Mortgage 101 For New Home Buyers

Our Commitment

Buying a home is probably the biggest purchase of a lifetime. It's a big deal to you and it's a big deal to us! That's why we are committed to making the process as enjoyable as possible.

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What to Look For In a Lender 3

Mortgage Defined 4

Common Loan Options..5

Purchase and Sale Agreement 7

Pre-Qual and Pre-Approval 8

Key Factors for Loan Approval 9

Credit Scores 10

Overview of Loan Process 11

Closing Costs Explained 12

Other Terms and Concepts 14

Resources 15

Glossary 16

Notes 20

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Because most buyers require a mortgage to purchase a property, their lender plays a vital role in the success of the property purchase transaction. No matter how good a real estate agent is, a bad lender can easily ruin a deal. No real estate agent wants that to happen. Therefore, it is extremely important for a real estate agent to work with a lender that they can trust to successfully close real estate transactions.

There are many traits that make up a good lender. The following are some of the most important.

- ***Communicative:*** A good lender keeps in continual contact with everyone involved in the purchase process, including both real estate agents, the title/escrow officer and the borrower. They continually update the appropriate people about the status of the loan**.**
- ***Available:*** A good lender is responsive to the needs of real estate agents and borrowers. While a lender can't be available 24/7, they should be available outside of the standard 9-5 work week. Real estate agents do a large amount of their business on weekends, and therefore lenders should be available when they need them most. And they should promptly return their phone messages and emails.
- ***Organized:*** A good lender is organized and does not miss important steps in the loan process. An unorganized lender can cause a deal to fall through by no fault of the real estate agent's or the borrower.
- ***Proactive:*** A good lender anticipates problems and avoids them, rather than just reacting to issues once they arise. And if a problem does occur, they are quick to solve it.
- ***Honest:*** A good lender is honest with their clients and real estate agents. They should provide the borrower a competitive rate and should not charge any unnecessary fees.
- ***A positive reflection of the real estate agent:*** Perhaps most importantly, a good lender understands that when a real estate agent refers a client to a lender, the lender's actions are a reflection of the real estate agent. If the client has a negative experience with a lender, they probably will not use the real estate agent again or refer them to other potential clients.

A ***mortgage*** is a loan that uses real estate as security/collateral to guarantee repayment if the borrower defaults on the terms of the loan. A mortgage loan has two key components:

- ***Promissory Note***: The written evidence of the debt (i.e. an "IOU"). It specifies exactly how much money was borrowed as well as the terms and conditions under which the borrower promises to repay the loan.
- ***Deed of Trust***: The written agreement pledging the property as security for the debt. If the borrower doesn't pay the promissory note, the lender has the right to take the necessary steps to have the property sold in order to satisfy the debt (foreclosure).

The key terms of a mortgage include:

- ***Loan Amount:*** The dollar amount of the loan (versus the purchase price).
- ***Rates:***
  - ***Interest Rate:*** The percentage of an amount of money that is paid for the use of that money over a period of time.
  - ***Annual Percentage Rate (APR):*** The cost of credit expressed as a yearly percentage. It includes up-front costs (pre-paids) and finance charges associated with obtaining the loan. Therefore, it is usually a higher rate than the interest rate on the note.
- ***Term:*** The amount of time (typically 15 or 30 years) a lender gives a borrower to repay the loan.
- ***PITI:*** The acronym for Principal, Interest, Taxes and Insurance, usually the four parts of a monthly mortgage payment.

Many different loan programs exist, but most of them fall into the following categories:

Government or Conventional:

- ***Government Insured:*** Loans such as FHA and VA are backed by the U.S. government. Also included in this are Bond Loans issued by the state (IHA). If the borrower does not repay the debt, the government will. These loans are typically designed for first-time homebuyers and buyers qualified for special financing assistance.
- ***Conventional***: A mortgage loan that is NOT insured or guaranteed by the government.

