

# HomeBuyer Guidebook

## *Introduction*

In 1906, Coldwell Banker Real Estate Corporation (COLDWELL BANKER) was built on providing honest, knowledgeable real estate services to help people in need. Over 90 years later; we're still keeping with our tradition.

Our wealth of resources, such as this HomeBuyer Guidebook, reinforces our commitment by helping you navigate through the home buying process. The COLDWELL BANKER HomeBuyer Guidebook is filled with useful facts, worksheets and charts that help prepare you to buy a home. From beginning your search to financing the home of your dreams, this Guidebook gives you important pointers to make your real estate experience simple.

*It is recommended that you use the drop down menu on the title bar to navigate through the "HomeBuyer Guidebook" section. If the drop down doesn't work when you point to it (your browser doesn't support it) then please return to this page and use the below links for navigation.*

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# Finding the Right Home

*The Only Source You Need*

Your Sales Associate can provide detailed information on almost *any* property currently listed for sale - whether it's listed by a COLDWELL BANKER Affiliate or another real estate company.

If you see a "For Sale" sign or an ad in the newspaper that interests you, we have access to all the data. So call your Coldwell Banker Millennium Sales Associate for all the details:

- The listing price
- The description
- The special features
- The financing terms

And we'll arrange an appointment to show you the property at your convenience.

Your Sales Associate is already familiar with your housing and financial needs, so why go through the process again with someone else? We can save you time and take the hassle out of house hunting, and it won't cost you a penny more!

# Finding the Right Home

## *Home Finding Needs Worksheet*

The more your Sales Associate knows about what you want, the easier it will be for them to help you find the right home. Take time to thoroughly complete the worksheet below and then discuss this with your Sales Associate.

Price:  Taxes:

(from Item 7 of Home Buying Worksheet)

FEATURES	SPECIFY YOUR PREFERENCES	IMPORTANCE 1-5
<b>Property</b>		
<input type="checkbox"/> View		
<input type="checkbox"/> Architectural Style		
<input type="checkbox"/> Swimming Pool		
<input type="checkbox"/> Deck/Patio		
<input type="checkbox"/> Garage		
<b>Interior</b>		
<input type="checkbox"/> Floor Plan		
<input type="checkbox"/> Room Sizes		
<input type="checkbox"/> Bedrooms		
<input type="checkbox"/> Bathrooms		
<input type="checkbox"/> Living Room		
<input type="checkbox"/> Family Room		
<input type="checkbox"/> Bonus/Game Room		
<input type="checkbox"/> Dining Room		
<input type="checkbox"/> Kitchen		
<input type="checkbox"/> Basement		
<input type="checkbox"/> General Interior Condition		
<b>Community/Location</b>		
<input type="checkbox"/> Convenience to Employment		
<input type="checkbox"/> Convenience to Transportation		
<input type="checkbox"/> Convenience to Shopping		
<input type="checkbox"/> Convenience to Schools		
<input type="checkbox"/> Convenience to Day Care		
<input type="checkbox"/> Nearby Recreational Facilities		
<input type="checkbox"/> Near Police & Fire Protection		
<input type="checkbox"/> General Appearance of Properties in Area		
<input type="checkbox"/> House Value Relative to Area		

*Other Considerations:*

# Finding the Right Home

## *Home Finding Evaluation Worksheet*

Property Address:

