be discounted. A pool that costs \$20,000 to install does not normally add \$20,000 in value to the home.

Rely on your agent to give you guidance in this area.

Offering to Purchase Real Estate- the Basics

Writing an Offer to Purchase Real Estate

Once you find the home you want to buy, the next step is to write an offer – which is not as easy as it sounds. Your offer is the first step toward negotiating a sales contract with the seller. Since this is just the beginning of negotiations, you should put yourself in the seller's shoes and imagine his or her reaction to everything you include. Your goal is to get what you want, and imagining the seller's reactions will help you attain that goal.

The offer is much more complicated than simply coming up with a price and saying, "This is what I'll pay." Because of the huge dollar amounts involved, especially in today's litigious society, both you and the seller want to build in protections and contingencies to protect your investment and limit your risk.

In an offer to purchase real estate, you include not only the price you are willing to pay, but other details of the purchase as well. This includes how you intend to finance the home, your down payment, who pays what closing costs, what inspections are performed, timetables, whether personal property is included in the purchase, terms of cancellation, any repairs you want performed, which professional services will be used, when you get physical possession of the property, and how to settle disputes should they occur.

It is certainly more involved than buying a car. And more important.

Buying a home is a *major* event for both the buyer and seller. It will affect your finances more than any other previous purchase or investment. The seller makes plans based on your offer that affect his finances, too. However, it is more important than just money. In the half-hour it takes to write an offer you are making decisions that affect how you live for the next several years, if not the rest of your life. The seller is going to review your offer carefully, because it also affects how he or she lives the rest of their life.

That sounds dramatic. It sounds like a cliché. Every real estate book or article you read says the same thing.

They all say it because it is true.

How Financing Details Affect Your Offer

Most buyers do not have enough cash available to buy a home, so they need to obtain a mortgage to finance the purchase. Since you will probably make your purchase contingent upon obtaining a mortgage, the seller has the right to be informed of your financing plans in order to evaluate them. That is one of the major reasons that financing details are included in your offer.

Down Payment

As part of your offer, you will need to disclose the size of your down payment. Once again, this allows the seller to evaluate your likelihood of obtaining a home loan. It is easier to get approved for a mortgage when you make a larger down payment. The underwriting guidelines are less strict.

Interest Rate

Another reason for including financing information in your offer is to protect yourself. If interest rates suddenly become volatile and rise quickly, as sometimes happens, you may look at a mortgage payment much higher than you anticipated. By putting a maximum acceptable interest rate in the offer, you are protecting yourself from such an occurrence.

At the same time, the seller will probably want to see that you have some flexibility in the financing terms you are willing to accept. If interest rates are currently at eight percent and you indicate this is the highest rate you will accept, you would be able to cancel the contract without penalty if interest rates rose past that point. The seller would suffer because they have lost valuable marketing time and may have made their own plans based on successfully closing the transaction.

Asking for Closing Costs and Financing Incentives

There may be times when, as part of your offer, you request the seller to pay all or a portion of your closing costs, or provide some other financial incentive. One common request is asking the seller to provide funds to temporarily buy down your interest rate for the first year or two. Such incentives can be especially effective if a buyer is tight on money or pushing their qualifying ratios to the limit.

Whenever you ask for incentives such as these, you will probably find the seller less willing to negotiate on price. After all, what you are really asking for is have the seller to give you some money to help you buy their house. The end result is that, for a little relief in the beginning, you are willing to pay a little more in the long run.

Seller Financing

Another occasional request is to have the seller "carry back" a second mortgage to help facilitate your purchase of their home. In cases when the seller does not need all the proceeds from their sale in order to purchase their next home, this is an option. The advantage to the buyer is that by combining your down payment and the second mortgage from the seller, you may be able to avoid paying mortgage insurance and save yourself some money.

If such a carry-back is part of your offer, you should include the terms you wish to pay on such a second mortgage. Keep in mind that your first trust deed lender needs to know this information so they can underwrite your loan, and they have certain minimum requirements. The minimum term of the second mortgage can be five years. The minimum payment can be "interest only." Longer mortgage terms and payments that also include principle are also acceptable.

Cash Offers

If you are one of those rare individuals making a cash offer to buy a home, it makes sense to provide some documentation with your offer that shows you have the funds available. A bank

statement would be fine. If you have to liquidate stock or some other asset, your offer should give a timetable on when you will provide proof you have converted the asset to cash.

