UNDERSTANDING MORTGAGES

A GUIDE FOR FIRST TIME HOME BUYERS

CALIFORNIA MORTGAGE ADVISORS

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UNDERSTANDING MORTGAGES

Thank you for downloading our **Understanding Mortgages** kit. Here's a preview of what you will find:

- The Mortgage Process – clearly explained
- Your Credit Report – What it is & how to improve it
- Getting Prequalified
- How Interest Rates Work
- A Glossary of Terms for the Mortgage Industry!

Call California Mortgage Advisors today and have an Expert Loan Officer explain the mortgage process to you today!

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Stop Renting! Why Pay Someone Else's Mortgage?

Moving into your first apartment is a rite of passage. As a stop-over, it's fine. But the bottom line is that when you're renting, you're paying someone else's mortgage. If you're paying $2,500 a month in rent – a reasonable amount – you're spending $30,000 a year on rent. In just 2 years, that's $60,000 in someone else's pocket, with nothing to show for it on your end. All that money paid out, and no equity built up for you. As a first time home buyer, you may have a few questions and concerns before you decide to make the jump from renting into ownership.

Are my payments tax deductible?

Yes - some portion of your payments is usually deductible; how much of a break you get on your taxes will vary depending on certain factors. However the IRS has laid out solid rules. The agency also offers tax publications full of helpful information. Publication 530 "Tax Information for First−Time Homeowners" is thorough. Also consider Publication 936, "Home Mortgage Interest Deduction." For quick reference, you can refer to Tax Topics 505 "Interest Expense" and 504 "Home Mortgage Points." These publications often refer to local and state guidelines, so you should talk to a CPA to answer all the questions that arise from reading these materials. Here are some basics:

• Property taxes on a primary residence are deductible. You can pay Real Estate taxes at settlement or closing, or through an escrow account.

• Pre−paid interest is deductible for the year you pay it. At the close of a real estate transaction, borrowers usually pay for the interest on their loan that falls between the closing period and the first of the next month. Mortgage payments are made "in arrears" so when a loan is closed mid−month, there is interest due to the new lender which must be paid in advance.

• If you use the loan to buy, build or improve a home the interest is deductible. Your lender will provide you with a Mortgage Interest Statement (Form 1098) to list the total interest paid during the year. This should include any deductible points paid for that year.

• Interest on a construction loan is deductible if you're building your home. The construction period cannot exceed 24 months prior to the date that you move in if you claim this as your primary residence.

Most buyers find owning a home to be beneficial from a tax perspective. Consult with you accountant and see how much you could benefit!

I'm not sure I can afford to buy a house right now.

Many loan programs out there right now offer options for low down payments. Some programs offer 100% financing. Other programs allow gift money as a down payment. Sometimes a seller is willing to make a contribution to your purchase if they want to sell quickly. There are many benefits to owning a home. Speak with a mortgage professional here at California Mortgage Advisors to talk about the benefits, and how we can help **you go from paying a landlord's mortgage**, ***<u>to</u> creating your own equity***.

<u>A First Time Home Buyers Guide to the Mortgage Process</u>

First – Connect with an experienced mortgage professional at CMA! Having a lender on your side will help determine the best financing options for you. When you get pre-approved for a home mortgage loan you get 2 benefits. First, you'll know how much house you can afford. Second, you increase your negotiating power as you're seen as a preferred buyer.

House Hunting – This is where you begin to shop around for a home. When you find the house you want, you'll negotiate the sale. This includes how much you pay for the house, and possibly the terms of the home mortgage loan.

Applying for a Loan – It's essential to give your lender all of the required information. Try to be as accurate as you can, including disclosing all outstanding debt, income and any assets you have in your financial portfolio. Prepare and provide all the proper paperwork. This includes things like pay stubs, tax returns (2 years' worth) and account statements. The information will show where you're getting your down payment, closing costs and any reserve funds you may have.

Home Appraisal & Inspections – An appraisal protects you and the lender. It's required, but it also helps to keep you from paying too much for the home. We encourage inspections for things like termites and water damage. The seller may need to figure out how to make some repairs before you can complete the sale.

Title History Search – A title search shows any liens against the property. Liens get placed on properties to make sure the owner pays off outstanding debt. Any and all liens must be settled before the deal is done and the home is sold.

Loan Application Reviews – First there's the Processor's Review. A processor will package all of the important information from your loan, and make sure it's correct. He or she will include any needed explanations on items like derogatory debt. This person sends the loan package to a lending underwriter. Next is the Underwriter's Review. Based on the information from your mortgage professional, the underwriter makes the final decision whether your loan gets approval.

Adjustment Approval, Denial, Counter Offer – Here is where financial adjustments may be made. The lender may ask you to put more money down to improve your debt-to-income ratio. You may also need a bigger down payment if the property is worth less than what the seller is asking.

Homeowner's Insurance – You will need fire and hazard insurance on the replacement value of the structure. Flood insurance is required if the property is in a local flood zone. It's like having car insurance before you buy a new vehicle.

The End is Near – Now it's time to wrap things up. Signing is where the final loan papers get signed. Funding is when the lender sends a wire or check for the amount of the loan to the title company. Closing comes when the County Recorder officially records all documents transferring the title.

Time to Celebrate – Break out the bubbly, ***you're a homeowner now!***

How Does a First Time Home Buyer Plan a Mortgage?

Making the switch from renter to owner can be daunting. So where do you start? Let's begin with finding a trustworthy adviser.

Why A Professional Mortgage Consultant is Beneficial

Managing your mortgage begins in earnest with choosing the right lender. The mortgage experts at CMA have one goal in mind: to find the right loan for you. We want to find the home mortgage loan that aligns best with you and your long term goals. That's just the beginning. Out team will monitor rates on your behalf, and stay in touch with you to make sure we stay on target with your financial goals. Lenders who provide this kind of service are few and far between.

Buying Power

Let's look at the difference between prequalification and pre-approval.

• Pre-qualification begins your mortgage loan search. We take a snapshot of your financials including income, existing debt, savings, and length of employment. We look at this information and decide your loan eligibility.

• Pre-approval goes a step further. It means an underwriter has reviewed your loan application, and gives you an amount you're eligible for based on income, debt ratio and savings. It basically proves, with written documentation, that you have the support of a lender who will back you.

The great thing about pre-approval is that you will have leverage to shop as a cash buyer. You have the power to negotiate. Sellers will take your offer more seriously knowing a lender has approved you. Full credit approval can save you more than 10% on a sale price.

What about monthly payments?

How much you will pay per month will depend on which loan program you choose. We'll take the time to go over all of your choices to narrow it down. Our mortgage experts compare different loan programs to see which one meets your goals now, and in the future. Then you get to pick the one you feel comfortable with before you make that offer. It's this face time that helps set you up to succeed in becoming a homeowner.

How much will pre-approval cost?

Pre-approval is complimentary! Get in touch with us to begin the mortgage pre-approval process.

It's Time to Find the Right Mortgage for You

Landing **your mortgage loan**, the one that fits you and your plans, should be easy. Borrow money, buy a house.
However, all of the options can make it a murky search. You have hundreds of options at your disposal. Here are a few examples:

- Fixed Rate Mortgage
- Adjustable Rate Mortgage
- FHA, VA or RD (Rural Development) loans
- 203k Rehabilitation and Renovation Loans Plus, mortgage loans interest rates vary greatly. You can also finance up to 100% of the value of your house, and in some cases, the closing costs. With so many choices, it's important to find an experienced mortgage professional who takes your best interests to heart. This person will act as a trusted adviser to sift through all of the options to find **your mortgage loan**. One of the first and most important steps you can take is to ask yourself a few important questions. They will also help point you in the right direction of the mortgage professional who's right for you. He or she should ask you the same questions before trying to put any mortgage in place.
- How long do you plan to stay in this house?
- Do you plan on any changes in the next few years like expanding your family or sending kids to college?
- What about your income: can you foresee changes from promotions, relocations, retirement or inheritance?
- Would you rather reserve your assets by raising the loan amount to reduce your cash to close?
- What's more important to you – a low interest rate or the monthly payment?

These questions are important because different loan programs benefit people differently, depending on their stages of life. When all is said and done, figure out how long the loan will be around and how much it will cost you during that time. This plan covers the big picture and gives you an idea on meeting your financial goals.
Plus it allows for any tweaks over time to help meet those goals.

As you look for **your mortgage loan** that fits your life, make sure you evaluate your choices carefully and consider how they fit with your long term financial plan. Take time to consider the questions above then let me know how I can help.

Call for a complimentary consultation. Together, we'll find the right program for you.

I Want to Apply for a Loan. What Do Lenders Want to Know?

First time home buyers ask great questions when it comes to getting a home mortgage loan. One we hear often, in some fashion, is "what does the lender want to know about me?" The bottom line we need to know is whether you can pay back the loan you want. You can prove this through your financial history. The big picture will include job stability, credit history and savings habits. The same holds true for any co-borrowers you may have.

Some clients have to re-apply.

When the underwriting process brings up questions and concerns, the underwriter may say no the first time through. The underwriter may require you to make some changes before approving you for the mortgage loan.

How you can help streamline the process.

Getting pre-approval before you look for your new home tells you just how much buying power you have. Pre-approval begins with a close look at your financial situation. Before getting a home mortgage loan, it's helpful to have a consistent record of timely bill paying. Make sure your credit cards are getting paid, and your other bills are current. Then we'll look at your debt-to-income ratio. DTI takes into account how much money you make, and how much debt you have. Once we know that, we work to find out your comfort level when it comes to a monthly payment. This payment includes the principal, interest, taxes and insurance. So it's important to have this information, not just the purchase price of the home. We also help plan any closing costs that may come with the loan. Even with 100% financing, you may need to have cash in hand for closing costs.

Life events like recent job changes.

Consistency is one of the most important things to a lender. A stable work history shows that you're not a risky borrower. However, lenders take into account that "life happens." Things like college graduation or a military discharge will mean a lack of work history, and that's workable. Also, seasonal workers and the self-employed have options available. And contract and freelance workers will need to show around 2 years of consistent income documented by tax returns.

Many options are available.

From conventional loans to FHA to Rural Development and 203k loans, you have a lot of options to finance your home. Having a mortgage professional in your corner will open your eyes to a wide variety of choices. Let us help you find the right home mortgage loan for you, and turn you into a first time home buyer.

4 Keys to Keep in Mind While Securing Your Home Mortgage Loan

Maintaining a stable and consistent financial profile during any loan process shows a lender you're a good candidate. Lenders want to see these qualities in you while you're working on a home mortgage loan. So once your loan package is on its way to that lender, you'll want to keep some things in mind until after you're approved. These 3 things will help keep you in the running for the best interest rate.

• Avoid major purchases. Major purchases with significant price tags will tip the scales against you. Getting that new house may inspire you to look for new appliances. Wait on that shopping trip. Don't celebrate with new jewelry or a vacation either. We'll take a look at a concrete example. Buying or leasing a car can dramatically impact your debt-to-income ratio. You can lose around $30,000 in mortgage buying power simply by having a $350 car payment. So even if you feel like there's room in your budget, hold off until after you're approved.

• Have proof of your down payment source. Lenders love paper trails. You'll likely have to show proof of your liquid assets. The lender may ask for checking and savings account statements, a hard copy of your investments, and any other liquid assets. You may also have to show canceled checks or deposit records to meet certain conditions. Avoid moving money between accounts and make sure you can easily document your paper trail.