Association/Maintenance Fees:  Taxes

FEATURES	ASSESSMENT 1-5	FEATURES	ASSESSMENT 1-5
<b>Property</b>		<b>Interior</b>	
<input type="checkbox"/> View		<input type="checkbox"/> Floor Plan	
<input type="checkbox"/> Size of Lot		<input type="checkbox"/> Room Sizes	
<input type="checkbox"/> Landscaping		<input type="checkbox"/> Bedrooms	
<input type="checkbox"/> Topography		<input type="checkbox"/> Bathrooms	
<b>Community/Location</b>		<input type="checkbox"/> Living Room	
<input type="checkbox"/> Convenience to Employment		<input type="checkbox"/> Family Room	
<input type="checkbox"/> Convenience to Transportation		<input type="checkbox"/> Bonus/Game Room	
<input type="checkbox"/> Convenience to Shopping		<input type="checkbox"/> Dining Room	
<input type="checkbox"/> Convenience to Schools		<input type="checkbox"/> Kitchen Amenities	
<input type="checkbox"/> Convenience to Day Care		<input type="checkbox"/> Fireplace	
<input type="checkbox"/> Nearby Recreational Facilities		<input type="checkbox"/> Basement	
<input type="checkbox"/> Near Police & Fire Protection		<input type="checkbox"/> General Interior Condition	
<input type="checkbox"/> General Appearance of Properties in Area		<b>Total Score</b>	
<input type="checkbox"/> House Value Relative to Area		<i>Positive Features</i>	
<b>Exterior</b>			
<input type="checkbox"/> Architectural Style			
<input type="checkbox"/> Curb Appeal			
<input type="checkbox"/> Foundation Condition			
<input type="checkbox"/> Roof Condition			
<input type="checkbox"/> General Exterior Condition		<i>Negative Features</i>	
<input type="checkbox"/> Deck/Patio			
<input type="checkbox"/> Pool			
<input type="checkbox"/> Garage			
<input type="checkbox"/> Other			

# Finding the Right Home

## *Home Purchase Negotiation*

Here are ten important questions you should ask your Sales Associate and why you should ask them.\*

### Property Specific

**1. HOW LONG HAS THE PROPERTY BEEN ON THE MARKET?**

*Why: The length of time a property has been on the market may indicate the seller's willingness to negotiate.*

**2. HAVE THERE BEEN ANY PRICE REDUCTIONS DURING THE LISTING PERIOD?**

*Why: The amount of any price reduction, as it relates to the overall purchase price, may indicate the seller's desire to attract an offer.*

**3. HAVE THERE BEEN ANY OTHER OFFERS ON THE PROPERTY?**

*Why: The length of time a property has been on the market may indicate the seller's willingness to negotiate.*

**4. WHAT IS THE MOTIVATION OF THE SELLER?**

*Why: Motivation is a key element in any negotiation. As an example, if the seller has already purchased a new property, your ability to close quickly may be an attractive element of the negotiations.*

**5. WHAT PERSONAL ITEMS ARE INCLUDED IN THE SALE?**

*Why: Anything the seller is willing to leave behind that you won't need to buy when you move in has real value. Consider those items in your offer.*

### Neighborhood Specific

**6. WHAT IS THE PRICE RANGE OF SOLD PROPERTIES IN THE AREA?**

*Why: This information is important since it will indicate the top and bottom of that specific market.*

**7. WHAT IS THE AVERAGE TIME ON MARKET FOR PROPERTIES IN THIS AREA?**

*Why: Short market times may indicate a sellers' market. If this is the case, you may face competition from other buyers.*

**8. WHAT IS THE LIST TO SALE PRICE RATION IN THIS AREA?**

*Why: This information will indicate sellers' past willingness to negotiate and by how much.*

**9. WHAT IS THE AVERAGE SALES PRICE PER SQUARE FOOT OF RECENT SOLDS?**

*Why: This approach to establish value works best in a P.U.D. and/or where there are similar homes, lot sizes and improvements.*

**10. WHAT OTHER KNOWN FACTORS ABOUT THE PROPERTY OR NEIGHBORHOOD COULD AFFECT VALUE?**

*Why: Review the Seller's Disclosure Statement very carefully with your Sales Associate.*

### Final Recommendation

If you will be financing the property, get preapproved for a mortgage prior to making your offer. This will show the seller your commitment and ability to perform. Preapproval can be extremely important in a sellers' market.

*\* Depending on the type of agency relationship you have with your Sales Associate, he or she may not be able to assist you with these specific questions.*

# Financing Your New Home

## *Home Financing Choices*

In today's fast-paced real estate environment, home buyers need every possible advantage. COLDWELL BANKER has made home buying simpler by helping buyers get "preapproved," and not merely "prequalified." What is the difference?