Other Financing Details in Your Offer

Your offer should also contain information on whether you are obtaining a fixed rate or an adjustable rate mortgage. It should also state whether you are obtaining conventional financing or obtaining a VA or FHA loan.

Service Providers When Buying a Home

You and the Seller Must Agree

Buying a home does not occur in a vacuum, involving only you and the seller. There are all kinds of people and services involved behind the scenes to make it happen. Since some of these services affect both you and the seller, there will have to be an agreement on which companies you will use for them. When you make your offer, you should request your favorites for these services. If you are unfamiliar with these service providers, you can get recommendations from your agent.

Escrow and Settlement

For example, you are going to need an escrow or settlement company to act as an "independent third party" between you and the seller. Without having a third party involved, how do you know that when you fork over the money, you are going to get the deed? This is the type of service provided by escrow and settlement. They will hold your deposit and coordinate much of the activity that goes on during the escrow period.

Since this third party is very important to both you and the seller and both of you will pay fees to this company, it is important to agree on which service to use. Therefore, your choice should be part of the offer. Since you do not buy a home every other week or so, you are probably unfamiliar with companies that provide this service. Your agent will make a recommendation. You have the authority to accept this recommendation and include it in your offer, or make your own choice.

Keep in mind that the seller will also have a preference and this may be a point of negotiation in a counter-offer. It has become customary that one side will choose the escrow/settlement agent and one side chooses the title insurance company. Even so, everything in real estate is negotiable.

Title Insurance Company

Title insurance is important because, by providing you with an Owners Policy, they insure that you have clear title to the property. If there are any problems later, you can always go back to the title insurance company and have them clear it up. Since it is customary for the seller to pay for the owner's policy, they have an interest in which company is used.

However, you are going to pay a fee to the title insurance company, too. This is for the Lender's Policy. The lender's policy insures your mortgage lender that there are no liens or judgments against the property and that the mortgage will be in first position. In other words, should you sell the property or refinance it, their mortgage gets paid first, before any other claims against the property.

The lender's policy is less expensive than the owner's policy.

Termite and Pest Inspection

As part of your offer, you may require a termite and pest inspection. This company not only inspects for termite damage and pest infestations, but also inspects for dry rot and water damage, among other things. The company that performs the inspection is important to you as a buyer, because you want to be sure they do a good job. It is important to the seller because it is customary that they pay for the inspection and some types of repairs that may be required.

You should determine which company you want to perform this inspection and make it a part of your offer. Otherwise the seller will choose. If you do not know which company to hire, your agent will make a recommendation.



Credit Report Guide

What Is Your Credit Score and How Is It Computed?

CreditReport.com - September 28, 2006

When it comes to your financial future, your credit score is as important as your social security number. Your three-digit credit score is a quick measurement of your creditworthiness. It is the first (and sometimes the only) factor lenders look at when deciding whether or not to grant you credit. So needless to say, if you want to secure a smooth financial future full of low interest rates, you should be aware of this important number.

The basic principle behind a credit score is this: Credit Past + Credit Present predicts Credit Future. Credit scores are calculated based on the information in your credit report, including:

- Payment history
- Amount of credit currently being used
- Amount of available credit
- Length of credit history
- Recent requests for credit

Credit scores do not take into account gender, marital status, national origin, religion or race as factors.

The calculation of a credit score involves awarding points based on certain aspects of your credit report and then comparing that value to consumers with similar financial profiles. The score weighs some parts of your credit report more heavily than others. In general, payment history contributes to 35% of a credit score, amounts owed to 30%, length of credit history to 15%, and types of credit used and new credit each contribute to 10%.

Your credit score: An elusive magical number

Fair Isaac Corporation developed the original scoring model, and the FICO score gets its name from the company initials. Since then, many other scoring models have been developed and are in use today. Some creditors even use a different scoring model for different types of credit.

While some models use the same range as Fair Isaac (300 to 850), others use a broader range (150 to 930). A “good” score using one scoring model will generally be a good score across all scoring models—but the actual number will be different. The credit score itself is not as crucial as where the number falls on the scale.

Luckily, credit scores are not carved in stone. The value of your credit score can fluctuate as your credit report changes, and sometimes it can change daily. Credit scores can also vary between the three national credit bureaus because different lenders report to different bureaus, so it’s a good idea for you to obtain a 3-in-1 credit report and credit score.