Portfolio Loans:

- Banks loan depositor's money to borrowers and service in-house.

Private Investors (Sub-Prime/Non-Conforming):

- Large pension funds, insurance companies, and niche banks. These loans bridge gap left by conforming and government loans.

Conforming or Jumbo:

- ***Conforming:*** Mortgages that fall within Fannie Mae and Freddie Mac's loan limits. The loan limits for 2008 are:
  - 1 Unit - $ 417,000
  - 2 Units - $ 533,850
  - 3 Units - $ 645,300
  - 4 Units - $ 801,950
- **Jumbo (or nonconforming)**: Mortgages that exceed the above limits. Borrowers typically pay a higher interest rate for nonconformity.

Interest Only or Principal and Interest:

- ***Interest Only:*** A loan that requires payment on the interest of the debt only, rather than requiring additional payments to lower the principal of the loan. A five or ten year interest-only period is typical. After this time, the principal balance is amortized for the remaining term. For example, if a borrower had a 30-year mortgage and the first 10 years were interest only, then the payments for the first 10 years would just be for interest, and the principal balance would be amortized over the remaining twenty years.
- ***Principal and Interest***: The method of repayment whereby the amount borrowed is repaid gradually through regular blended monthly payments of principal and interest. The first few years of payments is mostly applied toward the interest owed. In the final years of the loan, payment amounts are applied mostly to the remaining principal.

Fixed or Adjustable Rate:

- ***Fixed Rate***: The interest rate is fixed for the full term of the loan. It will not change.
- ***Adjustable Rate Mortgage (ARM)***: Loans that start with a fixed interest rate for a set number of years, and then the interest rate adjusts periodically based upon changes to a financial index plus a margin or yield. Payments will increase or decrease accordingly.

Documentation Types

Doc Type	Definition
Full Doc	The borrower's income and assets are documented via a Verification of Employment (VOE) form that is received directly from the employer and a Verification of Deposit (VOD) that is received directly from the depository.
Alt Doc	The borrower's income and assets are a verified by documents obtained directly from the borrower, such as bank statements, paystubs and canceled checks.
Reduced Doc	The borrower's employment is verified, but the income amount is not verified. Assets are disclosed and verified.

Other Common Loan Types:

- ***One Time Close:*** Construction and permanent financing in one loan. One application, one qualification process, one closing, and one set of closing costs
- ***Reverse:*** A loan that enables elderly (62 yrs or older) homeowners to tap into their home's equity without selling their home or moving from it. (see www.aarp.org/revmort for more details)
- ***Refinance***: A loan to the current owner of a home to replace an existing loan. The loan itself is just like a "purchase loan" and is secured by the property. Refinances are used to either provide cash ("cash-out") or to improve the rate and/or term of the loan. They can also be used to remove someone from the previous mortgage note.
- ***Home Equity Line of Credit (HELOC) or Loan:*** A line of credit that gives the borrower the ability to borrow funds at any time, and in the amount they choose, up to their maximum credit limit. A "loan" provides a lump sum cash payment to the borrower up front, versus a "line of credit" allows them to withdraw funds as needed.

While all parts of a purchase and sale agreement are important, the accuracy of the following sections will make the loan process much smoother.