### Preapproval vs. Prequalification

What could be more comforting than the peace of mind that goes with knowing your mortgage is fully approved?

You will have a greatly improved negotiating position when you are preapproved for a mortgage. Sellers are more apt to negotiate with someone who already has a mortgage approval in hand. The preapproval letter lets the seller know they are working with a serious buyer. A preapproved buyer can also close on a property more quickly - another major consideration for a motivated seller. Obtaining a preapproved mortgage is essential in a "sellers' market" or where supply is limited.

**Preapproval** uses basic information as well as electronic credit reporting. It is a true mortgage commitment. Which means a commitment to financing your home and an indication of the total mortgage amount available to you. Cendant Mortgage, as well as other mortgage lenders, can help you through the preapproval process. In most cases, there is no charge for this service. Ask your Sales Associate for more information.

Prequalification, on the other hand, is not a full mortgage approval, but an estimate of what you can afford. When you prequalify for a mortgage, the lender collects basic information regarding your income, monthly debts, credit history and assets, and then uses this information to calculate an estimated mortgage amount.

Of the over 50 different mortgage types available, the two largest categories are fixed and adjustable rate mortgages, each with advantages to consider.

### Fixed Rate Mortgage

The fixed rate mortgage is a traditional method of financing a home. The interest rate stays the same for the entire term of the loan - usually 15 or 30 years - so the interest and principal portions of your monthly payment remain the same.

Your payments are stable and predictable, but initial interest rates tend to be higher

on a fixed rate mortgage than on adjustable rate loans. Many fixed rate mortgages cannot be assumed by a subsequent buyer.



## Adjustable Rate Mortgage (ARM)

The interest on an adjustable rate mortgage is linked to a financial index, such as a Treasury security, so your monthly payments can vary over the life of the loan - usually 25 to 30 years. Most adjustable rate mortgages have a lifetime cap on the interest rate increase to protect the borrower.

The lower initial payments on ARMs make it easier for buyers to qualify. Some ARMs may be converted to fixed rate mortgages at specified times, usually within the first five years.

# Financing Your New Home

## *Documents Needed to Apply for a Mortgage*

When you apply for a mortgage, you will need to furnish information regarding your income, expenses and obligations. It will save time if you have the following items available:

- Two most recent pay stubs
- W-2s for the last two years
- Federal tax returns for the last two years
- Last two months' bank statements
- Long-term debt information (credit cards, child support, auto loans, installment debt, etc.)



## Repairing Past Credit Problems

Have you had situations in the past that have put blemishes on your credit? There are many reasons why credit problems occur. Some explanations are:

- You were a co-signer on a loan that wasn't paid on time
- You allowed someone else to use your credit cards
- You may have thought your spouse paid the bill
- You thought your insurance company was going to handle the payment
- You are divorced but your former spouse had credit problems

Some lenders will work with you to find a credit solution. They have special programs and financing options that allow you to get a mortgage even with minor credit blemishes. However, it is in your best interest to keep your credit report in good standing. Here are some helpful hints for your credit report:

- Never go over 90 days past due on any accounts
- Keep your credit card debt below 50% of your monthly obligations
- If paying bills after the due date, always pay within the grace period



# Financing Your New Home

## *Financing Process*

1  
Complete the loan application. An application fee may be required by the lender.

2  
The lender begins processing the application.

3  
The lending institution requests an appraisal of the home, a credit report and verification of employment and assets, such as bank accounts.

4  
The lender will provide a booklet containing specific loan information and a good faith estimate of closing and related costs.

5  
An estimate of your loan costs, in the form of an Initial Truth in Lending Disclosure Statement (Reg Z) is issued.

6  
The lender evaluates the application, along with supporting documentation, and approves the loan.

7  
Sign closing

documents and the  
loan is funded.

The lender disburses the  
funds to the settlement or  
closing agent. Seller is paid  
and title to the home is  
yours.