Although credit scores are important and a good gauge of your creditworthiness, a low credit score is not the end of your financial world. The best way to deal with a less than stellar credit score is to concentrate on good credit habits that will raise the number over time.

Credit Scores

How to improve your credit score

Your credit score is extremely important these days. Like your social security number, your credit score follows you wherever you go, whether it's to get a mortgage, apply for a car loan, or even to get a job. So naturally, if you know how to check your credit and if you're armed with tips on how to improve your credit score, you will be in better shape than someone who isn't.

Does your credit score seem low to you? There are some methods for improving your score listed below.

Ways to Improve Your Credit Score

1. Review your credit report for any errors and correct glitches that may not be accurate (but are still hurting your current score). You can obtain a free copy of your credit report by visiting www.CreditReport.com.
2. Refrain from opening a lot of new accounts over a short period of time, especially if your credit history is on the shorter side to begin with.
3. Pay your bills on time.
4. Don't open any credit lines you probably won't use. For example, don't open a lot of store credit cards just to get the initial 10 percent discount.
5. Instead of moving credit card balances to lower rate cards, try to pay them off. Transferring balances can change the ratio of your total credit card balances to your total available credit lines, hurting your credit score.
6. Open a few new credit accounts, use them responsibly, and make your payments on time.
7. Try to use your credit cards less. Even better, pay them off every month. The bigger the space between your total credit limits and the balance you carry, the better. Try to keep your balance below 25 percent (for example, \$2,500 if your credit limit is \$10,000).
8. Contrary to what you may have heard, don't close old, paid-off accounts. Credit companies used to advise people to close old credit cards they were no longer using. But closing these cards shortens your credit report and makes you seem less credit-worthy.
9. Avoid bankruptcy. Declaring bankruptcy is one of the worst things you can do for your credit score. It may seem like the easy way out in the short term, but over time it will cost you tons in the way of high interest rates.

Overall, keep in mind that negative items on your credit report are a lot more powerful than positive items. A late payment can affect your score in a month or two, while making payments on

time can take six to 12 months to improve your credit rating. Also remember that having too much credit can be as bad as not having enough, if your credit has been mismanaged.

What affects my credit score?

A credit score is very much like a score you would get on a test - you get points for everything positive and points taken away for everything negative.

Your credit score can range from 300 to 900 points, and like a test score, the higher your credit rating, the better. There are a number of factors that can affect your credit score positively or negatively.

Things that affect your credit score positively:

- Paying your bills on time and in full.
- Using 25 percent or less of your available credit. Ideally, you should carry a balance of no more than \$2,500 if your credit limit is \$10,000.
- Steady employment. People who are steadily employed are viewed as being better able to pay their bills on time.

Credit Reports

What is a credit report?

A consumer credit report is a factual record of your credit activities. It reports all your credit accounts and outstanding loans, the balances on your credit cards and loans, and your bill paying history. Lenders are permitted by credit report laws to check your credit report and review it in order to determine whether or not to grant you credit. In order to start to build a credit report, all you have to do is establish credit in the form of a credit card account, car loan, mortgage, or student loan. Most of the information on your credit report comes directly from the business you have accounts or outstanding loans with. When you pay your bills or fail to pay your bills, lenders usually report your credit information - good or bad - to credit report agencies.

What is in a credit report?

There are four main categories of information in your credit report:

1. Personal information: Your credit report contains information that identifies you, including the following:

- Your name
- Your social security number
- Your current address and previous addresses
- Your phone number
- Your date of birth
- Your current employer and previous employers

2. Your credit history: Your credit report includes your history of bill paying with lenders such as:

- Banks
- Mortgage companies
- Retail stores
- Finance companies

3. Inquiries: Your credit report lists the lenders and credit grantors that have requested or received your credit report. The general rule is the fewer inquiries on your credit report, the better.

4. Public records: Your credit report lists any items that may affect your credit, including:

- Court judgments, including child support judgments
- Tax liens
- Bankruptcies

Your credit report is available for public viewing by a few different types of organizations, including lenders who are considering granting you credit and government agencies who are reviewing your financial status for government benefits. In addition, potential employers may do a credit check for employment to determine whether you're financially responsible. And landlords often do a credit check for renters.

This is why it's so important for you to be aware of what your credit report says about you and your financial history. If you find errors on your credit report, you should verify those errors and then take the necessary steps to improving your credit report and credit score.

What is a 3 in 1 credit report?