- ***Listing/Selling Agency***: Please fill in all contact information. Knowing how to contact either agent can save a significant amount of time if a problem arises. It also helps the lender know how to keep both agents informed of the loan progress.
- ***Finance Terms:*** Make sure to check the appropriate loan type. This is particularly important for a VA or FHA loan because they have additional requirements on a seller and the deal could be broken if the borrower secures a VA or FHA loan and the seller wasn't aware.
- ***Other Terms:*** Check with your client's lender before putting "allowances," such as a carpet or roof allowance, in the contract. Most lenders will prefer that you either change the sales price or the buyer can be compensated by stating something similar to "the seller will pay $XXX of buyer's pre-paid and closing costs."
- ***Lead Paint Disclosure:*** If the property is a "targeted" property, and the buyer is using a government loan (FHA, IHFA, VA, etc.), an inspection will be required unless the buyer "waives" their right to an inspection. Note: Most targeted homes will fail inspection, and therefore if they don't waive their rights then the deal will probably fail.
- ***Subdivision Homeowner's Association:*** As a monthly housing expense, HOA dues are a factor in a borrower's loan approval. It is very possible that a borrower may be approved to purchase a property when HOA dues are not included, but then not be approved once they are included. Not including this information in the beginning could result in a deal being broken much later in the process than necessary.
- ***Occupancy:*** Be sure to ask your client what their intent is and check the correct option. If the contract does not match the loan, the deal could fall through very late in the process.
- ***Closing:*** Listing the name of the escrow company and the escrow officer ensures the lender knows who to contact to coordinate the closing.
- ***Signatures:*** A contract signed by all parties is necessary before the lender can draw the funding documents, and therefore the lender needs a copy in advance of the closing.

The terms ***pre-qualification*** and ***pre-approval*** are often mixed up and can lead to a borrower believing they are able to purchase a property that they cannot actually purchase.

To save yourself and your clients from wasting time and energy, it is very important to have a pre-approval letter from a lender before making any offers.. An offer with a pre-approval is much stronger than one without. Also, by having your clients meet with a lender first you can be sure of what price range they can afford, and if they can even qualify for a loan.

Pre-qualification: Pre-qualification is an informal way to determine how much money a client may be able to borrow. A person can be "pre-qualified" over the phone by telling a lender their income, their debts, and how large a down payment they can afford. This helps the client arrive at a ballpark figure of the amount they may have available to spend on a house.

> **CAUTION**: The lender is not obligated to provide the client a loan. Because prequalification is based on a small portion of the total information needed to actually approve a loan, often times a person who pre-qualifies will not be approved for a loan. For example, a client claims that they make $3,000 a month in salary and they believe they've provided an accurate answer. But after reviewing their W-2 the lender realizes they only make that high of a salary during the summer months and therefore their average monthly salary (based on their yearly income) is only $2,000.

Pre-Approval: Pre-approval is a lender's conditional commitment to lend to a borrower. It involves gathering their credit scores and reviewing their financial records. Pre-approval gives a more definite idea of how much a client can borrow from the lender.

> **CAUTION**: While pre-approval is a much better sign of a client's ability to borrow funds, and the best you can usually expect to receive prior to the close, it is a conditional offer and therefore not a guarantee. For example, a client with a 680 credit score may be preapproved in March but then be unable to get approved for a loan in July because their credit score dropped to 580 in May.
>
> While there are many factors that lenders consider when approving a loan and determining the loan's interest rate, the two most important components are:

1. **Borrower's Ability To Repay The Mortgage**

- ***Credit Score***: Lenders use the mid-score of the 3 credit repositories. The following is a generalization of credit scores:

Great = 720+ Good = 720 – 620 Average = 620 – 580 Sub-prime = < 580

- ***Credit/Payment History***: Lenders also look at credit history, such as on-time rent/mortgage payments for the last year, bankruptcies discharged with that past four years (two for government), or outstanding judgments, tax liens or collections. Sub-prime loans are often the only option when any of these factors exist.

- ***Income and Job Security***: Lenders typically look for 2+ consecutive years in the same field. This is especially important for borrowers that are self-employed or paid on a commission/ bonus basis. If a borrower has less than 2 consecutive years in the same industry, they may pay a higher interest rate to offset the additional risk to the lender.
- ***Reserves*** – Lenders typically want a borrower to have liquid reserves to cover the total monthly payment for 2-6 months. The number depends on several factors, including the loan program, the intended use of the property and the other factors listed here.
- ***Debt Ratios***: Below are the two most important ratios. The acceptable percentage differs by each loan program and borrower. The percentages listed below are an approximate limit (over that percentage the likelihood of approval decreases).
  - ***Housing Expense-to-Income:*** (House Payment) / (Monthly Income) = 28%
  - ***Total Debt-to-Income:*** (House Payment + Other Debts) / (Month Income) = 36%