Appropriate  
documents recorded at  
the county recorder's  
office.



# Financing Your New Home

## How Much Home Can You Afford?

### Home Buying Worksheet

	Example*	Your Family
<b>1. Gross Annual Income (before taxes)</b>	\$48,000	\$
<b>2. Gross Monthly Income</b> Line 1 divided by 12 months.	\$4,000	\$
<b>3. Monthly Allowable Housing Expense and Long-Term Obligations</b> Line 2 multiplied by .38 **(38% of gross monthly income is usually allocated for principal, interest, taxes, insurance and monthly long-term obligations.)	\$1,520	\$
<b>4. Monthly Allowable Housing Expense</b> Line 3 minus your monthly obligations*-credit cards, child support, car loan, etc. (Remainder is allowable principal, interest, taxes and insurance payment.) NOTE: Monthly Allowable Housing Expense on line 4 should not exceed 33%** of line 2. If it does, enter the lesser amount of the two on line 4 and continue.	\$400	\$
<b>5. Monthly Principal and Interest Payment</b> Line 4 multiplied by .80 (80% is the amount of the monthly allowable housing expense usually allocated to only the principal and interest payment, excluding taxes and insurance.)	\$1,120	\$
<b>6. Estimated Mortgage Amount</b> Line 5 divided by 7.34 multiplied by \$1,000 (7.34 is the factor for a 8% loan amortized over a 30-year term. Factors for other interest rates and terms can be found on the <a href="#">Interest Rate Factor Chart</a> .)	\$896	\$
<b>7. Estimated Affordable Price***</b> Line 6 divided by .80 (80% is the mortgage loan amount, assuming a 20% down payment. Use .90 for a 10% down payment.)	\$122,070	\$
	\$152,600	\$

***If you would like our help with this worksheet, please call us today at 626.963.2050***

*This material is intended for example purposes only and is not a commitment for financing. This worksheet is intended for use on primary residences. Your rate and affordable price will vary, depending on the size of your down payment, specific terms of your loan, other monthly obligations and the amount of assessment fees, if applicable.*

*\*The example column is based upon a customer(s) with a gross annual income of \$48,000 and monthly long-term obligations of \$400, an interest rate of 8%, a mortgage amount of \$122,000 and an Annual Percentage Rate of 8.125%.*

*\*\*These are standard industry guidelines; however, there are a variety of other mortgage products with flexible options.*

*\*\*\*Rounded to the nearest \$100*



# Financing Your New Home

## Interest Rate Factor Chart

Factors Per \$1,000					
Interest Rate	Term 15 Years	Term 30 Years	Interest Rate	Term 15 Years	Term 30 Years
4	7.40	4.77	8	9.56	7.34
4 1/8	7.46	4.85	8 1/8	9.63	7.42
4 1/4	7.52	4.92	8 1/4	9.70	7.51
4 3/8	7.59	4.99	8 3/8	9.77	7.60
4 1/2	7.65	5.07	8 1/2	9.85	7.69
4 5/8	7.71	5.14	8 5/8	9.92	7.78
4 3/4	7.78	5.22	8 3/4	9.99	7.87
4 7/8	7.84	5.29	8 7/8	10.07	7.96
5	7.91	5.37	9	10.14	8.05
5 1/8	7.97	5.44	9 1/8	10.22	8.14
5 1/4	8.04	5.52	9 1/4	10.29	8.23
5 3/8	8.10	5.60	9 3/8	10.37	8.32
5 1/2	8.17	5.68	9 1/2	10.44	8.41
5 5/8	8.24	5.76	9 5/8	10.52	8.50
5 3/4	8.30	5.84	9 3/4	10.59	8.59
5 7/8	8.37	5.92	9 7/8	10.67	8.68
6	8.44	6.00	10	10.75	8.77
6 1/8	8.51	6.08	10 1/8	10.82	8.87
6 1/4	8.57	6.16	10 1/4	10.90	8.96
6 3/8	8.64	6.24	10 3/8	10.98	9.05
6 1/2	8.71	6.32	10 1/2	11.05	9.15
6 5/8	8.78	6.40	10 5/8	11.13	9.24
6 3/4	8.85	6.48	10 3/4	11.21	9.33
6 7/8	8.92	6.57	10 7/8	11.29	9.43
7	8.99	6.65	11	11.36	9.52
7 1/8	9.06	6.74	11 1/8	11.44	9.62
7 1/4	9.13	6.82	11 1/4	11.52	9.71
7 3/8	9.20	6.91	11 3/8	11.60	9.81
7 1/2	9.27	6.99	11 1/2	11.68	9.90
7 5/8	9.34	7.08	11 5/8	11.76	10.00
7 3/4	9.41	7.16	11 3/4	11.84	10.09
7 7/8	9.48	7.25	11 7/8	11.92	10.19