• Changing jobs. Changing to increase income is a good thing. However, a work history with gaps and erratic movement sends up a red flag for lenders. A 2-year track record with consistent overtime and bonuses is definitely favorable. Keep in mind, when you change jobs you may not know whether the next employer will pay overtime. Some don't pay overtime, or may work it out differently than your current job. Another scenario is starting your own company. Becoming a start up may have to wait until after your loan is approved.

• Keep paying your bills. Continue to pay your bills on time. A dip in your credit score could drive your interest up.

Does My Credit Score Affect My Mortgage Interest Rate?

Your credit score will determine the interest rates you end up with when buying a home. In general, a higher score means you're a lower risk. Lower risk means you're more likely to pay off your debt. In the same vein, lower scores lead to higher interest rates. Do you fall into this category? Don't worry, all is not lost. You have some options and actions you can take to adjust your credit score.

Closing old, unused accounts

• Do not close old accounts you don't use anymore. Part of your score is based on credit history. So even if you don't use those old cards, they still show your history of credit and payments. Instead of closing the cards down, you can use them to shift debt and keep it even across accounts. Try to keep balances as close to zero as you can. A good number to keep in mind for debt, is 30% of the limit. One way you can maintain that percentage is ask the credit card company to increase your limit. This will reduce the debt ratio right away. Be careful though. Don't spend on your new limit. That would put you in the same boat as before.

• Married couples with separate credit card accounts can transfer debt from one card to another to clear up issues with the spouse in question. The person with clean credit can take the "sole borrower" title on the loan, while keeping the home in both names.

Errors on your credit report

• If you have something on your credit report less than two years old, send in your payment if you can and mark the back of the check with this notation: "this check is evidence that the transaction is complete and this charge will be deleted from my credit report." If necessary, this canceled check can work as proof that the item should be removed from your credit report if it interferes with the closing of the loan.

• If you see something on your credit report that you know you paid off, ask the credit bureau to remove it. The bureau has an obligation to take of it within 30 days.

Past due balances and charges

• Paying off old past-due balances is generally a good idea, but there's a nuance to this. Look at the dates on these items. Anything more than two years old has little effect, if any, on your credit score. As odd as it sounds, paying off delinquent items that old can actually bring your score down. Dealing with credit reports and your credit score can seem like a daunting task. The mortgage experts at California Mortgage Advisors have pored over too many credit reports to count. Let us help you figure out the best route to take to make sure you get the right home mortgage loan for you. We even offer a complimentary consultation to help get you started.

How to Understand Your Credit Report

A credit bureau does not track all aspects of your personal life. A credit bureau does not evaluate credit applications. Credit bureaus are simply organizations that collect and transmit four principal types of information.

What a Credit Report Covers

Identification and Employment Date: Your name, birth date, address, Social Security number, employer and spouse's name are routinely noted. The bureau also may provide other information, such as your employment history, home ownership, income and previous address, if a creditor requests it.

Payment History: Your account record with different creditors is listed, showing how much credit has been extended and how you have repaid it. Related events, such as referral of an overdue account to a collection agency, may be noted as well.

Inquiries: Credit bureaus are required to maintain a record of all creditors who have requested your credit history within the past six months. They normally include such creditor inquiries in your credit file for at least this long.

Public Record Information: Events that are a matter of public record and are related to your credit worthiness, such as bankruptcies, foreclosures, or tax liens, may also appear in your report.

What a Credit Report Looks Like:

To help you understand your own credit report, a full page of a sample composite credit report is included. It is the basic format used by credit bureau members of Associated Credit Bureaus, Inc., a national trade association of credit bureaus and collection services. Other credit bureaus use somewhat different formats, but provide the same basic information. When you examine this sample credit report, you will find that most of the important information is self-explanatory. For example, the top half of the page is background information such as name, the date of the credit report, and the credit report number. However, under the heading "Credit information about you," there are a few items that may be puzzling. For example, in the first column, the numbers 1, 2, 3 indicate who may use and who pays for the credit account. The "1" indicates an individual account-the person named on the file has sole use and responsibility for payment of the account. The "2" indicates a joint account-two people use the account and each is liable for payment. The "3" indicates a user account-one person is authorized to use the account, while the other person, who also may use it, is liable for payment.

In the second column, the sources/lenders and partial account numbers are listed, so that you and the credit bureau can identify the creditor. The third and fourth columns, respectively, indicates the dates the accounts were opened and the date of the last report to the credit bureau.

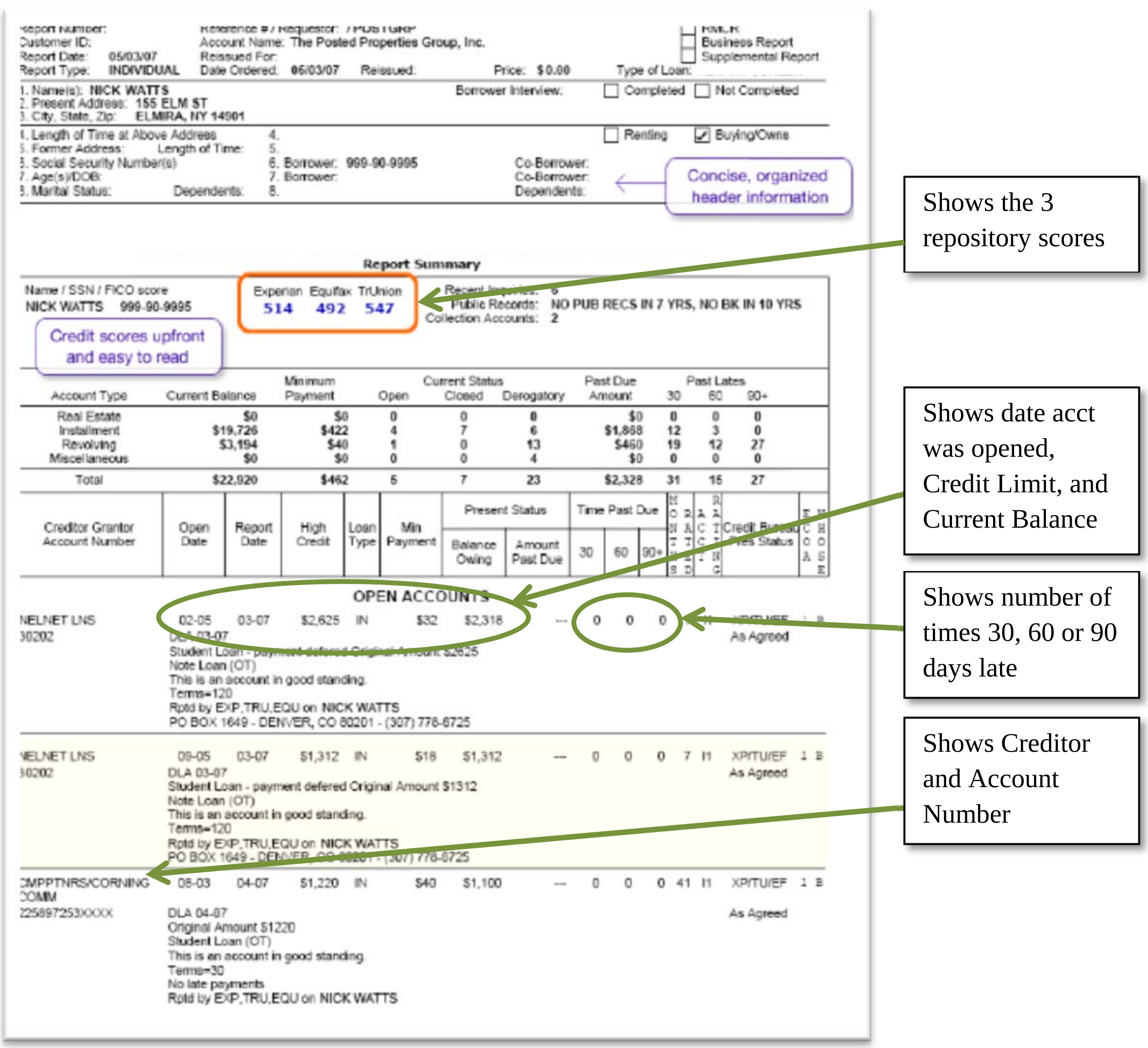
In the fifth column, the words "Installment," "Revolving," and "Open 30-days" refer to types of payment arrangements. In an actual report, the initials "I," "R" or "O" would be used.

• In an installment credit agreement, a consumer signs a contract to repay a fixed amount of credit in equal payments over a specified period of time. Automobiles, furniture, and major appliances are often purchased on an installment basis. Personal loans are usually repaid in installments as well.

• In a revolving credit agreement, a consumer has the option of paying in full each month or of making a minimum payment based on the amount of the balance outstanding. Department stores, gas and oil companies, and banks typically issue credit cards based on a revolving credit plan.

• In an open 30-day agreement, a consumer promises to repay the full balance owed each month. Travel-and-entertainment charge cards and charge accounts with local businesses often require repayment on this basis. The sixth and seventh columns, respectively, indicate your credit limit, high balance and most recent balance. The last column on the chart, "Comments," indicates an account that is past due, open or closed, and whether a payment has ever been late.

SAMPLE CREDIT REPORT



How to Improve Your Credit Report

It is important to know what you can do to change information that is reported about your past credit history. It is also important to know what cannot be done. The first two parts of this section tell you what courses of action are available to you when you spot errors or omissions in your credit report. This third part of this section explains how time and three special circumstances affect your credit report, and when you can ask for negative information to be removed.

How to Correct Errors

Your credit file may contain errors that can affect your chances of obtaining credit in the future. Under the Fair Credit Reporting act, you are entitled to have incomplete or inaccurate information corrected without charge. If you dispute information in your report, the credit bureau must reinvestigate it within a “reasonable period of time” unless it believes the dispute is “frivolous or irrelevant.” To check on the accuracy of a disputed item, the credit bureau will ask the creditor in question what its records show. If the disputed item is on the public record, the credit bureau will check there instead. If a disputed item cannot be verified, the credit bureau would have to delete them. If it showed that you were late in making payments but failed to show that you’re no longer delinquent, the credit bureau would have to add information to show that your payments are now current. Also, at your request, the credit bureau must send a notice of the correction to any creditor who has checked your file in the past six months.

Your credit file may not contain information on all of the accounts you have with creditors. Although most national department stores and all-purpose bank credit card accounts will be included in your file, not all creditors supply information to credit bureaus. For example, some travel-and-entertainment and gasoline card companies, local retailers and credit unions do not report to credit bureaus.

How Time Affects Your Credit Report

Under the Fair Credit Reporting Act, credit bureaus can report most negative information for no more than seven years. The seven-year period runs from the date of the last regularly scheduled payment that was made before the account became delinquent, unless the creditor later took action on the account, such as charging it off or obtaining a judgment for the amount due. If a creditor took such an action, the seven years would run from the date of that event. For example, if a retailer turned over your past-due account to a collection agency in 1998, a credit bureau may report this event until 2005. You should be aware that if you made a payment after 1998 on this account, your action would not extend the permissible reporting period beyond 2005. There are exceptions to the seven-year rule. Bankruptcies may be reported for 10 years. Also, any negative credit history information may be reported indefinitely in three circumstances:

- If you apply for $50,000 or more in credit
- If you apply for a life insurance policy with a face amount of $50,000 or more.
- If you apply for a job paying $20,000 or more (and the employer requests a credit report in connection with the application).