2. **Lender's Ability to Recover the Value of the Loan in the Case of a Default**

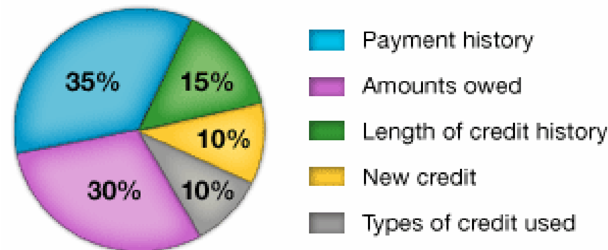
- ***Property Appraisal:*** Provides an unbiased opinion of the market value and condition of the property. Lenders require this to ensure a borrower is not asking for more money than the home is worth, and to determine what the house would be worth in case of default.
- ***Loan-to-Value (LTV):*** The ratio of the loan amount / appraised value of the home determines how much equity the borrower has in the property. Lenders prefer an LTV of 80% or less (i.e. the loan equals 80% or less of the value of the home). At that rate the lender can usually foreclose on the house and still recover the loan amount after paying all the costs associated with foreclosure. Loans with an LTV over 80% usually require mortgage insurance or a 2nd mortgage.

Good credit scores are essential to qualifying for mortgage loans and obtaining favorable interest rates. The following is an overview of the major factors considered in Fair Isaac's FICO score, the method most lenders rely on to determine your credit risk, as well as some useful credit tips.

Credit Score Composition

- **Payment History** (35%) – Late payments, public records, collections, account types
- **Amounts Owed** (30%) – Total owed, credit utilization ratio, number of accounts with balances, installment loan pay downs
- **Length of Credit History** (15%) – Age of accounts, last use
- **Types of Credit in Use** (10%) – Credit mix, total number of accounts

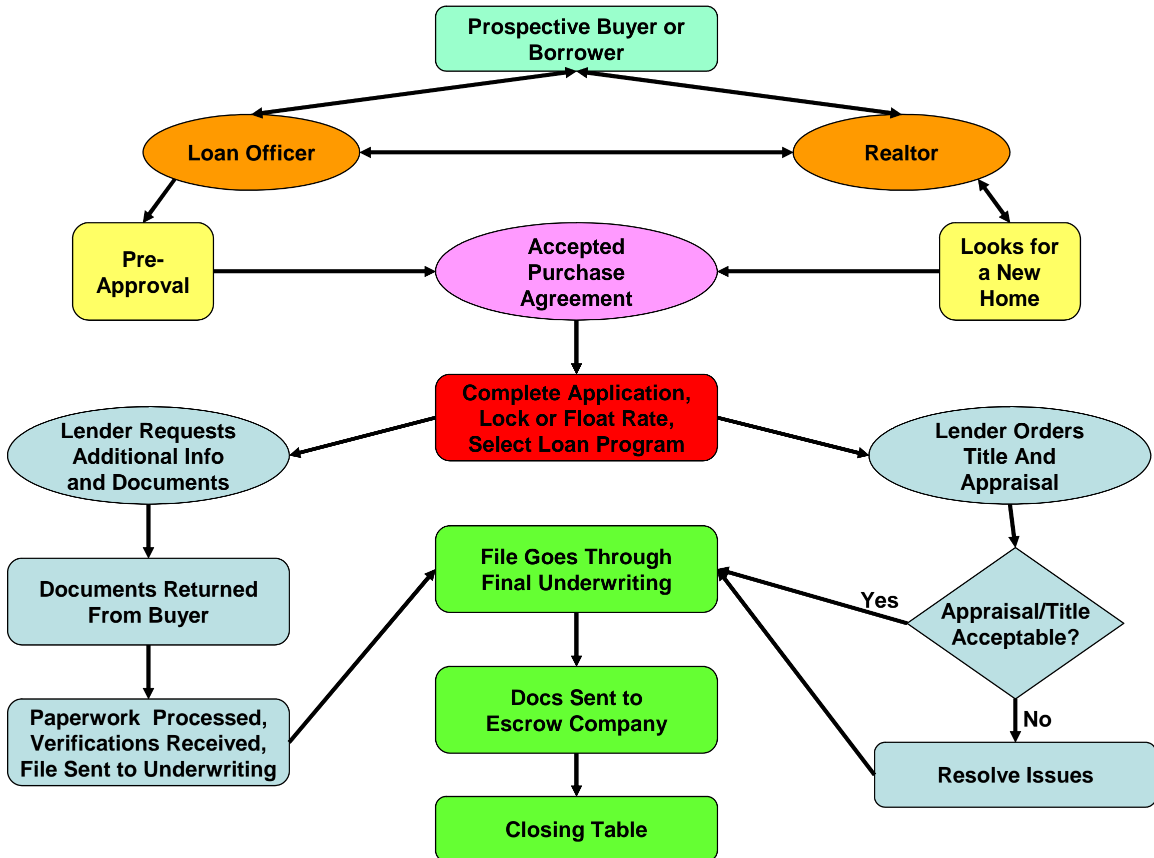
- **New Credit** (10%) – New accounts, recent inquiries, recovery from past problems.