This chart will help you calculate your monthly principal and interest payments for both fixed and adjustable rate loans at various interest rates over 15 and 30-year terms.

Start by finding the appropriate interest rate, then look across to the column indicating the desired term of the loan. That number is the interest rate factor. This is the dollar amount required each month to amortize \$1,000 over the specified term. To calculate your principal and interest payment, multiply the interest rate factor by the total loan amount in \$1,000s.

### Here's an example:

Interest Rate:	8%
Term:	30 years
Factors per \$1,000:	7.34
Total mortgage:	\$152,600
$7.34 \times 152.6 = \$1,120$	

# Financing Your New Home

## *Estimated Buyer's Costs*

Property Address: \_\_\_\_\_

Sale Price: \$ \_\_\_\_\_

Down Payment: \$ \_\_\_\_\_

Amount Financed: \$ \_\_\_\_\_

### **Recording Fees:**

Recording Fees: \$ \_\_\_\_\_

Tax Stamps: \_\_\_\_\_

Other Fees: \_\_\_\_\_

### **Additional Settlement Charges:**

Survey: \_\_\_\_\_

Pest Inspection: \_\_\_\_\_

Home Warranty: \_\_\_\_\_

Home Inspection Fee: \_\_\_\_\_

Other Fees: \_\_\_\_\_

## **BUYER'S COSTS:**

### **Loan Items:**

Loan Origination Fee: \$ \_\_\_\_\_

Appraisal Fee: \_\_\_\_\_

Credit Report: \_\_\_\_\_

Additional Loan Fees: \_\_\_\_\_

### **Prepaid Items:**

Interest: \_\_\_\_\_

Hazard Insurance: \_\_\_\_\_

Mortgage Insurance: \_\_\_\_\_

Taxes: \_\_\_\_\_

Assessments: \_\_\_\_\_

Other Fees: \_\_\_\_\_

### **Title and Closing Charges:**

Escrow, Settlement or Closing Fee: \_\_\_\_\_

Title Insurance: \_\_\_\_\_

Notary Fee: \_\_\_\_\_

Attorney's Fee: \_\_\_\_\_

Other Fees: \_\_\_\_\_

### **Total Settlement Charges:**

**Down Payment:** \_\_\_\_\_ + \_\_\_\_\_

**Total Estimate of Buyer's Costs:** \_\_\_\_\_

Amount Financed: \$ \_\_\_\_\_

Interest Rate: \_\_\_\_\_ %

Term: \_\_\_\_\_ Years

### **Estimated Monthly Payment:**

Principal & Interest: \$ \_\_\_\_\_

Mortgage Insurance (PMI) (if any): \_\_\_\_\_

Property Taxes: \_\_\_\_\_

Homeowners Insurance: \_\_\_\_\_

Homeowners Assoc. Fee (if any): \_\_\_\_\_

**Total Monthly Payment:** \$ \_\_\_\_\_

NOTE: This estimate has been prepared to assist the buyer in computing costs. Lenders and other related services will vary in their charges; therefore, these figures are not and cannot be guaranteed by your local COLDWELL BANKER office, or by any Sales Associate.