You can contact the credit bureau if you believe the negative information is being reported beyond the permitted period and ask that it be removed.

What is the Federal Reserve and How Does it Affect My Mortgage Rate?

Let's take a quick look at what causes home mortgage loan interest rates to fluctuate. The Federal Reserve (or The Fed) always monitors our country's economy. The Fed is the central banking system of the United States. The Board of Governors (appointed by the President of the U.S.) monitors the financial world and takes steps when necessary to address concerns on inflation. It also works to avoid economic recession, and even depression. What convolutes the scenario is everything we read and hear from the media around us. Mass media weighs in on The Fed's decisions with commentary and opinions. The question remains: how does The Fed affect mortgage loan interest rates? The simple answer: not directly. The Prime rate is not under The Fed's control directly. However, the actions of The Fed make a difference. Mortgage-backed securities actually predict mortgage interest rates. Those securities are like bonds and trade daily. Therefore, competition between stocks and bonds on the open market directly affects home mortgage loan interest rates.

Here's a closer look at how the stock versus bond fight affects your potential interest rate. Every day mortgage-backed securities compete with stocks and bonds for the same investment dollars. When The Fed drop interest rates to boost the economy, it often leads to a **stock** market rally. That's a **bull market** and money used for stock investment comes from selling off other investments like mortgage-backed securities. This causes mortgage interest rates to climb.

On the other side, when The Fed decides interest rates need to go up, it often creates concern that corporate profits will take a hit. In this instance, investors sell of stocks and look for a place to put their money until the next stock rally. This is called the bear market. One common place during this investment holding pattern is mortgage-backed securities. This flood of money causes home mortgage loan interest rates to come back down.

Keeping an eye on this daily market activity in the short-term and long-term is all part of what a good mortgage professional does. Our teams at California Mortgage Advisors constantly stay involved in market news and activity. We know it's important to our clients, current and future. Let us know if you're concerned about when it's the right time to become a first time home buyer, or whether it's time to refinance your current mortgage.

We can help you decide what's best for you.

What Does it Mean to Lock an Interest Rate?

Interest rates fluctuate constantly on the open market. There are several reasons this happens, but the bottom line is that several factors can also cause home mortgage loan rates to go up or down daily. So it's never a good idea to gamble with these rates. It could mean a big difference in what you pay over the life of a mortgage.

The idea at California Mortgage Advisors is to encourage our clients to lock in an interest rate as early as possible. That hopefully leads to the best experience possible for you during the mortgage loan process. In fact, we cannot close your mortgage without a locked in rate. Let's look at the main elements we will have to consider together.

Interest Rate

First, there's the actual **interest rate**. These rates deal in fractions of percentages. Sometimes rates can jump or fall by an entire percentage point. By locking the rate, you get a guarantee of that interest rate.

Length of the Lock

Second, we look at the **length of the lock**. This is the length of time between locking your interest rate and closing your loan. During this time the seller is taking care of his or her issues, and you're getting your loan processed. Rate locks typically run as a 30-day, 45-day or 60-day lock periods. Your loan officer will work with you to determine the most appropriate lock period for you.

Fees or Points

This takes us to point three, **fees or points**. You may decide to pay points to lower your interest rate. Your mortgage professional will go over your options with you to help figure out whether bringing in extra cash at closing to lower the interest rate makes sense for your situation. Extending your lock period will cost you more, increasing your cash to close. Be sure to respond to your loan officers requests for information or documents in a timely manner. This will help ensure your rate lock period will not need to be extended.

Keep in mind, locking in a rate does not obligate you to commit to the loan until it's actually closed. Locking your rate is a security measure to protect you against market ups and downs during your loan process. It is part of a standardized process we have in place to make sure you have the best possible experience securing your home mortgage loan.

Knowing your needs during the loan process and working side by side with you will help ensure you get the best rates possible, keeping you on your financial path. Our team at CMA has done this time and time again, and we're ready to do this for you.

What is an Appraisal and Why Do I Need One?

The appraisal process can seem confusing or daunting. What is it and why do I need one; it's a question we hear from time to time, especially in a volatile market.

An appraisal is a report which states the value of the home based on the sales price of similar homes in the area in the last 6 months. Appraisers will sometimes use pending sales to help support the value they determined as a "fair market" value for the home. Sellers often feel their house is worth a certain amount, often based on what they paid originally. Sometimes that figure differs from an appraiser's numbers. For instance, if the seller put in $15,000 worth of landscaping to increase the value and curb appeal of your home, they may see it as a larger value. However, if the local market values the work at $10,000 then an appraiser will go with that number. Sometimes you can expect upgrades to have full value when the home is newer. This may happen because the additional money was required when building the home. On the other hand, remodeling or upgrading an older home may cost more than the market value in the area. An

appraiser also looks at these trends over the past 6 months to come up with his or her figures. Also of interest: pending or recently closed sales in the area. This shows the buyer whether there's room for negotiating in the home price.
Here at California Mortgage Advisors we take the appraisal process seriously for our interest as well as yours. We don't want you to pay more for a home than it's currently worth in the marketplace. You can always ask us for more information on the appraisal process. Email, call or stop in and we'd be happy to help. You can also watch the video below for more information.

Negotiating a Home Sale is an Art Form

Anyone who has bought or sold a home can tell you, there is always some degree of give and take during the deal. The event can be intimidating to first time home buyers and experienced buyers alike. There are a few things you can keep in mind to help ensure you get most of what you want out of the deal.

• Make sure your Real Estate Agent is the same page as you. Having an agent on your side who knows what you want is vital. This person should know exactly what your priorities are during the deal. They should also have experience representing a buyer, not just a seller.

• Listen to the seller on what they want out of the deal. Figure out their priorities so you can understand the negotiation points. Understanding the seller's top priorities can help leverage your wants along the way.

• Find out why the seller wants to sell. If the person cannot keep up with the daily maintenance of the home, that could mean problems get passed onto you. If you're looking at a fixer-upper, we can look at options like the 203k loan and other FHA programs you can look into.

• Understand the market. Ask your Real Estate Agent to perform a comparative market analysis. This will help you understand the trends in the area in which you want to buy. It will also arm you with facts on things like asking price, how long the property has been on the market and whether the price has come down during that time.

A good idea during the purchase process is to take a walk around the neighborhood. A tour can help you find out what the neighbors are like, and whether there are any issues in the area. Talk to the local police department about crime rates. Ask questions, this could soon be your home. You deserve to know. Every good deal should have benefits on both sides. If the seller is intent on getting a certain point in the deal, make sure you get something also. Appliances and amenities already in the house like garbage disposals and dishwashers are most often going to stay there. Look for other points to negotiate in exchange for a high-ranking item on the seller's list. Remember: compromise can save quite a bit of hassle when it comes to a negotiation. Smooth closings center on a win-win situation for both parties. Be direct and keep the deal simple. Having a mortgage loan adviser on your side like our teams at CMA can arm you with the tools to get a good deal. Let us know how we can help by getting a complimentary consultation today.

Let’s Get Ready to Move

Moving can be stressful. Take the edge off. Print this handy-dandy list to use to help you get ready for your move.

A month before the move:

__ Set up a “move” folder or file with all of your paperwork.
__ Set up a “move” calendar to mark off your important dates.
__ Make sure you have all your paperwork (financial, tax and employment) needed for your loan.
__ Transfer insurance policies (life, auto, homeowners).
__ Hold a garage sale to liquidate your “stuff.”
__ Whatever you don’t sell, donate.

3 weeks before the move:

__ Some moving expenses can be written off on your taxes. Check with your tax advisor for your options.
__ Get in touch with your utility companies (telephone, gas, electricity, water, garbage, cable/satellite) for a cut-off date.
__ Ask the post office for a change of address kit.
__ Find out where your next voting precinct is and get ready to register.
__ Take time to call friends and family to tell them you’re moving. Maybe they’ll offer to help!
__ If you have pets, arrange for someone to care for them on moving day.

2 weeks before the move:

__ Make a list of any clothes you’ll need and won’t be packing.
__ Put all financials in your new address. This includes any stocks, bonds, bank accounts and contents of safe deposit boxes.
__ Look through the list and check off anything that’s not done.

The week leading up to the BIG MOVE:

__ Set aside and label anything you’ll need to get to during the move. Put them somewhere you can get to easily.
__ Get your outdoor things ready. Drain hoses and propane grill tanks. Prepare lawnmower oil and gas.
__ Get rid of old paint, oil, aerosols and other hazardous materials. Look into your community hazardous waste disposal.
__ You’ll need power and phone at your new place. Get in touch with the utility companies at your new place.
__ Your refrigerator should air out at least 24 hours before your move.
__ Pack bag of water and snacks for moving day.

The day of the MOVE OUT:

__ Keep in mind that anything you pack first will be unloaded LAST. This works in reverse, too.
__ Look around one more time. Have you checked the storage areas? Look in the attic, closets, cupboards, behind
doors and under the stairs.
__ Take time to breathe***. The move is almost over.***

Time to MOVE IN:

__ Head to the new home and get it ready before the moving truck arrives.
__ Take a moment to relax. This is your new home. Enjoy it!

Take the edge off the big move. Let us know if we can help in any way.

CALIFORNIA MORTGAGE ADVISORS

PRIVATE MORTGAGE BANKING

2015 Mortgage Glossary

Welcome to the 2015 Mortgage Glossary from **California Mortgage Advisors, Inc**. We know that some of the terminology lenders use can be confusing to borrowers, so we gathered some of the most common terms home buyers will find in their buying journey. Whether it's your first home or your fifth, the mortgage industry and real estate world can throw you some jargon-laced curve balls. Some of the terms we define are out of date, but may still be used in the housing market. Other terms may not be products or services offered at **California Mortgage Advisors, Inc.**. Most of the terms are current and available.

We hope this mortgage glossary helps define many of the terms you will hear during the home buying process. Feel free to share the Mortgage Glossary with other buyers you may know as well. One key to a successful and thriving housing market is the educated home buyer.

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EQUAL HOUSING LENDER

CALIFORNIA REPUBLIC

TERMS

100% FINANCING
A home buyer who finances the entire sale price of the home uses 100% financing. Mortgage loan options that allow this include USDA Rural Development and VA loans. 100% financing does not include cash to close for items like funding escrow or origination fees. Another way to think of this is a no down payment mortgage.

203k LOAN
Also called the FHA 203k, the FHA backs the 203k loan which home buyers can use to finance home improvements, renovations or repairs before purchase or as a refinance. The purchase loan provides financing for a property including the work to be done, all rolled into the life of the mortgage. Luxury items such as pools are not covered. The 203k Streamline covers repairs of less than $35,000 and which are NOT structural.

ABSTRACT OF TITLE
The abstract of title is a brief history of the title of a property. It should be a chronological history of recorded instruments that affect the title of the subject property. It generally includes references to deeds, mortgages, wells and court litigations. Some states allow the use of an abstract for title searches. After the conclusions of the title search, an opinion is issued by the attorney that can be used to obtain title insurance. However, the abstract does not guarantee the title. It can only reveal what is of public record. If will not protect against fraud or forgery as title insurance does.