Credit Tips

- Always pay bills on time, especially rent or mortgage payments
- Don't exceed 50% of the line of credit (revolving credit lines)
- Keep revolving accounts open – don't open and close rapidly
- Avoid finance company credit (such as furniture stores)
- Don't apply for credit unless it's needed
- Don't close unused credit cards to raise credit score
- Make sure all paid collections or closed judgments are accurately reflected in credit report
- Stop pre-approved credit cards (www.optoutprescreen.com)
- Review free credit report (www.annualcreditreport.com)

The following is high level overview of the loan process.



Closing on a real estate transaction requires many prior transactions and involves many parties. As a result there are many fees charged to a buyer. Below is a brief summary of the most frequent fees associated with a loan.

CAUTION: Some lenders will provide a low-ball interest rate quote but then make up the difference (or more) by charging unnecessary fees.

- ***Loan Origination Fee:*** A fee charged by a lender to cover the cost of the process of making a mortgage loan. It is usually a percentage of the loan amount (1% = 1 point).
- ***Loan Discount Points:*** A one-time charge that changes the interest rate on the loan. The more points the borrower pays, the lower their rate. Conversely, negative points raise the interest rate but provide funds that can be used to offset closing costs. This is how a loan can seem to have "zero" closings costs. There are closing costs, but it is "zero" out of pocket costs.
- ***Appraisal Fee:*** Covers the cost of evaluating the fair market value of the home. Appraisals typically run from $300 - $600, depending on the complexity of the appraisal. For example, multi-family properties require more time and effort to appraise, and therefore cost more.
- ***Credit Report Fee:*** Covers the cost of obtaining a credit report. The fee typically ranges from $20-$40.
- ***Processing Fee:*** Also known as "Document Preparation" or "Underwriting Fee." This fee covers the administrative costs of the loan process, including processing, underwriting and closing the loan. These fees are reasonable and justifiable, to a degree. Typical charges range from $300 - $500. This is where many lenders will pad unnecessary and unfair charges.
- ***Tax Service Fee:*** A fee paid to set up a service which identifies the payment due date of local taxes for the servicer of the loan. This should cost less than $100.
- ***Flood Certification Fee:*** Covers the cost of obtaining a report from FEMA that indicates whether or not the property is in a flood zone. If the home is located in a flood zone, the borrower will need to get flood insurance (in addition to homeowners insurance). This only covers the report and not the insurance if needed. Should cost less than $30.