# Understanding the Language

## *Frequently Asked Financial Questions*

### **Q. WHAT IS THE DIFFERENCE BETWEEN "PREQUALIFIED" AND "PREAPPROVED?"**

- A. A prequalification consists of a discussion between a home buyer and a loan officer. The loan officer collects basic information regarding the customer's income, monthly debts, credit history and assets, and then uses this information to calculate an estimated mortgage amount for the home buyer. The prequalification is not a full mortgage approval, but estimates what a home buyer can afford.

### **Q. WHAT TYPES OF MORTGAGE PROGRAMS ARE OFFERED?**

- A. Currently, there are over 50 different mortgage products available, including:
- 15, 20 and 30-year fixed rate loans
  - adjustable rate loans
  - new construction financing
  - VA and FHA loans
  - 5 and 7-year balloon loans
  - and many more

### **Q. HOW LONG DOES IT TAKE TO PROCESS A MORTGAGE APPLICATION?**

- A. Usually about 45 to 60 days, although it can take as few as seven days and as long as 90 days for some transactions. The actual time depends on how quickly the lender can get an appraisal of the property, a credit report and verification of employment and bank accounts.

### **Q. WHAT DOCUMENTS WILL I HAVE TO PROVIDE?**

- A. Be prepared to provide verification of income (including a pay stub and recent tax returns), bank account numbers and details on your long-term debt (credit cards, auto loans, child support, etc.). If you're self-employed you may also be required to provide financial statements for your business.

In recent years, lenders have been required to obtain more specific information from borrowers in order to package and sell loans to investors. If you were lending someone such a large amount of money, you'd want detailed financial

information.

**Q. COULD ANYTHING DELAY APPROVAL OF MY LOAN?**

- A.** If you provide the lender with complete, accurate information, everything should go smoothly.

You may face a delay if the lender discovers credit problems - a history of late payments or nonpayment of debts, or a tax lien. You may then be required to submit additional explanations or clarifications.

You should also be sure to notify your lender if your personal or financial status changes between the time you submit an application and the time it's funded. If you change jobs, get an increase (or decrease) in salary, incur additional debt or change your marital status, let the lender know promptly. You may be delayed if the home you selected fails to appraise for the agreed purchase price.

**Q. WHAT'S INCLUDED IN MY HOUSE PAYMENT?**

- A.** Principal and interest on your loan. Depending on the terms of your loan, the payment also may include hazard (homeowners) insurance, mortgage insurance and property taxes.

**Q. CAN I PAY THOSE OTHER THINGS SEPARATELY?**

- A.** Not if it's an FHA or VA-insured loan. With most other loans, you can pay your own taxes and insurance if you borrowed no more than 80 percent of the purchase price or appraised value of your home. Check with your lender to be sure.

**Q. WHAT DO THE CLOSING COSTS INCLUDE?**

- A.** Closing costs cover processing and administration of your loan. In addition to a loan fee, you'll usually be asked to prepay interest charges, to cover the partial month in which you close, and impounds for property taxes, hazard insurance and mortgage insurance.

**Q. WHEN DO MY MORTGAGE PAYMENTS START?**

- A.** Usually about 30 days after closing. The actual date of your first payment will be included in your closing documents.



# Understanding the Language

## *Glossary*

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### A

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- **Adjustable Rate Mortgage (ARM):** A mortgage with an interest rate that changes over time in line with movements in the index. ARMs are also referred to as AMSs (adjustable mortgage loans) or VRMs (variable rate mortgages).
- **Adjustment Period:** The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one-year ARM, which means that the interest rate can change once a year.
- **Amortization:** Repayment of a loan in installments of principal and interest, rather than interest-only payments.
- **Annual Percentage Rate (APR):** The total finance charge (interest, loan fees, points) expressed as a percentage of the loan amount.
- **Appraisal:** An estimate of the property's value.
- **Assumption of Mortgage:** A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (usually the seller) from liability.