ACCRUED INTEREST
Accrued interest is the interest earned, but not paid. This adds to the amount owed. (Also known as negative amortization)

ADJUSTABLE RATE MORTGAGE (ARM)
An adjustable rate mortgage (ARM) is a home loan where the interest rate on the note is periodically adjusted based on an index. That index reflects the cost to the lender of borrowing on the credit markets. The loan may be offered at the lender's standard variable rate/base rate. An ARM implies a mortgage regulated by the Federal government with limitations on charges ("caps"). (Also called a variable-rate mortgage.)

ADJUSTMENT INTERVAL
An adjustment interval refers to the amount of time between interest rate changes to an adjustable rate mortgage (ARM). Most ARMs have two adjustment intervals. The first interval is typically longer (usually 3,5,7 or 10 years) during which there is a fixed rate of interest and payment. This initial interval is followed by periodic adjustments to the interest rate (usually every 6 months or year) throughout the remainder of the loan.

AMORTIZATION
Loan amortization is the process of paying off a debt or mortgage. This usually is done in monthly payments. Included is a portion for interest, and a portion for principal. This exists for all amortized loans, whether it is a graduated payment mortgage, adjustable graduated mortgage, or level payment mortgage.

AMORTIZATION SCHEDULE
An amortization schedule is a detailed table breaking down the payments on a mortgage loan. The borrower will see the amount applied to the principal (amount

borrowed) and the interest as well as insurance and taxes paid via an escrow account. While a portion of every payment is applied towards both the interest and the principal balance of the loan, the exact amount applied to principal each time varies (with the remainder going to interest). As the loan matures, larger portions go towards paying down the principal.

AMOUNT FINANCED

The base amount of the loan is the amount financed. This does not include closing costs, discount points, or mortgage insurance premiums. The amount is associated with a disclosure statement used in compliance with the Truth in Lending Act.

APPLICATION (MORTGAGE APPLICATION)

A mortgage application is a request for a home loan that includes the information about the potential borrower, the property and the requested loan that the lender needs to make a decision. In a narrower sense, the application refers to a standardized application form called the "1003" which the borrower is obliged to fill out.

APPRAISAL

The estimated value for a home or property for a specific purpose on a given date. This is the “bank value” of the home and will include factors such as sales of similar homes in the past 6 months and other historical data. Appraisals can be verbal or written.

APPRAISAL FEE

The appraisal fee is the amount charged by an appraiser to appraise a home, paid by the home buyer.

APPRAISER

The appraiser is a person who estimates value on a professional level. The appraiser has a working knowledge of the real estate market, using comparables to make an informed decision on the market value of a home. ASA, MAI, SRA, SRPA, and SREA are some professional designations.

APPRECIATION

Appreciation is an increase in the value of property. This is the exact opposite of depreciation.

APR (ANNUAL PERCENTAGE RATE)

The APR is essentially the mortgage interest rate and associated fees rolled into one figure. An annual percentage rate describes the interest rate for an entire year (annualized) rather than just the monthly fee or rate. Lenders are required to disclose the APR when advertising interest rates. They must also disclose the APR before the loan is finalized.

ARREARS

Arrears means paying after the fact. Interest on home mortgages is paid in arrears. Rent is normally paid in advance. A good example is a rent payment made June 1 is for the month of June; a payment made June 1 on a mortgage is the interest for May.

AS-IS CONDITION

As-is condition is any property sold in its present condition with no warranties made about the plumbing, heating, electrical, or other physical plant attributes, or the possibility of infestation by termites is “as-is condition.”

ASSESSMENT

An assessment is the official value of a property for tax purposes.

ASSUMPTION
Assumption is the method of selling real estate where the buyer agrees to become responsible for the repayment of an existing loan on the property. Unless the lender also agrees, however, the seller remains liable for the mortgage.
ASSUMABLE MORTGAGE
An assumable mortgage is a home loan that allows (or does not prohibit) a creditworthy buyer from assuming the mortgage contract of the seller. Assuming a loan will save the buyer money if the rate on the existing loan is below the current market rate, and closing costs are avoided as well. A loan with a "due-on-sale" clause stipulating that the mortgage must be repaid upon sale of the property, is not assumable.
AUTHORIZED USER
An authorized user is someone authorized by the original user (often a credit card holder) to use the account (or credit card holder's card). The original user is responsible for the debts accrued by the authorized user, but the authorized user is not responsible for paying any charges, including their own. However, authorized users are sometimes contacted for the unpaid bills of the card holder.
AUTOMATED UNDERWRITING
Automated underwriting is a computer-driven process that informs the loan applicant very quickly whether he or she will be approved, or whether the application will be forwarded to an underwriter. The quick decision is based on information provided by the applicant, subject to later verification, and other information retrieved electronically including information about the borrower's credit history and the subject property. Two examples of automated underwriting system include Fannie Mae's "Desktop Underwriter" and Freddie Mac's "Loan Prospector."
BALANCE
A loan balance is the amount currently owed on the mortgage.
BALLOON MORTGAGE
A balloon mortgage is a home loan where the regular monthly payments do not amortize the loan. At an agreed period in the future, the loan is due and payable in full. The amount of the balloon payment must be stated in the contract if Truth-in-Lending provisions apply to the loan.
BASIS POINTS
Lenders use basis points to express a relationship to interest rates. One basis point is equal to 100th of one percent. The difference between 3.25% and 3.50% is 25 basis points.
BI-MONTHLY MORTGAGE
A bi-monthly mortgage allows the borrower to pay half the monthly payment on the first day of the month and the rest on the 15th of the month.
BI-WEEKLY MORTGAGE
Bi-weekly mortgage loans have 26 bi-weekly payments through the year versus 12 monthly payments. This may allow a borrower to repay the mortgage faster and amortize the loan more quickly. A bi-weekly mortgage often comes with higher fees and costs, and is rarely offered by lenders in the current market.
BOARD OF REALTORS®

The Board of REALTORS® is the trade organization for licensed real estate agents. It includes overview, code of ethics, activities, and membership information. The State, National and Local Associations of REALTORS® have boards.

BOTTOM LAND

Bottom land (bottomland) is the low land which is situated near a body of water.

BREACH OF CONTRACT

Breach of contract is a failure to perform a specific item or items within a contract. The party that did not violate the contract is typically able to sue for damages, or to force the other party to perform under terms of the contract. In the home buying process, a purchase agreement is a contract.

BUILDING CODE

Building code is a system of standards for constructing and modifying buildings in an area established by federal, stated, county or city governments.

BUILDING PERMIT

A building permit is a written permit issued by local government to provide permission to build, renovate or remodel.

BUY DOWN

A permanent buy down allows the buyer to pay points up front to bring down the interest rate on a mortgage loan. A temporary buy down concentrates the interest rate reduction for the early years of the loan.

BUY UP

Buy up allows the home buyer to pay a higher interest rate in exchange for lower fees at closing.

BUYER'S MARKET

Buyer's market is a term for the housing market when market conditions lead to more sellers than buyers. Lower prices often accompany this market because supply is higher than demand. You may also hear it called a soft market.

CAPITAL GAIN

Capital gain is a taxable profit from the purchase and subsequent sale (at a profit) of an asset, like a house.

CASH-OUT REFINANCE (or REFI)

A cash-out refinance allows the homeowner to cash in on the equity of the house. You would refinance the equity with the balance of the loan into a new mortgage. It is one alternative to a home equity line of credit. Also called a cash-out refi.

CASH TO CLOSE

Cash to close is the amount a home buyer needs to close the deal. This includes money for closing costs like appraisal fees, title insurance or attorney fees, as well as the down payment and pre-paid items like escrow funds. Cash to close is the entire amount you will need on the day of closing your mortgage loan.

CERTIFICATE OF INSURANCE

Your certificate of insurance proves that insurance is in force. This type of certificate indicates that type of insurance, the amount of coverage, the date of coverage, and the in-force and expiration dates. In the home buying process it refers most often to homeowners insurance.

CERTIFICATE OF TITLE

A certificate of title is prepaid by a licensed abstractor, attorney, or title company. It is a written opinion on the status of the title to real property based on public records. This type of certificate does not guarantee the title, but simply gives an opinion of the title. The only document that guarantees title is title insurance.

CERTIFIED CHECK

A bank or credit union issues a certified check. This type of check cannot be revoked by a stop payment. In real estate transactions, a certified check is normally required to close the transaction.

CFPB

The CFPB is the Consumer Financial Protection Bureau authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act whose passage in 2010 was a legislative response to the mortgage crisis of 2007-2008. The CFPB was founded to protect consumers and has jurisdiction over lenders including banks, credit unions, mortgage companies and other related services.

CLEAR TITLE

“Clear title” states the owner of the property owns it free and clear of encumbrances such as liens or easements. The only exception is when both parties agree on any liens, claims or defects.

CLOSED-END MORTGAGE

A closed-end mortgage is loan amount that is fixed and cannot be increased. Unlike open-ended mortgages, there are no savings involved in paying off the closed-end mortgage early.

CLOSING

“Closing” is the process of actually transferring a title. Closing can be handled by an attorney, escrow company, lender, broker, or occasionally by the parties themselves, depending on state law.

CLOSING COSTS

Closing costs are one component of a home buyer’s cash to close. They can include (but not limited to): mortgage origination fee, credit report fee, appraisal fee, recording fees, home inspection fee, mortgage tax, title search expense, BA funding fee, costs of termite report, survey, sales commissions and mortgage insurance premiums. Does not include down payment or prepaid items like escrow funds.

CLOSING DATE

A home buyer’s closing date is the scheduled day on which closing occurs.

CLOSING DISCLOSURE

The Closing Disclosure is a new disclosure effective for all loans with applications taken on or after October 3, 2015. The Closing Disclosure replaces the Final Truth in Lending disclosure as well as the HUD-1. It serves as a summary of all applicable fees and costs as well as a reiteration of Note and Deed features such as prepayment penalties and assumability.

CO-BORROWER

Co-borrowers are the people who sign the mortgage note with the home buyer. Co-borrowers are equally responsible for paying the loan, and can include a spouse, parent, significant other, sibling or acquaintance. Also called a co-signer.

COFI (Cost of Funds Index)

The Cost of Funds Index is one of many interest rate indices used to calculate the rate of an adjustable rate mortgage. A COFI is an average of interest expenses from regional financial institutions.

COLLATERAL

Assets pledged as a security to loan repayment are collateral. For instance, a car owned free and clear (with no lien on it) can be used as collateral.

COMPARABLES

Comparables are used in determining market value of a home for sale. Sales of similar or comparable property can be the basis for determining the value of a property. An appraiser uses comparables.

CONVENTIONAL MORTGAGE (CONVENTIONAL LOAN)

A conventional mortgage is not associated with the VA or FHA. They are called conventional loans because they adhere to conventional standards within legal limits by mutual consent of the lender and borrower.

CONSTRUCTION FINANCING

Construction financing is a mortgage loan used to finance the construction of a house. This covers new construction, not remodeling or renovating. Construction financing often comes with special monitoring by the lender, as well as different guidelines to ensure project completion and repayment of the loan.

CONVERSION OPTION

A conversion option covers the chance to convert an adjustable rate mortgage into a fixed rate mortgage. Loans of this designation often come with higher interest rates than an ARM without the conversion option.

COSI (Cost of Savings Index)

The Cost of Savings Index is one of several interest rate indices used to calculate the rate of an adjustable rate mortgage.

CO-SIGNER

A co-signer is someone who lends his/her credit and character to another individual for the purpose of obtaining credit. The co-signer is on the loan application and note, but not on the deed of trust or mortgage. The co-signer shares in the liability for the loan, but not the ownership. Also called a co-borrower.

