

Homebuying and Consumer Resources

Fair Housing Act

If you feel that you have been denied your right to housing because of your race, color, religion, sex, disability, family status, or national origin, contact:

HUD: (800) 669-9777

US Department of Justice: (202) 514-4713

Your state or local civil/human-rights organization

Your attorney

Websites

www.bankrate.com

www.fdic.gov

www.hud.gov

www.homewise.org

Other Consumer Protection Resources

Attorney General's Office, Consumer Protection Division: (505) 827-6060

Better Business Bureau: (505) 988-4747

Federal Deposit and Insurance Corporation (FDIC) Consumer Affairs

Call Center: (877) 275-3342

National Peoples Action Center: (312) 243-3035

Books

The Circle of Simplicity, by Cecile Andrews, 1997

The Everything Homebuying Book, by Ruth Rejnis and Mark B. Weiss, 2003

The Everything Money Book, by Rich and Kathi Mintzner, 1999

The Home Buyer's Kit, 5th Edition, by Edith Lank, 2001

Home Buying for Dummies, 3rd Edition, by Eric Tyson and Ray Brown, 2006

Mortgages for Dummies, 2nd Edition, by Eric Tyson, 2004

The 106 Common Mistakes Homebuyers Make and How to Avoid Them, by Gary W. Eldred, Ph.D., 2006

Personal Finances for Dummies, 5th Edition, by Eric Tyson, 2006

The Simple Living Guide, by Janet Luhrs, 1997

Your Money or Your Life, 2nd Edition, by Joe Dominguez and Vicki Robin, 1999

Adjustable-Rate Mortgage (ARM) A mortgage whose interest rate changes over time, based on an index.

Amortization The gradual repayment of a mortgage in which the interest portion decreases as the principal paid increases. Prepayment on principal helps only to lower the amount of interest paid over the life of the loan.

Amortization Schedule A timetable for payment of a mortgage showing the amount of each payment applied to the interest and principal, and the remaining balance.

Annual Percentage Rate (APR) The total yearly cost of a mortgage stated as a percentage of the loan amount; includes the base interest rate, mortgage insurance, loan origination fee, and points. The APR does not include all fees; remember to compare fees as well.

Appraisal A professional opinion of a property's market value.

Appreciation An increase in a property's market value.

Assumable Mortgage A mortgage that can be taken over by the buyer when a home is sold.

Back-End Ratio See Debt-to-Income Ratio.

Balloon Payment A lump-sum balance remaining on a mortgage loan that becomes due and payable before the maturity date of the loan, usually between three and ten years.

Buy-Down Mortgage Loans that have lower interest rates for the first two or three years only. Typically, the loan begins at the lower 'bought-down' rate and increases 1% per year during the buy-down period. The interest rate then remains the same for the remainder of the loan.

Charge-off The term used when a creditor has stopped trying to collect an unpaid debt you owe. Most lenders will require the borrower to pay the balance of the charge-off before receiving a mortgage loan.

Clear Title A title that is free of liens and legal questions as to ownership of the property.

Closing The occasion where a sale is finalized; the buyer signs the mortgage, closing costs are paid, and the title is transferred.

Closing Costs Expenses over and above the price of the property that are incurred by buyers and sellers in transferring ownership of a property. Generally, closing costs are approximately 2–5% of the loan amount. It is important to remember that a closing fee is not the same thing as closing costs.

Closing Fee The fee charged by the closing agent or Title Company for their services.

Collection The first step a creditor will take to collect an unpaid debt. After a period of time of nonpayment, a creditor can turn over the late account to a collection department, which will contact the borrower to repay the debt. Collections will appear on your credit report and need to be paid in full before receiving a mortgage loan.

Commitment Letter A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

Compensating Factors Positive facts in a loan application that may demonstrate to the underwriter the applicant's ability to qualify for the loan.

Contingency A condition added to the purchase agreement stating that certain conditions must be met within a specified period of time for the purchase agreement to be valid. Some examples include financing, subject to inspection, and subject to clear-title contingencies.