### B

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- **Balloon Payment:** A lump sum principal payment due at the end of some mortgages or other long-term loans.
- **Binder:** Sometimes known as an offer to purchase or an earnest money receipt. A binder is the acknowledgment of a deposit along with a brief written agreement to enter into a contract for the sale of real estate.



- **Buydown:** Permanent - prepaid interest that brings the note rate on the loan down to a lower, permanent rate. Temporary - prepaid interest that lowers the note rate temporarily on the loan, allowing the buyer to more readily qualify and to increase payments as income grows.

## C

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- **Cap:** The limit on how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.
- **Cash Reserves:** The amount of the buyer's liquid cash remaining after making the down payment and paying all closing costs.
- **CC&Rs:** Covenants, conditions and restrictions. A document that controls the use, requirements and restrictions of a property.
- **Certificate of Commitment:** The lender's approval of a VA loan, which is usually good for up to six months.
- **Certificate of Reasonable Value (CRV):** A document that establishes the maximum value and loan amount for a VA guaranteed mortgage.
- **Chattel:** Personal property
- **Closing Statement:** The financial disclosure statement that accounts for all of the funds received and expected at the closing, including deposits for taxes, hazard insurance, and mortgage insurance.
- **Commitment Period:** The period during which a loan approval is valid.
- **Condominium:** A form of real estate ownership where the owner received title to a particular unit and has a proportionate interest in certain common areas. The unit itself is generally a separately owned space whose interior surface (walls, floors and ceilings) serve as its boundaries.
- **Contingency:** A condition that must be satisfied before a contract is binding. For instance, a sales agreement may be contingent upon the buyer obtaining financing.
- **Conversion Clause:** A provision in some ARMs that enables home buyers to change an ARM to a fixed rate loan, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed rate

mortgages. This conversion feature may cost extra.

- **Cooperative:** A form of multiple ownership in which a corporation or business trust entity holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements.
- **CRB:** Certified Residential Broker. To be certified, a broker must be a member of the National Association of Realtors®<sup>®</sup>, have five years experience as licensed broker and have completed required Residential Division courses.
- **CRS:** Certified Residential Specialist.

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- **Debt Ratios:** The comparison of a buyer's housing costs to his or her gross or net effective income, and the comparison of a buyer's total long-term debt to his or her gross or net effective income. The first ratio is *housing ratio*; the second ratio is *total debt ratio*.
- **Due-On-Sale Clause:** A clause that requires a full payment of a mortgage or deed of trust when the secured property changes ownership.

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- **Earnest Money:** The portion of the down payment delivered to the seller or escrow agent by the purchaser with a written offer as evidence of good faith.
- **Escrow:** A procedure in which a third party acts as a stakeholder for both the buyer and the seller, carrying out both parties' instructions and assuming responsibility for handling all of the paperwork and distribution funds.
- **Equity:** The difference between what is owed and what the property could be sold for.

## F

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- **FHA Loan:** A loan insured by the Federal Housing Administration (of the Department of Housing and Urban Development).
- **Federal Home Loan Mortgage Corporation (FHLMC):** Called "Freddie

Max"; a part of the secondary market, particularly used to purchase loans from savings and loan lenders within the Federal Home Loan Bank Board.

- **Federal National Mortgage Association (FNMA):** Popularly known as "Fannie Mae." A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by the VA, as well as conventional home mortgages.
- **Fee Simple:** An estate in which the owner has unrestricted power to dispose of the property as he wishes, including leaving by will or inheritance. It is the greatest interest a person can have in real estate.
- **Finance Charge:** The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation Z.
- **Fixed Rate Mortgage:** A conventional loan with a single interest rate for the life of the loan.
- **Fully Indexed Rate:** The maximum interest rate on an ARM that can be reached at the first adjustment.

## G

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- **Gift Letter:** A letter from a relative stating that an amount will be gifted to the buyer, and that said amount is not to be repaid.
- **Government National Mortgage Association (GNMA):** Called "Ginnie Mae"; a governmental part of the secondary market that deals primarily in recycling VA and FHA mortgages, particularly those that are highly leveraged.
- **Graduated Payment Mortgage:** A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.
- **GRI:** Graduate, Realtors Institute. A professional designation granted to a member of the National Association of Realtors® who was successfully completed courses covering Law, Finance and Principle of Real Estate.