COUNTER OFFER

A counter offer is a change and re-submission of the original offer to buy or sell a property, made in response to the original offer.

CREDIT HISTORY

Credit history is the history of a person’s credit accounts and any debts they hold. This can include collections and other negative reports, but it also includes the positive effects of paying bills on time. Your credit history does not necessarily include your credit score.

CREDIT REPORT

A credit report is the written report from a credit bureau (the common credit bureaus being Transunion, Equifax and Experian) that serves to help the lender decide the credit risk of potential borrowers.

CREDIT SCORE

A credit score is the number assigned to you by the credit bureaus. Lenders use this number to evaluate the risk associated with loaning money to you. Other companies like mobile phone carriers and insurance companies can also use your credit score. FICO is the most widely used credit score designation. U.S. FICO scores range from 300-850, with 713 being the median FICO score of Americans in 2014.

CUMULATIVE INTEREST

Cumulative interest adds up the sum of all interest payments made on a loan over a designated time period. For amortizing loans, cumulative interest increases at a decreasing rate, as each subsequent periodic payment on the loan is a higher percentage principal and a lower percentage interest. Cumulative interest is sometimes used as a measure of loan economics to determine which loan is most economical.

DEED

The deed is the document used to transfer ownership of a property from one person or entity to another. Ownership begins with the recording of the deed for the purchaser, and ownership terminates with recording the deed for the seller.

DEED IN LIEU OF FORECLOSURE

A deed in lieu of foreclosure is basically a willing foreclosure. The homeowner deeds the property back to the lender as an alternative to the foreclosure process. A homeowner taking this “strategic default” route will have fewer late payments than a foreclosure, but pay for the decision with a major credit score ding.

DEFAULT

Default means the homeowner has failed to pay their mortgage loan for an extended period of time. That window differs between lenders. Many times a borrower 60 days late is considered “in default” and may be eligible for assistance.

DELIQUENCY (or DELIQUENT)

A delinquent mortgage payment is more than 30 days late, but not yet in default.

DEMAND CLAUSE

A demand clause in the mortgage allows a lender to require repayment at any time for any reason. This is a rare feature in today’s market.

DISCLOSURE

Lenders are required by the Truth In Lending Act to inform borrowers what the true cost of borrowing the money is, the closing costs, and special conditions of a mortgage.

DISCOUNT POINTS

Discount points refers to a discount expressed as a point or a percentage. A discount of 4 points would be 4% of the loan amount.

DISCRETIONARY ARM

An adjustable rate mortgage where the lender can change the interest rate at any time is a discretionary ARM. The lender must provide advanced notice. A popular mortgage in Europe, but not the U.S.

DOCUMENTATION REQUIREMENTS

Documentation requirements are set forth by the lender, and specify how the borrower’s information like assets and income are gathered, and how the lender will use that information.

DOWN PAYMENT (or DOWNPAYMENT)

A down payment is the initial upfront portion of the total amount due for purchase (the mortgage loan), usually made in cash or check at the time of closing. The purpose is to ensure the lende that you can pay this loan. It shows that the borrower can raise a certain amount of money for long-term investment; evidence that that the borrower's finances are sound. Down payments range from zero to 3.5% to 5% and higher.

DUE-ON-SALE CLAUSE

A due-on-sale clause in the mortgage requires the homeowner pay off the balance of the loan when the property is sold. Essentially this means the borrower cannot transfer responsibility for the loan to the buyer. It is not an assumable mortgage.

EARNEST MONEY

Earnest money is a cash deposit accompanying a sales contract. It shows good faith to abide by the terms of the contract. Earnest money can be forfeited by the buyer, who does not abide by the conditions of the purchase agreement. At closing, earnest money is usually credited toward the down payment.

EQUITY

How much money is "invested" or paid into a property is its equity. A $100,000 property with a $75,000 mortgage has $25,000 in equity.

ESCROW ACCOUNT (ESCROW)

An escrow account is the account funded by the borrower and held by the lender to pay for third party fees like homeowners insurance and property taxes. Escrow can also pay for construction costs like renovations and remodeling, depending on the mortgage loan option.

FHA

The Federal Housing Administration or FHA provides mortgage insurance for single family and multifamily homes in the U.S. FHA works with approved lenders to insure loans against default.

FHA 203k (or FHA 203(k) or 203k LOAN)

The FHA backs the 203k loan which can be used to finance home improvements, renovations or repairs before purchase or as a refinance. The purchase loan provides financing for a property including the work to be done, all rolled into the life of the mortgage. Luxury items such as pools are not covered. The 203k Streamline covers repairs of less than $35,000 and which are NOT structural.

FHA LOANS (or FHA MORTGAGES)

FHA loans (also known as FHA 203(b) loans) are mortgages insured to protect the lender against losses as the result of homeowners defaulting on their mortgage loans. The lenders bear less risk because FHA will pay a claim to the lender in the event of a homeowner's default. Loans must meet certain requirements established by FHA to qualify for insurance.

FAIR CREDIT REPORTING ACT (FCRA)

The Fair Credit Reporting Act is a law designed to regulate the consumer credit reporting industry. It ensures accurate, fair, and timely reporting of consumer credit information, and requires disclosure obligations on use of consumer credit reports.

FAIR HOUSING ACT

The Fair Housing Act law covers selling or leasing residential property, which makes it unlawful to discriminate based on factors including color, race, sex, national origin, religion, family status or disability. HUD and the Office of Fair Housing and Equal Opportunity (FHEO) handle complaints.

FANNIE MAE

Fannie Mae (Federal National Mortgage Association or FNMA) is a government sponsored entity that purchases mortgages from lenders on the secondary market. The agency finances the purchases by packaging the mortgages into pools and issuing securities against the pools.

FEES

Mortgage fees are all upfront cash payments required by a lender as part of the loan process. Fees can include origination and processing fees as well as other terms.

FICO SCORE

FICO score is the most-used credit scoring system in the U.S., based on the scores from the major credit bureaus Experian, TransUnion and Equifax. The FICO score range is 300-850.

FINANCING POINTS

When a borrower includes points in the loan amount, they are financing points. It's a way to reduce the initial cost by amortizing them with the mortgage.

FIRST MORTGAGE

A first mortgage is the primary "original" mortgage, taking precedents over all prior loans, making those loans "junior" to the first mortgage. The property security, which is collateral for this primary mortgage, is evidence of the full appraised value at the precise time the loan is made.

FIRST TIME HOME BUYER

A first time home buyer is a borrower who has never owned a home. A common myth is that first time home buyers have specific mortgage loan options available only to them. In actuality, FHA loans and other options are available to most any borrower. First time home buyers often have less money for down payments and lower credit scores, which determines the mortgage loan option they will likely use for buying a house. Some mortgage loan options define first time home buyers as someone who has not owned a home is 3 years or more.

FIXED RATE MORTGAGE (FRM)

A fixed rate mortgage is a home loan where the interest rate does not change. The only way for your payment to change with the FRM is for your property taxes or homeowners insurance to change, affecting the escrow account.

FLEXIBLE PAYMENT ARM

Flexible payment ARM is an adjustable-rate mortgage where the borrower can choose from four different payment options each month: a 30-year, fully amortizing payment; a 15-year, fully amortizing payment; an interest-only payment or a "minimum payment." A flexible payment ARM is also known as a payment option ARM.

FLOAT

Float means the interest rate is not locked, and can change with the market conditions. Allowing a float means your interest rate could go up or down with the market. The interest rate must be locked before closing.

FORECLOSURE

Foreclosure is the legal action taken by a creditor or mortgage company to force the sale of property to satisfy a debt secured by the property. Judicial foreclosure, non-judicial foreclosure and strict foreclosure are three types of foreclosure.

FREDDIE MAC

Freddie Mac (Federal Home Loan Mortgage Corporation or FHLMC) is a government backed agency that purchases mortgages from lenders on the secondary market. The agency finances the purchases by packaging the mortgages into pools and issuing securities against the pools.

FSBO

FSBO (pronounced fizz-boe) stands for "for sale by owner." This means there is no listing agent on the home for sale.

FULLY AMORTIZING PAYMENT

A fully amortizing payment is a periodic loan payment (part is principal and part is interest). If the borrower makes payment according to the loan's amortization schedule, the loan will be paid-off by the end of its set term. On a fixed-rate mortgage each fully amortizing payment will be equal an amount. For an adjustable-rate mortgage the fully amortizing payment may change as the interest rate on the loan changes.

FULLY INDEXED INTEREST RATE

The fully indexed interest rate on an adjustable-rate loan is calculated by adding the margin to an index level. When calculating the fully indexed interest rate, the index level varies according to market conditions but the margin is usually a constant value. For example: if the initial interest rate is 5.5% for one year, the fully indexed interest rate is 8.5% and the rate adjusts every year subject to a 1% cap, the 8.5% rate will be reached at the end of the third year.

GIFT LETTER

If some or all of a down payment is in the form of a gift from a relative, most lenders require a gift letter to verify the source of the funds. Each lender has different requirements as to what must be in the gift letter, and limitations of the gift.

GIFT OF EQUITY

A gift of equity happens when the seller keeps the home price below market value or appraised value, essentially gifting the difference to the buyer. A gift of equity most likely happens between family members. Lenders may allow this equity to be used as a down payment.

GINNIE MAE (GNMA)

Ginnie Mae (GNMA or Government National Mortgage Association) is the federal agency which guarantees mortgage securities issued against pools of FHA and VA mortgage loans.

GOOD FAITH ESTIMATE (GFE)

The good faith estimate (GFE) is an estimate of the settlement charges the borrower will incur at closing. This written documentation is required by the Real Estate Settlement Procedures Act (RESPA). Any changes to this estimate must be presented in written form to the borrower.

GRACE PERIOD

Lenders offer a grace period after the due date of a mortgage loan where the borrower can pay without fees. For instance if your payment is due on the first of the month, you may be able to pay by the 15th without getting hit with late fees. That is your grace period.

HAZARD INSURANCE

Hazard insurance covers physical damage to property. Guidelines for hazard insurance are established by each lending institution for the minimum coverage required.

HOME AFFORDABILITY REFINANCE PROGRAM (HARP OR HARP 2.0)

Fannie Mae and Freddie Mac started the Home Affordability Refinance Program in 2010 to help homeowners refinance even when their loan-to-value was too high. The goal of this program is to help underwater homeowners refinance into lower interest rates to help save money. The first round had few takers, so HARP 2.0 came out with more flexible requirements on LTV numbers.

HOME EQUITY LINE OF CREDIT (HELOC)

A home equity line of credit is a second mortgage set up as a line of credit where the homeowner can borrow money as needed, up to a maximum amount. For instance, your line of credit may be $50,000 where you can borrow as needed for items like home remodeling projects. You might write checks from a special account or use a specific credit card to draw on your HELOC.

HOME EQUITY LOAN

A home equity loan is a second mortgage based on the equity the owner possesses in a home. This loan can be used to improve the property, or for other uses. The amount is loaned as a lump sum rather than a line of credit.

HOMEOWNERS INSURANCE

A borrower will purchase homeowners insurance to protect the property against loss from fire and other hazards. This is often a lender requirement, paid by the homeowner.