While a single credit report will provide your credit information from only one of the three major credit bureaus (Experian credit bureau, Equifax credit bureau, and TransUnion credit bureau), a 3-in-1 credit report (also called a 3 agency credit report or a 3 bureau report) provides your credit history as reported by all three.

A 3-in-1 credit report lists all of your credit accounts, which allows you to quickly view how all three federal credit bureaus are reporting your credit. A 3 agency credit report also reports which credit grantors have recently viewed your credit report.

What info is in a 3 in 1 credit report?

More specifically, your 3-in-1 credit report will show you:

- Details of every credit card opened in your name
- Details of every loan opened in your name
- A complete breakdown of your payment history
- A report of all the companies that have reviewed your credit report

- A line-by-line comparison of the information on each of the credit reports from the three credit bureaus

Why is a 3-in-1 credit report better than a single bureau credit report?

The three credit bureaus (also called credit bureau agencies or credit bureau companies) are independent of each other and do not share information, so the personal and financial information that is contained in one credit check agency is not the same as the personal and financial information contained in the others; therefore, a single bureau credit report could miss important information. By obtaining a 3-in-1 credit report, you will be aware of any information a potential lender can see concerning your financial history.

Also, because up to 70 percent of credit reports contain errors of some kind, experts recommend you get a 3 bureau report to ensure all errors are captured.

Benefits of a 3-in-1 credit report

- It gives you a comprehensive look at how lenders see you
- It helps ensure the accuracy of your credit records
- It helps protect you against identity theft
- It helps complete the financing of a loan

And not only does a 3 credit bureau report give you a complete overview of your credit history, it also presents the information in a clear, easy-to-understand format. Side-by-side comparison allows you to quickly see any discrepancies in reporting between the 3 major credit bureaus.

How to Check your Credit Report

The importance of checking your credit report

Your credit report is an essential document in your financial life. Therefore, it's crucial that you become aware of what it says about you and your financial responsibility. The act of checking your credit report is as significant as the information it contains; in fact, aside from paying your

bills on time, the most important thing you can do to ensure good credit is to check your credit report on a regular basis.

The most important reason for you to get an accurate credit check is to flag any inaccuracies that could signal identity theft and/or that could be harming your credit score. Studies show that many consumer credit reports contain errors that can affect your ability to get a good interest rate on home or car loans, or even to get a job. Potential employers may do a credit check for employment to determine whether you're financially responsible. And landlords often do a credit check for renters. Errors on credit reports can be the result of anything from human error to a computer glitch to identity theft. So check credit to make sure you don't become a victim of credit report errors.

Because of all these reasons, the Federal Trade Commission recommends checking your credit report at least every few months.

How to go about checking your credit report

There are a number of ways you can check your credit report. CreditReport.com provides a service that allows you to check your credit report quickly and easily. Our service provides numerous benefits, including:

- **Online delivery:** With CreditReport.com, you can access your credit report in seconds online. And if you become a member, you can receive special promotions.
- **Credit score:** An important part of your credit report, lenders use credit scores to determine the interest rate to charge you.
- **Credit monitoring:** So you don't have to check your credit report as often, CreditReport.com provides a daily monitoring service that alerts you to any significant changes to your credit file within 24 hours. Contact one of our credit monitoring specialists at 1-800-720-4420 to find out more about this service.

Also, given the increasing threat of identity theft, you can rest assured that checking your online credit report through CreditReport.com is safe. Our website is secured by 128 bit SSL encryption technology for all personal and financial data input, meaning that if it is intercepted by a third party, it can't be read. So if you're wondering, is it safe "for me to check my credit report online?" - you can feel free to safely check credit online at CreditReport.com

And when you use CreditReport.com to do a credit check online, you can know that your request for your credit report will show up as a "soft inquiry," meaning it won't negatively affect your credit score.

Credit report errors

Studies show that a high percentage of consumer credit reports - up to 70 percent - contain errors, so you should be prepared to see some erroneous information on your credit report.

The faster you identify and rectify credit report errors, the better. Even small credit report errors can cost you big bucks - tens of thousands of dollars - in elevated interest rates over the long run. Correcting credit report errors typically results in credit scores going up 20 to 30 points, but corrections can lead to a score increase of up to 100 points or more if the error was a bankruptcy report.

If changes in your credit file are due to information that is inaccurate, disputing credit report information is an option and your right. By law, federal credit bureaus must investigate all credit report dispute information. The credit report laws also require the source of the inaccurate information (for example, a bank) to correct the error at any of the credit bureaus where they reported the false information.