Conventional Mortgage A mortgage that is not insured or guaranteed by the Federal government. Fannie Mae and Freddie Mac are the two largest conventional mortgage providers. Remember that mortgage insurance is usually required where your loan-to-value ratio exceeds 80% with a conventional mortgage.

Covenant A clause in a mortgage that obligates or restricts the borrower and which, if violated, can result in foreclosure.

Credit The granting of money in exchange for a promise of future payment or your ability to borrow money.

Credit Bureau A company that gathers, files, and sells information to creditors and others with a legitimate business purpose.

Creditor The financial institution or business that extends you credit with the agreement that you pay them back with interest.

Credit Report A report of an individual's credit history, prepared by a credit bureau; used by a lender to determine a loan applicant's creditworthiness (i.e., how they use credit and if they pay on time).

Credit Score A numerical value based on the analysis of a credit report that is used by creditors to predict how likely an individual is to repay a new loan.

Debt-to-Income Ratio The maximum percentage of a borrower's gross monthly income that can be spent on a house payment and all other monthly minimum payments on debts. Also called 'back-end ratio.'

Deed The legal document conveying title to a property.

Deed of Trust An alternative to a mortgage in some states, whereby a third party holds the deed of the property as security until the buyer repays the loan.

Default Failure to make loan payments when they are due.

Delinquency A loan in which a payment is overdue but not yet in default.

Depreciation A decrease in the value of a property.

Down Payment The amount of the purchase price that the buyer pays and does not finance with a mortgage. A down payment is usually 2–5% of the home's sale price.

Earnest Money A deposit given to the seller to show that a prospective buyer is serious about buying a home. Never use cash as earnest money.

Easement A right of way or legal interest giving persons other than the owner access to a property for a specific purpose. For example, a utility company might have easement rights across properties.

Equity The difference between the market value of a property and the homeowner's outstanding mortgage balance. If a house has a market value of \$100,000 and the borrower has an \$80,000 mortgage balance, the borrower's equity is \$20,000, or 20%.

Equity Loan A loan based on the borrower's equity in his or her home.

Escrow The holding of documents and money by a neutral third party prior to closing.

Escrow Account Usually, a non-interest-bearing account that the mortgage lender sets up in the borrower's name to pay the property taxes and insurance payments.

Fair Credit Reporting Act A consumer-protection law that sets up a procedure for correcting mistakes on one's credit record.

Fannie Mae A corporate entity created by Congress to purchase conventional loans on the secondary market.

Fixed-Rate Mortgage A mortgage in which the interest rate does not change during the entire life of the loan.

Flood Insurance Insurance required for properties in Federally designated flood areas (usually referred to as a 100-year-or-less flood plain).

Forbearance A lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

Foreclosure The legal process by which a lender takes possession of and sells a mortgaged property when a mortgage is in default.

Freddie Mac A corporate entity created by Congress to purchase conventional loans on the secondary market.

Front-End Ratio see Housing Ratio.

Gross Income Income before taxes or other deductions are taken out.

Homeowner's Association (HOA) An organization in a subdivision, planned community or condominium that makes and enforces rules for the properties within its jurisdiction. Those who purchase property within an HOA's jurisdiction automatically become members and are required to pay dues, known as HOA fees.

Homeowner's Insurance An insurance paid on a house and its contents that combines liability coverage and hazard insurance, to protect the homeowner and the lender against physical damage to a property from fire, wind, vandalism, or other hazards.

Housing Ratio The maximum percentage of a borrower's gross monthly income that can be used to make the monthly mortgage payments. Also called 'front-end ratio.'

Interest The fee charged for borrowing money.

Interest-Only Loan A mortgage that has lower monthly payments for a fixed period of time because you pay only the interest on your mortgage. At the end of that period, the payment may increase dramatically as you start paying toward the principal as well.

Judgment A legal determination of a specific sum of money owed by a debtor to a particular creditor.

Late Charge The penalty a borrower pays when a payment is made a certain number of days after the due date. Late charges vary. However, the average late charge is approximately 5% of the payment.