HOUSING BUBBLE

Housing bubble refers to a specific increase in home prices. A bubble is often fueled by the expectations that values will continue to rise. According to most experts and reports, the most recent housing bubble talked about ended in 2006. Home prices seem to have bottomed out and stabilized in 2012.

HOUSING CODE

A housing code is a municipal ordinance regulating heating, plumbing, occupancy standards, roofing and other standards for occupied structures.

HOUSING EXPENSE

Housing expense is the sum of the monthly mortgage amount, homeowner insurance, property taxes and any possible homeowner association fees. It's also called PITI or principal, interest, taxes & insurance.

HOUSING EXPENSE RATIO

One measure of qualifying borrowers is a housing expense ratio. This is the ratio of housing expense in relation to borrower income.

HUD1 FORM

The HUD1 form is the official form a borrower receives at their closing which details all payments and receipts among all parties involved. Parties include: borrower, lender, seller and various service providers during the buying process. For most loan types the HUD-1 form was replaced by the Closing Disclosure (see "Closing Disclosure") in October 2015.

HYBRID ARM
A hybrid ARM is an adjustable rate mortgage where the initial rate holds for a specified period of time then begins to adjust. In general, a hybrid ARM has an initial fixed rate for 3 years or longer.

INSPECTION CERTIFICATE
Lenders often require an inspection certificate to ensure the collateral used for a loan is the same as indicated in a loan application.

INDEXED ARM
An indexed ARM is an adjustable rate mortgage where the interest rate adjusts based on changes in an interest rate index. This differs from a discretionary ARM wherein the lender can change the adjustable rate at any time (subject to advanced notice).

INITIAL INTEREST RATE
The initial interest rate refers to the first fixed interest rate in an adjustable rate mortgage. An ARM may have 6 months of a fixed rate or initial interest rate before it begins to adjust. This is also called a “teaser” interest rate when it falls below the fully indexed interest rate.

INITIAL RATE PERIOD
An initial rate period is the amount of time, often measured in months, where the initial interest rate in an ARM holds before it adjusts.

INSURANCE
The term insurance covers several policies. Homeowners or hazard insurance covers damage to the structure. Private Mortgage Insurance (PMI) is paid by the borrower to cover the lender in case of default, and the lender cannot recover its costs after foreclosure and sale of the property. Flood insurance covers damage in case of flooding (it is separate from hazard insurance) and may be required in some areas.

INTEREST DUE
Interest due is the amount of interest a borrower owes based on this formula: multiply the loan balance at the end of the preceding period by annual interest rate, then divide that amount by the interest accrual period.

INTEREST ONLY MORTGAGE
An interest only mortgage refers to a home loan where the borrower only pays the interest due for a period of time. While paying only interest may save on monthly payments, it does not pay down the balance, making for higher payments once the borrower begins to pay the full amount.

INTEREST RATE
The interest rate is the rate you pay as a borrower on the money you are loaned. An interest rate does not necessarily include the APR, so will often be less than the actual cost of borrowing. Make sure you also know the APR when shopping for interest rates.

INTEREST RATE CEILING
The highest amount your interest rate can be in an ARM is called the interest rate ceiling. It’s also known as the lifetime cap, and expressed in specified percentage points above the initial interest rate.

INTEREST RATE FLOOR
The interest rate floor on an adjustable rate mortgage refers to the lowest interest rate possible.

INTEREST RATE INCREASE CAP
An interest rate increase cap is the maximum allowable increase in the interest rate on an ARM each time the rate is adjusted. Most often you will find a cap of one or two percentage points.
INTEREST RATE DECREASE CAP
An interest rate decrease cap refers to the maximum allowable decrease of an interest rate on an ARM each time it is adjusted. The most common amount allowed is one or two percentage points.
INVESTOR
A real estate investor is a buyer who purchases a property as an investment – to sell or rent out – rather than a residence.
JOINT AND SEVERAL LIABILITY
Joint and several liability is: A lender can sue one or all of the borrowers to force satisfactory performance and payment; an obligation from all or one of the borrowers to the lender.
JUMBO MORTGAGE
A jumbo mortgage is a home loan larger than the maximum amount allowed by Fannie Mae or Freddie Mac. As of October 2011, the jumbo conforming limit is $729,750.
JUNK FEES
Junk fees refer to lender fees expressed in dollars rather than points, and is a derogatory term reflecting the idea that the lender has hidden the fees until closing time so the borrower will not walk away from the deal. Some common junk fees include: settlement fees, sign-up fees, translation fees or messenger fees.
LATE FEES
Late fees refer to penalties a lender levies on the borrower for paying their loan later than the due date. A grace period is often observed by lenders of 10-to-15 days.
LATE PAYMENT
A late payment happens when you pay your loan payment past the grace period date. Late payments are often subject to late fees and can be reflected on your credit report.
LATENT DEFECT
A latent defect is a problem in the home that is hidden or concealed. A latent defect is not easily seen nor discovered by the purchaser or inspector, but is known by the sellers.
LEASE PURCHASE
Sellers and Purchasers can enter into a lease purchase to buy property with the rent payments going towards the sales price, most often towards the down payment. Most lenders provide guidelines for this type of plan. If the rent paid is less than fair market rent, the lender can view the transaction as the seller giving the buyer the down payment via reduced rent. Also called lease-to-own.
LENDER
Lender refers to the financial institution originating the loan. Also called a mortgage lender, mortgage company or mortgage banker.
LEVEL PAYMENT MORTGAGE ORIGINATOR

A level payment mortgage originator is a constant payment of a fixed amount each month until the debt is paid. By constant payment, it is meant to be a fixed rate mortgage versus an adjustable rate of graduated payment mortgage.

LIEN

Liens are claims made against the property of another as security for the money owed. Liens can be general or specific, and can be statutory or equitable.

LITIGATION

Litigation refers to any legal action, including all proceedings therein; a lawsuit.

LOAN AGREEMENT

The loan agreement is the written agreement to repay a loan. If it is secured by a mortgage, it is a note describing how the payments will be made and any other actions that will be performed.

LOAN AMOUNT

The loan amount on your mortgage is the amount you agree to pay back, set up in your mortgage contract. The loan amount differs from the amount of cash the lender disburses by the amount of points and other upfront costs included in the loan.

LOAN COMMITMENT

A loan commitment is the document from a lender agreeing to lend a specific amount of money for a specific purpose over a specific amount of time.

LOAN ESTIMATE

The Loan Estimate is a new disclosure effective October 3, 2015 replacing the Initial Truth in Lending disclosure as well as the Good Faith Estimate. It summarizes key features of the loan for the borrower at the beginning of the loan process, including costs and fees associated with the loan, the APR and features like prepayment penalties and assumability.

LOAN OFFICER

The loan officer is the representative at the mortgage lender who helps you get your loan. This person will work with you though the process of pre-approval, approval and closing. Also called a mortgage consultant.

LOAN TO VALUE RATIO (LTV)

The loan to value ratio is the percentage borrowed in the acquisition or refinancing of property compared to the appraised value of that property. If a home is worth $100,000, and the loan is for $80,000, then the LTV is 80%.

LOCK

When an interest rate gets a lock, it is locked into the current market rate. This option is available to the borrower so the rate is locked between the time application is taken and closing, regardless of what happens in the market. Lock times range from 15-day to 45-day for most lenders.

LOCK COMMITMENT LETTER

The lock commitment letter is the written statement from your lender verifying your rate and terms of your loan have been locked. This is often offered through a mortgage broker.

LOCK FAILURE

Lock failure is the inability or refusal of a lender to honor a mortgage interest rate that the borrower believed was locked.

LOCK PERIOD
The lock period is the amount of days that an interest rate lock holds. Typically a borrower will pay a higher price in points for a longer lock period.
MANDATORY DISCLOSURE
The mandatory disclosure is the set of laws which dictates the information the lender must disclose to the mortgage borrower, including the method and timing of the disclosure.
MANUFACTURED HOME (MANUFACTURED HOUSING)
Manufactured housing is built in a factory setting then transported to a property to be installed. Manufactured homes are built most often without knowing the final destination, and are subject to a Federal building code administered by the Department of Urban Housing & Development (HUD). Essentially this is what is called a trailer or a double-wide. Manufactured housing is delivered on wheels and has a title, much like a car. You can often find manufactured homes in a "trailer park."
MARGIN
The margin is the amount added to the interest rate index to come up with the fully indexed interest rate on an adjustable rate mortgage, or ARM. The margin is typically around 2-to-3 percentage points.
MARKET VALUE
Market value is the general price at which, barring distress, a purchaser is willing to pay and the seller is willing to sell.
MATURITY
A loan's maturity is the period until the final payment is due. Most often this is also expressed as the term of the loan, which is used to calculate the mortgage payment.
MAXIMUM LOAN AMOUNT
A maximum loan amount is the largest loan size permitted on a particular mortgage loan option. For instance, if the loan is backed by (purchased on the securitized mortgage market) Fannie Mae or Freddie Mac, the maximum loan amount is the top amount these agencies will purchase from the servicing lender. For FHA loans, the agency sets its own limits and vary by geographical location.
MAXIMUM LOAN TO VALUE RATIO
The maximum loan to value (LTV) ratio is the highest ratio allowed for loan amount compared to the value of the home. For instance, the maximum LTV for FHA loans would be 96.5% - meaning a borrower must have a 3.5% down payment.
MAXIMUM LOCK
A maximum lock is the longest amount of time a lender will lock your interest rate on a given mortgage loan option. A 45 or 60 day maximum lock period is common, with 90 days another common option.
MINIMUM DOWN PAYMENT
Your minimum down payment is the least amount of cash on hand allowed for a particular mortgage loan. For instance, on an FHA loan your minimum down payment is 3.5%. If the house is selling for $120,000 your minimum down payment would be $4,200.
MODULAR HOME (MODULAR HOUSING)

Modular housing is stick-built in sections in a factory, then delivered on a flat-bed truck to the site and put together. These homes look and feel more like traditional housing built on-site, rather than manufactured housing.

MORTAGE (MORTGAGE LOAN)

The mortgage is the written document showing the lien on the property. The lender holds the mortgage as a security for the repayment of the loan for the home. While mortgage and mortgage loan are often used synonymously to refer to the lien and the loan, they're actually defined in separate documents: the mortgage and the note.

MORTGAGE APPROVAL

Mortgage approval happens when the lender approves the borrower for a mortgage. Approval means the borrower meets the mortgage lender's requirements. This can happen more quickly when mortgage preapproval is done early in the home buying process.

MORTGAGE BANKER (MORTGAGE BANK)

The mortgage banker (also called a MORTGAGE LENDER) is the financial institution loaning the money for a home purchase. A mortgage banker must be registered with the National Mortgage Licensing System (NMLS). Loan officers working for a mortgage bank must also be licensed with the NMLS. A mortgage bank funds the loan.

MORTGAGE BROKER

A mortgage broker is an independent contractor who sells mortgage services to borrowers, working with multiple lenders. A mortgage broker works with the borrower through the process, then submits the loan application to lenders he or she contracts with, which then underwrite the loan. The mortgage broker does not fund the loan.

MORTGAGE COMPANY

The mortgage company is the financial institution loaning the money for a home purchase. Mortgage companies can (and do) sell the mortgage note on the secondary market.

MORTGAGE FORMULAS

Mortgage formulas are the standard equations used in the housing market to come up with common financial measurements such as monthly loan payment, loan balance and APR.