Common credit report errors

- Incorrect report of a nonpayment on a loan or debt
- Misfiling by a department store regarding a credit card account
- Confusion regarding family members with the same name: For instance, Jon Smith Jr.'s irresponsible bill paying could be recorded on Jon Smith Sr.'s credit report
- Accounts opened without your approval by someone committing identity theft

What to do in response to errors in your credit report and score

- Get proof of the error: This usually comes in the form of a letter from the creditor admitting the mistake. It's best to have this letter or letters in hand when you request a re-score.

- Immediately tell the credit bureau agency in writing about any information you believe is erroneous.
- Also consider trying to correct credit report errors online. Some credit bureaus offer this service.
- Keep in mind that results aren't guaranteed - removing an error may or may not help your credit score.

If you suspect the errors on your credit report are due to identity theft or fraud, take the following steps

1. Notify the fraud divisions of all three consumer credit bureaus that you have been a victim of identity theft and ask them to put a fraud alert on your file.
2. Require that creditors get permission before opening an account in your name.
3. File a police report with your local police department.
4. Immediately close any accounts that have been fraudulently opened in your name and follow up with those lenders in writing.
5. If you suspect an identity thief opened accounts in your name by stealing your mail, notify your local postal inspector.
6. Contact the Department of Motor Vehicles if you think someone is using your name or social security number to obtain a driver's license.
7. If you suspect someone tried to use your social security number to apply for a job, contact the Social Security Administration (SSA) to verify that your name is being used correctly.
8. Contact all three major credit bureaus and request the most recent copies of your credit report. Or obtain a 3-in-one credit report from a reputable online credit check agency like CreditReport.com. Follow up every few months to make sure no additional fraudulent activity has taken place.
9. In the future, place passwords on all accounts for added security.

What is a Credit Bureau?

A credit bureau (also called a consumer credit bureau, credit bureau agency, or credit bureau company) is an agency that compiles credit information and distributes it to creditors. Credit bureaus are private profit-making companies that provide credit bureau services to credit card companies, mortgage lenders, and banks that use the information to screen potential applicants.

The credit information that credit bureaus record, which goes into consumer credit reports (also called credit profiles) includes the following data.

Information that Credit Bureaus report:

- The number of credit accounts
- The balance on those accounts

- Payment habits
- Length and place of employment

3 Major Credit Bureaus:

- Equifax
- TransUnion
- Experian (formerly TRW)

There are 3 major credit bureaus that record credit information - Equifax, TransUnion, and Experian. If you order a single bureau credit report, you receive the information recorded by one of these three major credit bureaus. If you order a 3 bureau online credit report, you get a compilation and comparison of the information gathered and reported by all three major credit bureaus. The job of a national credit bureau is to collect and sell credit information. Part of this job includes collecting whatever information the credit bureau feels is relevant to a person's credit habits and history.

Credit bureaus do not make decisions as to whether or not a specific person should be extended credit. Instead, it works like this: A prospective creditor approaches a national credit bureau to inquire about a particular person's credit, and they are sold a credit report containing all the financial information relevant to the person along with the credit score calculated by the credit bureau. From there, the prospective creditor uses that information to decide whether to extend the credit applicant credit or not.

Credit bureaus are guided and regulated by the Fair Credit Reporting Act (FCRA). The FCRA requires credit bureau services to provide complete and correct information to potential lenders when evaluating your credit application. Under the FCRA, you have the right to the following:

- To have all the information in your consumer credit report, including the sources of the information
- To know the name of anyone who received your credit report in the last year
- To obtain a free copy of your online credit report when your application is denied due to information supplied by a credit bureau
- To add a 100-word explanation to your credit report if the problem is not resolved to your satisfaction by the credit bureau

What information is on a credit report?

A credit report contains a list of all your credit activities, including your credit accounts, outstanding loans, credit card balances, and bill paying history, as well as some personal information. Most of the information on your credit report comes from the businesses you have outstanding loans or accounts with, including banks, mortgage companies, and credit card companies. Lenders usually report your credit information - good or bad - to credit bureaus.

Credit Report Information

More specifically, there are four main categories of information in your credit report.