In addition to fees associated with processing and closing the loan, money is collected at closing to cover future expenses. Below is a summary of the most common “pre-paid” items.

- ***Interest:*** Lenders require borrowers to pre-pay the interest due on their mortgage from the close date to the first day of the following month. For example, if they close on the 11th of March, they will pay 21 days interest (3/11-3/31), assuming their first payment is May 1st. Mortgage interest is always collected in arrears. Therefore, using this example, they will pay the April interest in the May payment.
- ***Mortgage Insurance:*** Insurance purchased by borrowers to insure the lender or the government against loss if the borrower defaults. Lenders may require that a borrower pays their first year’s mortgage insurance premium or a lump sum premium that covers the life of the loan.
- ***Hazard Insurance:*** Hazard insurance protects the borrower and the lender against loss due to fire and other natural hazards (not floods). Since the property is collateral for the loan, lenders require hazard insurance. Typically, the lender will require the borrower to pay three months of premiums at closing, and then the remaining payments are included in their monthly payments. Lenders also require the borrower to pay the first year’s premium at closing or prove that the first year’s premium has been paid. Note: If the property is a condominium then the association probably covers the unit and hazard insurance will not be necessary.
- ***Property Tax:*** Lenders usually require that two to three months of estimated property taxes are pre-paid. Since any tax liens take precedence over a mortgage lien, lenders want to ensure that property taxes are always paid.

Note: The following expenses CANNOT be paid by the buyer for VA and FHA loans:

Item	**VA**	**FHA**
Closing Escrow Fee	NO	
Lender Documentation Preparation Fee	NO	
Tax Service Fee	NO	NO
Lender Required Inspections	NO	
Inspections	NO	
Flood Certification	NO	

The following are other important terms and concepts:

- ***Lock****:* The commitment obtained from a lender guaranteeing a particular interest rate and/or feature for a definite time period. Provides protection against rising interest rates between the time of loan application, loan approval and the closing of the loan.
- ***Mortgage Banker*** vs. ***Mortgage Broker***
    - ***Banker:*** Originates (initiates) mortgage loans, lends their funds and closes the loan in the name of the business.
    - ***Broker:*** Like mortgage bankers, mortgage brokers initiate and process the loan application. However, they don't fund the loan with their own money, and usually work as an "agent" on behalf of other mortgage investors.
- ***Down-payment*** vs. ***Closing Costs***
    - ***Down-payment:*** The difference between the purchase price and the part of the purchase price being financed. Most lenders require the down payment to be paid from the buyer's own funds. Gifts from related parties are sometimes acceptable, but must be disclosed to the lender.
    - ***Closing Costs****:* Fees the borrower or seller pays at the closing of the mortgage loan. These include but are not limited to the origination fee, discount points, attorney or escrow fees, title insurance, survey, recording fee, plus other items which must be "prepaid", such as taxes and hazard insurance escrow amounts.
- ***First Mortgage*** vs. ***Second Mortgage***
    - ***First Mortgage:*** The mortgage that is the first lien on the title, taking priority over all other "junior" liens (which are financial encumbrances).
    - ***Second Mortgage:*** A mortgage that ranks after a first mortgage in priority of recording. In the event of a foreclosure, the proceeds from the sale of the home are used to pay off the loans in the order they were recorded.
- ***ARM Terms***
    - ***Interest Caps*** – Annual limit that an ARM can adjust in any single year.
    - ***Lifetime Caps*** – Limit that an ARM can adjust over the life of the loan
    - ***Index and Margin*** – ARM interest rates are based on a financial index, such as LIBOR or Treasury, plus a margin (such as 2% above the index)