MORTGAGE INSURANCE

Mortgage insurance protects the lender against loss in the event of borrower default. The borrower most often pays the premium in monthly installments or an up-front fee. FHA loans are insured by the Federal Housing Administration and its mortgage insurance program. (see PRIVATE MORTGAGE INSURANCE)

MORTGAGE INSURANCE PREMIUM

The mortgage insurance premium is the monthly or up-front fee the homeowner/borrower pays for mortgage insurance.

MORTGAGE LENDER

A mortgage lender (also called a MORTGAGE BANKER) is the financial institution that holds the note on the mortgage loan and disperses the funds to the borrower to buy the home.

MORTGAGE LOAN PROGRAMS

Mortgage loan program refers to the option used to finance a home purchase. Examples of mortgage loan programs include: ARM, FRM, FHA, USDA rural development or VA loans. This is also called the mortgage loan option.

MORTGAGE MODIFICATION

Mortgage modification is any change in the terms of your mortgage. This most often refers to the interest rate or term, typically related to a borrower's inability to make the monthly payments under the current mortgage agreement.

MORTGAGE PAYMENT

Your mortgage payment is the amount you pay each month to your mortgage company. It includes the interest and principal, and any escrow or insurance premiums that may be included in your mortgage contract.

MORTGAGE PRE-APPROVAL

Mortgage pre-approval happens when your lender approves you as the borrower for a certain amount to buy a house. The process most often includes pulling your credit score and verifying income with paystubs or a W2 tax form. Mortgage pre-approval positions a buyer to better negotiate a purchase because the seller knows your offer is backed by a lender. Mortgage approval comes after pre-approval.

MORTGAGE PRICE

The interest rate, points and fees paid to the lender add up to the mortgage price. On adjustable rate mortgages (ARMs) the mortgage price includes the fully indexed rate and the maximum rate.

NEGATIVE AMORTIZATION

Negative amortization results in the mortgage loan balance actually increasing instead of decreasing. The monthly payments do not pay the full interest due for the month, and the remaining interest rolls over and is added to the principal.

NEGATIVE HOMEOWNERS EQUITY

Negative homeowners equity happens when the homeowner owes more on the mortgage loan than the house appraises for, or "what the house is worth." The housing bubble that burst in 2007 left homeowners across the country with negative equity as home prices and values fell. You may also have heard it called an Underwater Mortgage.

NEGATIVE POINTS

Negative points are paid by a lender for a loan with a rate above the rate on a zero point loan. Here's how it might work: a wholesaler quotes the following prices to a mortgage broker. 5%/0 points, 4.5%/3 points, 5.75%/-3 points. Some lenders and advertisements refer to negative points as "rebates" because they are used to reduce a borrower's settlement costs.

NO CHANGE SCENARIO

When an adjustable rate mortgage (ARM) comes with the assumption that the value of the index it's tied to does not change from the initial level, you have a no change scenario.

NO COST MORTGAGE

A no cost mortgage is the name for a mortgage loan where the lender or seller pays for all closing costs except for per diem interest, escrow and transfer taxes.

NON-PERMANENT RESIDENT ALIEN

Non-permanent resident aliens (NRAs) are citizens of another country who live in the United States under a Conditional Resident Alien Card, Temporary Resident Card, work visa, student visa or some other permit for some specified period of time. They often have very strict conditions for qualifying for a mortgage.

NO ASSET LOAN

A no asset loan refers to the mortgage option where the borrower did not have to disclose assets.

NO INCOME LOAN

A no income loan is the mortgage option where the borrower is not required to disclose their income.

NO INCOME, NO ASSET LOAN (NINA)

The no income, no asset loan is the mortgage option where the borrower is not required to disclose assets or income. This loan option is often considered one of the leading causes of the mortgage crisis because banks loaned money to borrowers based only on credit score with no regard to assets or current income.

NOMINAL INTEREST RATE

The nominal interest rate is a quoted interest rate not adjusted for intra-year compounding or inflation. For

example a quoted rate of 5% on a mortgage is nominal. Adjusted rates are called effective.

NOTE

The note is the document showing debt and the commitment to repay that debt. A mortgage loan transaction will include separate documents: a note showing the debt and a mortgage showing the lien on the property.

OPEN END MORTGAGE

An open end mortgage happens when the lender and borrower agree that future advances of principal can be arranged. The borrower will receive a limit of the total outstanding balance. Open end mortgages are similar to a line of credit.

OPTION ARM

An adjustable rate mortgage with flexible payment options, monthly interest rate adjustments and low monthly payments in the early years is an option ARM. Option ARMs carry high risk of inflated payments in the later years. Option ARMs are often considered a major contributor to the housing bubble and foreclosure glut of 2007.

OPTION FEE

Home buyers pay an option fee under a lease-to-buy agreement. The fee – typically around one-to-five percent (1%-5%) of the price – is then credited to the purchase price when the buyer exercises the option to buy.

ORIGINATION FEE

A lender charges an origination fee to process and write your mortgage. Lenders will often express the amount in a percentage of the loan amount.

PAYMENT ADJUSTMENT INTERVAL

The payment adjustment interval is the period between payment changes on an adjustable rate mortgage. The interval may or may not be the same as the interest rate adjustment period. ARMs where the payment adjusts less frequently than the rate may generate negative amortization.

PAYMENT INCREASE CAP
Payment increase cap refers to the maximum percentage increase in the payment on an ARM at a payment adjustment date. You'll see a common cap of 7.5%.
PAYMENT DECREASE CAP
Payment decrease cap refers to the maximum percentage decrease in the payment on an ARM at a payment adjustment date.
PAYMENT PERIOD
The payment period is the time the borrower must make their loan payments. For most mortgages the payment period is monthly.
PAYMENT SHOCK
Payment shock refers to any shock over the change in payment of a loan. For instance, a borrower may experience payment shock when the payment amount on an adjustable rate mortgage jumps. Payment shock also refers to the surprise renters feel when buying their first house, and make that first house payment.
PER DIEM INTEREST
Any interest accrued from the day of closing a mortgage loan until the first day of the following month is called per diem interest.
PERSONAL PROPERTY
Personal property is any item you own such as cash, jewelry, furniture and securities that are not classified as real property or real estate.
PITI
PITI is an acronym which stands for: Principal, Interest, Taxes and Insurance. It's essentially your total monthly house payment.
POINTS
Points are the upfront cash payment required by a mortgage lender as part of the charge for the loan. Lenders express points as a percent of the loan amount. For instance, "2 points" means a charge equal to 2% of the loan balance. In today's housing market you'll see some lenders advertising a wide range of rate/point combinations, including combinations with negative points. A negative point loan means the lender contributes cash toward meeting closing costs.
PORTFOLIO LENDER
Portfolio lender is a term for the mortgage banker which retains the loan rather than the common practice of selling it on the secondary market.
POWER OF ATTORNEY
Power of attorney is the written permission for one person or party to act on the behalf of another person or party.
PREAPPROVAL
Preapproval is the commitment by a lender to make a mortgage loan to you the borrower. It is designed to make it easier to shop for a house because the borrower has proof that a lender can back an offer. Preapproval is not the same as prequalification, as preapproval generally includes proof of income and pulling the borrower's credit score. Preapproval is also called MORTGAGE PRE-APPROVAL.
PREDATORY LENDING

Predatory lending is a term covering a wide range of practices by businesses designed to take advantage of unwary borrowers. Predatory lenders want to make a quick buck, no matter the cost to the consumer.

PREPAYMENT

Prepayment is an advanced payment on a loan. Loans can either permit such payments without penalty, or there may be a penalty for such prepayments, called a prepayment penalty.

PREQUALIFICATION

Mortgage prequalification is the verbal commitment from a lender that the borrower can get approved or qualified for a mortgage. This generally consists of verbal commitments to income and credit questions, rather than documented proof.

PRIMARY RESIDENCE

Primary residence refers to the home where the borrower lives the majority of his or her time. The time required may differ between lenders and programs, but the idea is that the primary residence is not a second home or vacation home, nor is it an investment property that will be rented to a tenant.

PRINCIPAL

Principal the actual loan balance. Principal can also mean the portion of the monthly payment that goes to paying off the loan balance, indicate a party to a transaction, or the principal can hire an agent to represent him in wither a purchase or sale.

PRINCIPAL LIMIT

Principal limit is the current value of a house under the FHA reverse mortgage program, given the elderly owner's right to live there until death or voluntary move-out.

PRIVATE MORTGAGE INSURANCE (PMI)

Private mortgage insurance (PMI) is insurance against the default of a loan. Costs are dependent on the amount of insurance required and the guidelines in force at the time of loan. It’s also simply called MORTGAGE INSURANCE.

PROCESSING

Processing is the compiling and maintaining of the file of information about a mortgage transaction. Paperwork in processing includes a credit report, appraisal and verification of employment and assets. The processing file is handed off to underwriting for the loan decision.

QUALIFICATION

Qualification is the process which determines whether a prospective home buyer has the ability to repay their mortgage loan. Part of this process includes looking at assets and income. However, it falls short of approval because it does not look at the credit history and FICO score of the borrower. Approval and mortgage preapproval are stronger indicators of your chances to buy a home.

QUALIFICATION RATE

A qualification rate is the interest rate used to calculate the initial mortgage payment when qualifying the borrower. This rate may not match the initial rate on the mortgage loan. For example, a qualification rate for an adjustable rate mortgage could be qualified at the fully indexed rate rather than the initial interest rate.

QUALIFICATION RATIOS

A qualification ratio is the requirement from the lender that the ratio of housing expense to borrower income as well as the housing expense plus other debt service to borrower income, cannot exceed specified maximums (like 31% and 36%). Qualification ratios may reflect the maximums specified by Fannie Mae and Freddie Mac and can vary with the loan-to-value ratio and other factors.

QUALIFICATION REQUIREMENTS

Qualification requirements refer to lender standards for granting loan qualification. Requirements may include maximum ratios of housing expense & total expense to income, maximum loan amounts or maximum loan-to-value ratios. These are less comprehensive than underwriting requirements, which take into account a borrower's credit history and FICO score.

RATE CAPS

Rate caps are used in adjustable rate mortgages (ARMs) to limit the increase or decrease in the interest rate of the mortgage. There can be rate caps for each period as well as the life of loan caps.

RATE PROTECTION

Rate protection protects a borrower against the danger that rates will rise between the time he or she applies for a loan and the time the loan closes. Options for rate protection include:

- a "lock" where the rate and points are frozen at their initial levels until the loan closes
- a "float-down" where the rates and points cannot rise from their initial levels but they can decline if market rates decline.

For either option, the rate protection runs for a specified period of time. If the loan is not closed within that period, the rate protection expires. When this happens, the borrower can accept the new interest rate or shop around for a different rate.

RECAST PAYMENT

A homeowner can “recast payment” to raise or lower the mortgage payment to the fully amortizing payment. Periodic payment-increase recasts exist on adjustable rate mortgages. When borrowers have made extra payments and need to have their payment reduced, they may see a payment reduction recast.

REFINANCE (REFI)

Refinance (also called refi) refers to the paying off of an existing mortgage with a new loan. Homeowners might refinance to a lower interest rate to save money on their monthly house payment. A homeowner might also refinance into a shorter-term mortgage loan. Homeowners might even refinance and remodel with a home improvement loan rather than a line of equity.

RELEASE OF LIABILITY

A release of liability means releasing a lender from personal liability for a mortgage loan.