1. Personal information

Your credit report contains personal information about you, including:

- Your name
- Your social security number
- Your date of birth
- Your phone number
- Your current employer and previous employers
- Your current address and previous addresses

2. Credit history

Your credit report includes your history of bill paying to lenders such as

- Banks
- Retail stores
- Finance companies
- Mortgage companies

3. Credit Report Inquiries

Your credit report lists the credit grantors and lenders that have requested to see your credit report. Requests to see your credit report from potential lenders are referred to as "hard inquiries," while your own requests to see your credit report are called "soft inquiries." The general rule is the fewer hard inquiries on your credit report, the better your credit score. Soft credit report inquiries do not affect your credit score; therefore, you can check your credit report as often as you'd like.

4. Public records

Any item that may affect your credit will be listed on your credit report. These items include

- Bankruptcies
- Tax liens
- Court judgments



*Mortgage
Terminology*

Mortgage Terminology

203(b): FHA program which provides mortgage insurance to protect lenders from default; used to finance the purchase of new or existing one- to four-family housing; characterized by low down payment, flexible qualifying guidelines, limited fees, and a limit on maximum loan amount.

203(k): this FHA mortgage insurance program enables homebuyers to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage loan.

Adjustable Rate Mortgage (ARM): a mortgage loan subject to changes in interest rates; when rates change, ARM monthly payments increase or decrease at intervals determined by the lender; the change in monthly payment amount, however, is usually subject to a cap.

Amenity: a feature of the home or property that serves as a benefit to the buyer but that is not necessary to its use; may be natural (like location, woods, water) or man-made (like a swimming pool or garden).

Amortization: repayment of a mortgage loan through monthly installments of principal and interest; the monthly payment amount is based on a schedule that will allow you to own your home at the end of a specific time period (for example, 15 or 30 years).

Annual Percentage Rate (APR): calculated by using a standard formula, the APR shows the cost of a loan; expressed as a yearly interest rate, it includes the interest, points, mortgage insurance, and other fees associated with the loan.

Application: the first step in the official loan approval process; necessary to the underwriting process, this form is used to record important information about the potential borrower.

Appraisal: a document that gives an estimate of a property's fair market value; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

Appraiser: a qualified individual who uses his or her experience and knowledge to prepare the appraisal estimate.

ARM: See Adjustable Rate Mortgage.

Assessor: a government official who is responsible for determining the value of a property for the purpose of taxation.

Assumable mortgage: a mortgage that can be transferred from a seller to a buyer; once the loan is assumed by the buyer the seller is no longer responsible for repaying it; there may be a fee and/or a credit package involved in the transfer of an assumable mortgage.

Balloon mortgage: a mortgage that typically offers low rates for an initial period of time (usually 5, 7, or 10) years; after that time period elapses, the balance is due or is refinanced by the borrower.

Bankruptcy: a federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay.

Borrower: a person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms.

Building Code: based on agreed-upon safety standards within a specific area, a building code is a set of regulations that determines the design, construction, and materials used in building.

Budget: a detailed record of all income earned and spent during a specific period of time.

Cap: a limit, such as that placed on an adjustable rate mortgage, on how much a monthly payment or interest rate can increase or decrease.

Cash Reserves: a cash amount sometimes required to be held in reserve in addition to the down payment and closing costs; the amount is determined by the lender.

Certificate of Title: a document provided by a qualified source (such as a title company) that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims.

Closing: also known as settlement, this is the time at which the property is formally sold and

transferred from the seller to the buyer; it is at this time that the borrower takes on the loan obligation, pays all closing costs, and receives title from the seller.

Closing costs: customary costs above and beyond the sale price of the property that must be paid to cover the transfer of ownership at closing; these costs generally vary by geographic location and are typically detailed to the borrower after submission of a loan application.

Condominium: a form of ownership in which individuals purchase and own a unit of housing in a multi-unit complex; the owner also shares financial responsibility for common areas.

Conventional Loan: a private sector loan, one that is not guaranteed or insured by the U.S. government.

Cooperative (Co-op): residents purchase stock in a cooperative corporation that owns a structure; each stockholder is then entitled to live in a specific unit of the structure and is responsible for paying a portion of the loan.

Credit History: history of an individual's debt payments; lenders use this information to gauge a potential borrower's ability to repay a loan.

Credit Report: a record that lists all past and present debts and the timeliness of their repayment; it documents an individual's credit history.

Credit Bureau Score: a number representing the possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan.

Debt-to-Income Ratio: a comparison of gross income to housing and non-housing expenses; with the FHA, the monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income.