## H

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- **Home Inspection Report:** A qualified inspector's report on a property's overall condition. The report usually includes an evaluation of both the structure and mechanical systems.
- **Home Warranty Plan:** Protection against failure of mechanical systems within the property. Usually includes plumbing, electrical, heating systems and installed appliances.

## I

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- **Index:** A measure of interest rate changes used to determine changes in an ARM's interest rate over the term of the loan.
- **Initial Interest Rate:** The introductory interest rate on a loan; signals that there may be rate adjustments later in the loan.

## J

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- **Joint Tenancy:** An equal undivided ownership of property by two or more persons. Upon the death of any owner, the survivors take the decedent's interest in the property.
- **Jumbo Loans:** Mortgage loans that exceed the loan amounts acceptable for sale in the secondary market; these jumbos must be packaged and sold differently to investors and therefore have separate underwriting guidelines.

## L

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- **Lien:** A legal hold or claim on property as security for a debt or charge.
- **Loan Commitment:** A written promise to make a loan for a specified amount on specified terms.
- **Loan-To-Value-Ratio:** The relationship between the amount of the mortgage and the appraised value of the property, expressed as a percentage of the appraised value.
- **Lock-in:** The fixing of an interest rate or points at a certain level, usually during the loan application process. It is usually done for a certain period of

time, such as 60 days, and may require a fee or premium in the form of a higher interest rate.

## M

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- **Margin:** The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.
- **Mortgage Insurance Premium (MIP):** The mortgage insurance required on FHA loans for the life of said loans; MIP can either be paid in cash at closing or financed in its entirety in the loan. The premium varies depending on the method of payment.
- **Mortgage Life Insurance:** A type of term life insurance often bought by home buyers. The coverage decreases as the mortgage balance declines. If the borrower dies while the policy is in force, the mortgage debt is automatically covered by insurance proceeds.

## N

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- **Negative Amortization:** Occurs when monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid principal balance, which means that even after several payments the borrowers could owe more than they did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments that aren't high enough to cover the interest.

## O

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- **Origination Fee:** A fee or charge for work involved in evaluating, preparing, and submitting a proposed mortgage loan. The fee is limited to 1 percent for FHA and VA loans.

## P

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- **Payment Cap:** The maximum amount the payment can adjust in any given time frame.
- **PITI:** Principal, Interest, Taxes and Insurance.

- **Planned Unit Development (PUD):** A zoning designation for property developed at the same or slightly greater overall density than conventional development, sometimes with improvements clustered between open, common areas. Use may be residential, commercial or industrial.
- **Point:** An amount equal to one percent of the principal amount of the investment or note. Lender assesses loan discount points at closing to increase the yield on the mortgage to a position competitive with other types of investments.
- **Prepayment Penalty:** A fee charged to a borrower who pays a loan before it is due. Not allowed for FHA or VA loans.
- **Private Mortgage Insurance (PMI):** Insurance written by a private company protecting the lender against loss if the borrower defaults on the mortgage.
- **Purchase Agreement:** A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money contract, or agreement for sale.

## R

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- **Rate Gap:** The difference between where the rate is now and where it could adjust to on an ARM. Also used to compare the difference between a current conventional rate and that of an ARM.
- **Realtor®:** A real estate broker or associate active in a local real estate board affiliated with the National Association of Realtors®.
- **Regulation Z:** The set of rules governing consumer lending issued by the Federal Reserve Board of Governors in accordance with the Consumer Protection Act.

## T

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- **Tenancy in Common:** A type of joint ownership of property by two or more persons with no right of survivorship.
- **Title Insurance Policy:** A policy that protects the purchaser, mortgagee or

other party against losses.

## V

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- **VA Loans:** A loan, made by a private lender, that is partially guaranteed by the Veterans Administration.