Lien A legal claim against a property that is used to enforce payment of a debt.

Loan Estimate A document that discloses anticipated settlement costs.

Loan Servicing The collection of mortgage payments from borrowers.

Loan-to-Value Ratio (LTV) The relationship between the amount of a mortgage and the total value or sale price of the property, whichever is lower (sale price or market value). For example, if \$100,000 is the total value of the property and \$90,000 is the amount of the mortgage, the LTV equals 90% (\$90,000 divided by \$100,000). Lending institutions have varying LTV requirements for mortgage loans; the LTV ratio provides information about the amount of down payment required of the borrower.

Lock-in A written agreement between the lender and borrower that guarantees a specified interest rate and points, provided that the loan is closed within a set period of time.

Mortgage The legal document that secures a property for a payment of a debt.

Mortgage Banker A company providing mortgage financing with its own funds. These funds are generally borrowed, and the mortgages are often sold to investors within a short time.

Mortgage Broker A company that, for a fee, matches borrowers with lenders.

Mortgagee The lender in a mortgage agreement.

Mortgagor The borrower in a mortgage agreement.

Negative Amortization Payment terms under which the borrower's monthly payments do not cover the interest due; as a result, the loan balance increases.

Net Income Income after all taxes and other deductions have been taken out.

Origination Fee A fee paid to the lender for submitting and processing a loan application; 1 origination point equals 1% of the mortgage amount.

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

PITI Acronym representing the components of a mortgage payment: principal, interest, taxes, and insurance.

Points A onetime charge by the lender to increase the yield of a loan; 1 point equals 1% of the mortgage amount. Points may be used as the origination fee, or as what are called discount points, to reduce the interest rate.

Preapproval A guarantee that a lender will loan a potential buyer a fixed amount as long as the borrower buys a home by a certain time and the house is appraised for the amount of money for which the borrower qualifies.

Prequalification The process of determining how much a prospective homebuyer may be able to borrow before a loan is applied for and a purchase contract is signed. This saves the prospective homebuyer time, as they will know what price range they can afford when shopping for a home. It is important to remember the difference between prequalification and loan approval. Prequalification is often based on unverified information; the loan amount can change slightly when a borrower applies for a loan and the information is verified. Be prepared for slight differences, and provide the lender with the correct information up front for a more accurate figure.

Principal The original amount of money borrowed.

Private Mortgage Insurance (PMI) Insurance to protect lenders against loss if the borrower defaults. PMI is collected on conventional loans when the LTV Ratio is greater than 80% (i.e., when the borrower has made a down payment of less than 20%), and on some government loans for the life of the loan. Always ask the lender how much of a down payment is required to eliminate PMI or reduce the amount paid on PMI.

Purchase Agreement A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Qualifying Ratios Guidelines applied by lenders to determine how large a loan to grant a homebuyer. The Housing Ratio, also referred to as the Front-End Ratio, represents the allowable PITI payment a homebuyer qualifies for; the Total Debt-to-Income Ratio, or Back-End Ratio, represents the allowable PITI and debt combined.

Radon A naturally occurring radioactive gas found in some homes that, in sufficient concentrations, can cause health problems.

Real Estate Broker A person licensed to negotiate and transact the sale of real estate.

Refinance The process of paying off a loan with the proceeds from a new loan secured by the same property.

Second Mortgage A mortgage that has rights that are subordinate to the rights of the first mortgage holder. One example of a second mortgage is Homewise's partial down payment and closing cost loan.

Survey A drawing or map showing the precise legal boundaries of a property, location of improvements, easements, rights of way, encroachments, and other physical features.

Title A legal document establishing the right of ownership.

Title Company A company that specializes in insuring title to property. In New Mexico, a representative of the title company generally facilitates the closing.

Title Insurance Insurance to protect the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

Title Search A check of the title records to ensure that the seller is the sole legal owner of the property and that there are no outstanding liens or other claims.

Underwriting The process of evaluating a loan application to determine the risk involved for the lender and whether to approve the loan.

VA Loan A loan guaranteed by the Veterans Administration.