- ***Title Insurance and Escrow***
    - ***Title***: Written evidence that proves the right of ownership of a specific piece of property.
    - ***Title Insurance:*** Protection for lenders or homeowners against financial loss resulting from legal defects on the title.
    - ***Escrow****:* The holding of important documents and money related to the purchase/sale of real estate by a neutral third party prior to the close of the transaction. Also a period when contingencies have to be met or waived exist. During this period, the escrow service holds the down payment and other buyer and seller documents related to the sale. "Closing escrow" means that the deal is completed.
- ***Amortization and Negative Amortization***
    - ***Amortization***: The method of repayment whereby the amount borrowed is repaid gradually through regular blended monthly payments of principal and interest. The first few years of payments is mostly applied toward the interest owed. In the final years of the loan, payment amounts are applied mostly to the remaining principal.
    - ***Negative Amortization*****:** Amortization whereby the payment is insufficient to fund complete repayment of the loan at the end of its term. Often occurs when an increase in the monthly payment is limited by a ceiling or cap. The part of the payment which should be paid is added to the remaining balance. As a result, the balance owed may increase, rather than decrease, over the life of the loan.

Randall is always available and willing to answer questions. The following resources also provide more details.

TV:

- Fox News
- Bloomberg Business Report
- Nightly News
- CNBC

Internet:

- Bloomberg.com
- Yahoo Finance

- Fannie Mae/Freddie Mac.com
- CNBC.com

Magazines:

- Fortune
- Money
- Wall Street Journal
- Barron's
- Mortgage Originator

Books:

- Mortgages for Dummies
- Handbook of Mortgage Lending (by the Mortgage Bankers Association)
- Real Estate Finance in a Nutshell (by Jon W. Bruce)

Websites:

- www.MBAA.org - Mortgage Bankers Association
- www.IdahoMortgageBrokers.org - Idaho Association of Mortgage Brokers
- www.HUD.gov - Department of Housing and Urban Development

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Glossary of Terms

ABSTRACT OF TITLE - A written history of the property title from its origin to the present.

ACCRUED INTEREST - The amount of interest due since the last payment.

ADJUSTABLE RATE MORTGAGE LOAN (ARM) - A mortgage in which the interest rate changes periodically according to a predetermined index.

AGREEMENT OF SALE (PURCHASE CONTRACT, PURCHASE AGREEMENT, SALES AGREEMENT) - A written document by which a Buyer agrees to buy and a Seller agrees to sell a property.

AMORTIZATION - The payment of a debt in equal installments that results in the retirement of the debt.

AMORTIZATION SCHEDULE - A list of each payment due on a mortgage loan, which shows the amount applied to the principal, the amount applied to interest, and the remaining principal balance.

ANNUAL PERCENTAGE RATE (APR) - A percentage of the amount of the home loan that represents the total annual cost of the loan, including finance charges.

APPLICATION - The forms used and the process of asking for a home loan.

APPRAISAL - The report made by a qualified person, in which he gives his opinion as to the value of a property.

APPRECIATION - An increase in the value of real estate (property).

BALLOON MORTGAGE - A mortgage with monthly payments that are made for a certain period of time, at the end of which, the remaining balance is due.

CAP - A limit on the maximum that interest rates can rise on a variable-rate mortgage (ARM) during a specified period and over the life of the loan.

CLOSING/SETTLEMENT - The conclusion of the transfer of ownership on a property.

CLOSING COSTS - Costs associated with the transfer of ownership of a property.

CONFORMING - Mortgages that fall within Fannie Mae and Freddie Mac's loan limits

CONVENTIONAL - A mortgage loan that is NOT insured or guaranteed by the government.

CREDIT REPORT - A report carried out by a credit reporting agency and used by the lender to determine whether an applicant qualifies for credit. At Countrywide, we want you to feel secure throughout each step of the homebuying process. Below you will find a list of the terms and definitions that will make it easier for you to understand the homebuying process.

DEED OF TRUST - The written agreement pledging the property as security for the debt.

DEPRECIATION - The loss of value in real estate (property).

DISCOUNT OR DISCOUNT POINTS OR POINTS - A single charge imposed by the lender to adjust the interest rate of the loan to the required yield.

DOWN PAYMENT - The portion of the amount for the purchase of real estate that is given in cash and in advance by the borrower.