Deed: the document that transfers ownership of a property.

Credit Bureau Score: a number representing the possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan.

Deed-in-Lieu: to avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process doesn't allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure.

Default: the inability to pay monthly mortgage payments in a timely manner or to otherwise meet the mortgage terms.

Delinquency: failure of a borrower to make timely mortgage payments under a loan agreement.

Discount Point: normally paid at closing and generally calculated to be equivalent to 1% of the total loan amount, discount points are paid to reduce the interest rate on a loan.

Down Payment: the portion of a home's purchase price that is paid in cash and is not part of the mortgage loan.

Earnest Money: money put down by a potential buyer to show that he or she is serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal.

EEM: Energy Efficient Mortgage; an FHA program that helps homebuyers save money on utility bills by enabling them to finance the cost of adding energy efficient features to a new or existing home as part of the home purchase.

Equity: an owner's financial interest in a property; calculated by subtracting the amount still owed on the mortgage loan(s) from the fair market value of the property.

Escrow account: a separate account into which the lender puts a portion of each monthly mortgage payment; an escrow account provides the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

Fair Housing Act: a law that prohibits discrimination in all facets of the homebuying process on the basis of race, color, national origin, religion, sex, familial status, or disability.

Fair Market Value: the hypothetical price that a willing buyer and seller will agree upon when they are acting freely, carefully, and with complete knowledge of the situation.

Fannie Mae: Federal National Mortgage Association (FNMA); a federally-chartered enterprise owned by private stockholders that purchases residential mortgages and converts them into securities for sale to investors; by purchasing mortgages, Fannie Mae supplies funds that lenders may loan to potential homebuyers.

FHA: Federal Housing Administration; established in 1934 to advance homeownership opportunities for all Americans; assists homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional mortgages.

Fixed-Rate Mortgage: a mortgage with payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change.

Flood Insurance: insurance that protects homeowners against losses from a flood; if a home is located in a flood plain, the lender will require flood insurance before approving a loan.

Foreclosure: a legal process in which mortgaged property is sold to pay the loan of the defaulting borrower.

Freddie Mac: Federal Home Loan Mortgage Corporation (FHLM); a federally-chartered corporation that purchases residential mortgages, securitizes them, and sells them to investors; this provides lenders with funds for new homebuyers.

Ginnie Mae: Federal Home Loan Mortgage Corporation (FHLM); a federally-chartered corporation that purchases residential mortgages, securitizes them, and sells them to investors; this provides lenders with funds for new homebuyers.

Good faith estimate: an estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.

HELP: Homebuyer Education Learning Program; an educational program from the FHA that counsels people about the homebuying process; HELP covers topics like budgeting, finding a home, getting a loan, and home maintenance; in most cases, completion of the program may

entitle the homebuyer to a reduced initial FHA mortgage insurance premium -- from 2.25% to 1.75% of the home purchase price.

Home Inspection: an examination of the structure and mechanical systems to determine a home's safety; makes the potential homebuyer aware of any repairs that may be needed.

Home Warranty: offers protection for mechanical systems and attached appliances against unexpected repairs not covered by homeowner's insurance; coverage extends over a specific time period and does not cover the home's structure.

Homeowner's Insurance: an insurance policy that combines protection against damage to a dwelling and its contents with protection against claims of negligence (inappropriate action that results in someone's injury or property damage).

Housing Counseling Agency: provides counseling and assistance to individuals on a variety of issues, including loan default, fair housing, and homebuying.

HUD: the U.S. Department of Housing and Urban Development; established in 1965, HUD works to create a decent home and suitable living environment for all Americans; it does this by addressing housing needs, improving and developing American communities, and enforcing fair housing laws.

Index: a measurement used by lenders to determine changes to the interest rate charged on an adjustable rate mortgage.

Inflation: the number of dollars in circulation exceeds the amount of goods and services available for purchase; inflation results in a decrease in the dollar's value.

Interest: a fee charged for the use of money.

Interest Rate: the amount of interest charged on a monthly loan payment; usually expressed as a percentage.

Insurance: protection against a specific loss over a period of time that is secured by the payment of a regularly scheduled premium.

Judgment: a legal decision; when requiring debt repayment, a judgment may include a property lien that secures the creditor's claim by providing a collateral source.