REQUIRED CASH

Required cash refers to the monies a borrower will need to close the mortgage loan. It’s also known as cash-toclose and includes closing costs.

RESPA

RESPA is an acronym the stands for “Real Estate Settlement Procedures Act.” The federal government enacted the consumer protection statute in 1974. RESPA was designed to protect home buyers and homeowners shopping for settlement services by mandating certain disclosures, and prohibiting referral fees and kickbacks.

RETAIL LENDER

A retail lender offers mortgage loans directly to borrowers through loan officers or mortgage consultants working for that lender. The opposite of a retail lender is a wholesale lender, which operates through mortgage brokers and correspondents.

REVERSE MORTGAGE

Reverse mortgages are loans to senior citizen homeowners (at least 62 years old). The balance rises over time and is not repaid until the owner dies, sells the house, or moves out permanently. In lieu of repayment, the lender takes possession of the home. (Also known as: Home Equity Conversion Mortgage (HECM) from FHA, or Home Keeper from Fannie Mae.)

RIGHT OF RESCISSION

Right of rescission is a borrower’s right to cancel a refinancing deal at no cost to self within 3 days of closing. This right comes from the Truth in Lending Act.

SCENARIO ANALYSIS

Scenario analysis determines how the interest rate and payment on an adjustable rate mortgage (ARM) will change in response to specified future changes in market interest rates called "scenarios."

SCHEDULED MORTGAGE PAYMENT

Your scheduled mortgage payment is the amount you must pay each period. This includes interest, principal, mortgage insurance and any escrow payments under the terms of your mortgage contract. Not paying or paying less than the scheduled amount puts you in delinquency.

SEASONED LOAN

A seasoned loan means the loan has been paid on time for a sufficient amount of time, giving a lender the reasonable belief that it will continue in a like manner. FHA requires a loan to be outstanding for twelve months before it is seasoned. Other secondary marketers may have varying guidelines.

SECOND MORTGAGE

A second mortgage is a real estate mortgage that is a second or junior mortgage to the first or senior mortgage. The first mortgage gets paid off first before the second mortgage. Therefore, second mortgages are riskier for lenders and generally come with a higher interest rate. Examples include home equity loans or a home equity line of credit, among other more general second mortgages.

SECURE OPTION ARM

A secure option ARM refers to an adjustable rate mortgage (ARM) where the initial rate holds for 5 years rather than one month.

SECONDARY MARKET

The secondary market is the financial market where investors buy mortgages and mortgage-backed securities.

SELF EMPLOYED BORROWER

Self-employed borrowers are entrepreneurs with their own businesses. They are subject to more strict preapproval requirements like long-term tax returns rather than pay stubs.

SELLER CONTRIBUTION

A seller contribution is and money paid to the borrower's cash-to-close like a down payment, paid by the home seller.

SELLER FINANCING

Seller financing refers to the provision of a mortgage by the home seller (like a second mortgage) as a condition of the home sale.

SERVICING

Servicing refers to the administration of services of a loan from the time it's closed until it is paid off by the borrower. Servicing includes the collection of payment from the borrower, payment by the lender of insurance and property taxes from escrow, maintaining the record of loan payment progress and pursuing delinquent accounts.

SERVICING AGENT

A servicing agent is the business that services the mortgage loan. This servicing agent may be different from the lender that originated the mortgage if that lender does not service its own loans.

SERVICING TRANSFER

Servicing transfers occur when the originating lender turns over servicing responsibilities to another servicing agent.

SETTLEMENT

For real estate and home buying purposes, "settlement" is the same as "closing," which is the process of actually transferring a title. This can be handled by an attorney, escrow company, lender, broker, or occasionally by the parties themselves, depending on state law.

SETTLEMENT COSTS

Settlement costs, also called closing costs, refer to fees a borrower pays at the time the loan closes. Down payment and escrow funding are not typically considered settlement costs.

SHORT SALE

Short sale refers to a sale of real estate in which the sale proceeds fall short of the balance owed on the property's loan. It often occurs when a borrower cannot pay the mortgage loan on their property, but the lender decides that selling the property at a moderate loss is better than pressing the borrower. Both parties consent to the short sale process, because it allows them to avoid foreclosure.

SILENT SECOND MORTGAGE

A silent second mortgage is any second mortgage used to deceive the first mortgage bank, or to provide preferential (subsidized) terms to qualified home buyers.

SIMPLE INTEREST MORTGAGE

Simple interest mortgages are loans on which interest is calculated daily, based on the balance at the time of the last payment. For this home buying option, daily interest charge within the month is constant -- interest is not charged on the interest charges of prior days.

SOLVENT

Solvent is a financial position of being able to meet one's current financial obligations.

STATED ASSETS
"Stated assets" refers to the documentation requirement where the borrower discloses assets, but the lender does not verify those assets.
STATED INCOME
"Stated income" is the documentation requirement where the lender verifies the source of the income but not the amount.
STATED INCOME, STATED ASSETS MORTGAGE (SISA)
A SISA mortgage is a loan where the lender takes the word of the borrower on income and assets rather than verifying the documentation. Credit score is bigger factor in this mortgage loan program rather than income and assets. This is different than a No Income, No Asset Loan. See "No Income, No Asset"
STRATEGIC DEFAULT
A homeowner who has the ability to pay the mortgage loan but decides to stop paying because of negative equity commits strategic default. Any default, strategic or not, negatively affects a borrower's credit score substantially.
STREAMLINED REFINANCING
Streamlined refinancing omits steps in the refinancing process such as home appraisal and other standard risk control measures in order to save time and money in the refi process.
SUBMORTGAGE
A submortgage uses a mortgage as security for obtaining additional mortgages. As an asset, it can be used as collateral for a loan.
SUBORDINATE FINANCING
Subordinate financing is any second mortgage on a property that is not paid off when a new loan is issued. The second mortgage lender must allow subordination to the newer first mortgage loan.
SUBORDINATION POLICY
A subordination policy is the policy of a second mortgage lender allowing a borrower to refinance the first mortgage loan while leaving the second mortgage in place.
SUB-PRIME MARKET
The sub-prime market is a network of sub-prime lenders, mortgage brokers, warehouse lenders and investment bankers who made possible the delivery of loans to sub-prime borrowers. This is often credited with the collapse of the US housing market in 2007.
SUB-PRIME MORTGAGE
A sub-prime mortgage is a loan given to a borrower with poor credit to buy a house. These borrowers pay higher points and rates than prime borrowers.
SURVEY
A survey is the drawing completed by a licensed surveyor who details the measurements of land parcel as well as the improvements to the land. Survey used for loan transactions will need to be performed no more than 90 days before the closing of the loan, and must be accompanied by a certificate.
TANGIBLE NET BENEFIT
Tangible net benefit refers to the net gain to a borrower from a refinancing.
TAX LIEN

Tax lien is the lien made by the federal or state government against property for unpaid taxes.

TAX SERVICE FEE

The tax service fee charged by some lenders at closing covers the cost of paying taxes on the buyer's property when they come due. It's essentially a charge for offering an escrow account.

TEASER RATE

The teaser rate on an adjustable rate mortgage (ARM) is the initial rate, which falls below the fully indexed rate.

TEMPORARY BUYDOWN

A temporary buydown is the reduction in the mortgage loan payment in the early years of the loan. A borrower can get a temporary buydown in exchange for an upfront cash payment provided by the home buyer, the seller, or both.

TERM

Term is the period of time used to calculate the monthly mortgage payment. The term is usually the same as the maturity, but can also differ. For instance, on a 9-year balloon loan the maturity is 9 years but the term in most cases is 30 years.

TITLE

Title is the documentation to the rightful ownership. In real estate, refers to the rightful ownership of real property.

TITLE INSURANCE

Title insurance protects a creditor against losses related to defects in title, paid by the borrower as a fee. It's also called a lender's policy.

TOTAL INTEREST PAYMENTS

"Total interest payments" refers to the sum of all interest payments to date or over the life of the loan. Because this measurement does not include up-front cash payments and it is not adjusted for the time value of money, it is an incomplete measure of the cost of credit to the borrower.

TRIGGER LEADS

Trigger leads are essentially spam. The major credit agencies are allowed to flag files when someone applies for a mortgage, and can also sell this private information with no recourse. Companies can buy personal information like names, phone numbers, mortgage histories and FICO scores, then solicit your business unwarranted.

TRUTH IN LENDING ACT

The Truth in Lending Act is a 1969 law requiring full disclosure - in writing - of any and all costs associated with the credit side of a purchase, including the Annual Percentage Rate, if applicable.

UNDERAGE

Underage covers fees collected from a borrower by a loan officer which are lower than the target fees specified by the lender or mortgage broker who employs the loan officer.

UNDERWRITING

In the mortgage approval process, underwriting is the process of examining all the data about a borrower's property and transaction to determine whether the mortgage applied for by the borrower should be issued. The person who does this is called an underwriter.

UNDERWRITING STANDARDS
Underwriting standards are requirements imposed by the lender to determe whether a borrower qualifies for a loan. These standards are more comprehensive than qualification requirements because they include evaluating the borrower's credit history and FICO score.

VA
VA stands for "Veterans Administration" and refers to the agency which, among other things, backs loans like the VA mortgage loan.

VA MORTGAGE LOAN
A VA mortgage loan is the home loan available only to ex-servicemen and women as well as those on active duty, on which the lender is insured against loss by the Veterans Administration. A VA mortgage loan has the option for 100% financing, or zero down payment.

WAIVE ESCROWS
"Waive escrows" is the authorization by the lender for the borrower to pay taxes and insurance directly. Typically the lender adds the taxes and homeowners insurance to the monthly mortgage payment, which is then deposited in an escrow account. From there, the lender pays the borrower's taxes and insurance when they are due. On some loans lenders will not waive escrows, and on loans where waiver is permitted lenders are likely either to charge for it in the form of a small increase in points, or restrict it to borrowers making a large down payment.

WAREHOUSE LENDER
A warehouse lender is the financial institution which lends to temporary lenders against the collateral of closed mortgage loans prior to the sale of the loans in the secondary market.

WHOLESALE LENDER
Wholesale lenders provide home loans through mortgage brokers or correspondents. The broker or correspondent initiates the transaction with a borrower, takes that borrower's application, and processes the loan.

WORKOUT ASSUMPTION
Workout assumption is the assumption of a mortgage, with permission of the lender, from a borrower unable to continue making the payments.

WRAP-AROUND MORTGAGE
A wrap-around mortgage is a type of financial allowing a junior mortgage (new) to be treated as a prior or senior mortgage. The wraparound mortgage payment is a combination of all mortgage payments.

YIELD CURVE
The yield curve is the graph that shows how the yield varies with the period to maturity at any given time. In a typical scenario the curve slopes up, but occasionally it slopes down or is flat. A flat yield curve means that yields on long-term bonds are not much higher than those on short-term notes.

ZERO DOWN LOAN
A zero down loan (also called 100% financing) requires no down payment. However, borrower may be required to pay money at closing to cover escrow, inspections or fees.

ZERO ORDINANCES

Zero ordinances are a local government's authorized rules regarding building codes and restrictions for property land usage.

Let Us Know How We Can Help

For more than 20 years, California Mortgage Advisors has helped first time home buyers realize the dream of leaving that rental behind, and owning a house. Whether it's conventional lending, an FHA program, VA loan, USDA Rural Development or a 203k mortgage loan, the team at California Mortgage Advisors is here to find the right mortgage for you.