EARNEST MONEY OR GOOD FAITH DEPOSIT - The deposit made by the person buying a property to a third party agency, which is held in escrow until the transaction is completed.

ESCROW - In some Western states, the use of a third person or institution who will carry out the wishes of the Buyer and Seller in a way that is neutral, in a real estate closing.

FIRST MORTGAGE - A mortgage having priority over all other liens.

FIXED RATE - The interest rate is fixed for the full term of the loan. It will not change.

GOVERNMENT INSURED - Loans such as FHA and VA are backed by the U.S. government. If the borrower does not repay the debt, the government will.

HOMEOWNER'S (OR HAZARD) INSURANCE - An insurance policy whereby, for a premium, an insurer agrees to insure a property in case of a loss.

HUD-1 SETTLEMENT STATEMENT - Itemizes the charges to the buyer and the seller, and shows how the money gets paid out.

INTEREST ONLY - A loan that requires payment on the interest of the debt only, rather than requiring additional payments to lower the principal of the loan.

INTEREST RATE - The percentage of an amount of money that is paid for the use of that money over a period of time.

JUDGMENT LIEN - A judgment by the court and placed as a lien against a property.

JUMBO OR NON-CONFORMING - Mortgages that exceed the conventional limits.

LOAN TO VALUE (LTV) RATIO - The relationship between the value of property and the loan amount.

LOSS PAYEE CLAUSE - The clause in an insurance policy indicating who is to be paid in the event of a loss.

MARGIN - The percentage a lender adds to the index rate to determine the new interest rate.

MATURITY - The due date of a note.

MORTGAGE - A legal document that transfers interest in a property and serves as a security for payment of a debt.

MORTGAGE BANKER - A firm dedicated to real estate loans.

MORTGAGE BANKING - The packaging of mortgage loans to be sold to a permanent investor.

MORTGAGE INSURANCE - Insures the lender against loss caused by the borrower's failure to make the payments.

MORTGAGE NOTE - A written promise to repay a stated amount of money at a stated interest rate over a stated period of time.

ORIGINATION FEE - A fee charged by a lender to cover the cost of the process of making a mortgage loan.

PITI - The acronym for Principal, Interest, Taxes and Insurance, usually the four parts of your monthly mortgage payment.

POINTS - See DISCOUNT

PRE-APPROVAL - Pre-approval is a lender's conditional commitment to lend to a borrower.

PRE-QUALIFICATION - Pre-qualification is an informal way to determine how much money a client may be able to borrow.

PRINCIPAL - The amount of a debt.

PRIVATE MORTGAGE INSURANCE (PMI) - See MORTGAGE INSURANCE

PURCHASE CONTRACT - See AGREEMENT OF SALE

RELEASE OF LIEN - An instrument that discharges a lien.

RESPA - Real Estate Settlement and Procedures Act. A law that requires the lender to disclose information to the borrower, including a Good Faith Estimate (GFE) of the borrower's closing costs.

SECURITY INSTRUMENT - The mortgage or deed of trust of the property.

SUBORDINATION - The act of acknowledging that a lien will have a position after a mortgage loan. This is accomplished by recording a Subordination Agreement.

TAX LIEN - A lien against a property for unpaid taxes.

TERM - The amount of time (typically 15 or 30 years) a lender gives a borrower to repay the loan.

TITLE DEED/DEED - A legal document evidencing ownership of a property.

TITLE INSURANCE POLICY - A policy that protects the lender in the event of a loss due to a defect in the Title. The owner's policy protects the owner in this same way.

TRUTH-IN-LENDING (TIL) DISCLOSURE - Outlines the costs of a loan and discloses the APR and other terms of the loan, including the finance charge, the amount financed, the payment amount, and the total payments required. The lender is required to present the final version of a TIL disclosure at or prior to the closing meeting.

UNDERWRITING - The risk analysis of a borrower's loan application.