Lease Purchase: assists low- to moderate-income homebuyers in purchasing a home by allowing them to lease a home with an option to buy; the rent payment is made up of the monthly rental payment plus an additional amount that is credited to an account for use as a down payment.

Lien: a legal claim against property that must be satisfied when the property is sold.

Loan: money borrowed that is usually repaid with interest.

Loan Fraud: purposely giving incorrect information on a loan application in order to better qualify for a loan; may result in civil liability or criminal penalties.

Loan-to-value (LTV) ratio: a percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment.

Lock-In: since interest rates can change frequently, many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time.

Loss Mitigation: a process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan.

Margin: an amount the lender adds to an index to determine the interest rate on an adjustable rate mortgage.

Mortgage: a lien on the property that secures the promise to repay a loan.

Mortgage Banker: a company that originates loans and resells them to secondary mortgage lenders like Fannie Mae or Freddie Mac.

Mortgage Broker: a firm that originates and processes loans for a number of lenders.

Mortgage Insurance: a policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for

borrowers with a down payment of less than 20% of the home's purchase price.

Mortgage Insurance Premium (MIP): a monthly payment, usually part of the mortgage payment, paid by a borrower for mortgage insurance.

Mortgage Modification: a loss mitigation option that allows a borrower to refinance and/or extend the term of the mortgage loan and thus reduce the monthly payments.

Offer: indication by a potential buyer of a willingness to purchase a home at a specific price; generally put forth in writing.

Origination: the process of preparing, submitting, and evaluating a loan application; generally includes a credit check, verification of employment, and a property appraisal.

Origination fee: the charge for originating a loan; is usually calculated in the form of points and paid at closing.

Partial Claim: a loss mitigation option offered by the FHA that allows a borrower, with help from a lender, to get an interest-free loan from HUD to bring mortgage payments up to date.

PITI: Principal, Interest, Taxes, and Insurance - the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan, while the portion that covers taxes and insurance (homeowner's and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.

PMI: Private Mortgage Insurance; privately-owned companies that offer standard and special affordable mortgage insurance programs for qualified borrowers with down payments of less than 20% of a purchase price.

Pre-Approve: lender commits to lend to a potential borrower; commitment remains as long as the borrower still meets the qualification requirements at the time of purchase.

Pre-Foreclosure Sale: allows a defaulting borrower to sell the mortgaged property to satisfy the loan and avoid foreclosure.

Pre-Qualify: a lender informally determines the maximum amount an individual is eligible to borrow.

Premium: an amount paid on a regular schedule by a policyholder that maintains insurance coverage.

Prepayment: payment of the mortgage loan before the scheduled due date; may be subject to a prepayment penalty.

Principal: the amount borrowed from a lender; doesn't include interest or additional fees.

Radon: a radioactive gas found in some homes that, if occurring in strong enough concentrations, can cause health problems.

Real Estate Agent: an individual who is licensed to negotiate and arrange real estate sales; works for a real estate broker.

Realtor: a real estate agent or broker who is a member of the NATIONAL ASSOCIATION OF REALTORS, and its local and state associations.

Refinancing: paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate).

Rehabilitation Mortgage: a mortgage that covers the costs of rehabilitating (repairing or improving) a property; some rehabilitation mortgages - like the FHA's 203(k) - allow a borrower to roll the costs of rehabilitation and home purchase into one mortgage loan.

RESPA: Real Estate Settlement Procedures Act; a law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships.

Settlement: another name for closing.

Special Forbearance: a loss mitigation option where the lender arranges a revised repayment plan for the borrower that may include a temporary reduction or suspension of monthly loan payments.

Subordinate: to place in a rank of lesser importance or to make one claim secondary to another.

Survey: a property diagram that indicates legal boundaries, easements, encroachments, rights of way, improvement locations, etc.

Sweat Equity: using labor to build or improve a property as part of the down payment.

Title 1: an FHA-insured loan that allows a borrower to make non-luxury improvements (like renovations or repairs) to their home; Title I loans less than \$7,500 don't require a property lien.

Title Insurance: insurance that protects the lender against any claims that arise from arguments about ownership of the property; also available for homebuyers.

Title search: a check of public records to be sure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property.

Truth-in-Lending: a federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan.

Underwriting: the process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower's credit history and a judgment of the property value.

VA: Department of Veterans Affairs; a federal agency which guarantees loans made to veterans; similar to mortgage insurance, a loan guarantee protects lenders against loss that may result from a borrower default.

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