

Atlantic

Sotheby's  
INTERNATIONAL REALTY

# Buyers Guide

*Nothing compares.*

HAMPTON ROADS

SOTHEBYSREALTY.COM







**Atlantic Sotheby's International Realty**

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# Welcome

Whether a seasoned investor or first time home buyer, a real estate professional is a vital partner in the home-buying process. While buyers today are more educated about real estate than ever before, all the research in the world can't match an experienced agent's "in-the-trenches" understanding of what's happening in the market today. In fact, our agents sell 3x as many homes as the average agent in the Hampton Roads. Without the pavement-pounding and advance scouting an agent does on your behalf, you might wind up overpaying for a home or losing out on the home of your dreams.

# HOW TO PREPARE FOR A HOME LOAN

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What you need to know during the mortgage process.

## MORTGAGE PROCESS DO'S

1. Keep all existing credit card accounts open.
2. Maintain employment at your current job.
3. Pay off collections, judgements, or tax liens reported within the past year.
4. Stay current on your existing accounts.
5. Call me. I'm here to help you!

## MORTGAGE PROCESS DON'TS

1. Don't apply for a new credit card of ANY kind.
2. Don't max out/overcharge existing credit cards.
3. Don't consolidate debt to one or two cards.
4. Don't make any large purchases.
5. Don't Make any large deposits into any bank accounts.

\*Remember: Most Lenders Pull Credit The Day Before Or Day Of Closing.

# THE ADVANTAGES OF HOME OWNERSHIP

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A home is most likely the largest purchase you will ever make, and it marks a major step in life. There is no scientific formula that tells someone when they're ready to buy, but you should take stock of your financial situation as well as your personal lifestyle. In general, there are a number of advantages to homeownership, both tangible and intangible, that you'll want to consider.

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## Investment

Every payment you make on your mortgage puts you one step closer to acquiring a major possession. And every improvement you make to your property not only enhances your way of life, but also adds value to your home.



## Protection From Inflation

Once you purchase a home, the bulk of your housing costs are not exposed to inflation. That means your only housing expenses that will rise over time with inflation are property taxes, homeowners insurance and maintenance costs.



## Equity

Because a home increases in value even as you are paying down your loan, most buyers effortlessly build equity. Equity creates wealth and can help you accomplish any number of financial goals, such as paying for retirement or funding a child's education.



## Tax Advantages

Your real estate taxes and the interest on your mortgage are usually deductible from your income tax. For many buyers, that tax break can go a long way toward making home ownership just as affordable as renting. Check with your accountant.



## Satisfaction

For many people, but certainly not all, home ownership simply makes life more enjoyable, whether it's the pride that comes from decorating and maintaining your home or the knowledge that your family will grow up in the neighborhood of your choice. Homeownership is still the American Dream.

# BEGINNING YOUR SEARCH



**On the surface, buying a home may seem like a relatively straightforward process.**

However there are dozens of variables in any transaction that can make purchasing real estate quite complex. Being prepared and organized makes the process that much easier and more enjoyable. Here are some steps in the process:





# THE BUYING PROCESS

TO FINDING YOUR PERFECT HOME

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▶ CHOOSING AN ATLANTIC SOTHEBY'S  
INTERNATIONAL REALTY  
AGENT

◀ GETTING PRE-APPROVED  
FOR A MORTGAGE



▶ CREATING A WISHLIST

◀ FINDING YOUR HOME



▶ MAKING AN OFFER

◀ NEGOTIATING  
COUNTEROFFERS



▶ CLOSING

◀ AFTER YOU  
BUY



# THE BUYING PROCESS

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## I. Choosing An Agent

**Choosing a good agent to guide you through a real estate transaction is as important as buying a home.**

Homebuyers should give just as much consideration to hiring a buyer's representative as sellers give to hiring a listing agent. That means conducting interviews, seeking referrals and researching the company as well as the individual.

While it's important to ask potential agents a number of questions relating to their experience and routines, it's also important to listen for the questions they ask you to get a feel for if they're really intent on understanding your needs.

Experience in your preferred neighborhood and/or style of home is important, but so is the comfort level between agent and client, because buying a home is a highly personal experience. Ultimately, you only work with one agent, so it should be someone you like, trust and respect and who feels the same way about you.

Learn more about how our agents stand apart from the market at Atlantic Sotheby's International Realty at

**[atlanticsothebysrealty.com](http://atlanticsothebysrealty.com)**

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## 2. Getting Pre-Qualified For A Mortgage

**In today's home-buying environment, a mortgage pre-qualification is not only an essential tool in winning an offer; it is also incredibly easy to obtain** – whether online, over the phone or in-person. A mortgage pre-qualification lets you know exactly what you can afford to buy. It also demonstrates to a seller that you are a willing and able buyer. It also gives you a head start in getting an actual loan commitment.

Learn more about pre-qualifications by visiting with a lender online or in person, if you don't know of any lenders our agents would be more than happy to suggest some options for you to interview. More information about mortgages is located in this guide (See Glossary of Terms).

As a general rule, most experts say that your housing expenses should not exceed 28% of your gross monthly income, but a variety of factors - from your credit score to other debt - can open this ratio up to a pretty wide range. Remember that there are other costs involved in buying a home, such as moving, decorating and remodeling expenses. You should also consult with your accountant or financial advisor to talk about how real estate affects your financial goals. Knowing where you will come out of the transaction will give you a lot more confidence going in, and equip you with powerful info that can help your agent seek a deal that is best suited for your needs and ability.



# THE BUYING PROCESS

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## 3. Creating A Wishlist

Almost every home purchase involves some degree of compromise, which is why it is important to prioritize your wants and needs before you begin your search. There are many variables to think about depending on your lifestyle, budget and future plans, but some universal considerations include:

**LOCATION** Hampton Roads offers many great neighborhoods, each with its own distinct character. Consider the lifestyle factors that are important to you, such as schools; transportation; and neighborhood amenities like restaurants, shops and parks. Here are some ways to research an area you're considering.

**TYPE OF HOME** A great diversity of housing exists within Hampton Roads: single-family homes, condominiums, urban living condominiums, townhomes, new-construction, vintage homes, re-sales and fixer-uppers. You probably have a preference for a certain style of construction. Weigh the pros and cons to narrow your focus.

**FEATURES AND AMENITIES** Garage parking, hardwood floors, a fireplace, outdoor space, a doorman. In the end, these are the kinds of details that drive the decision to purchase one home versus another. In creating this list, some things to consider are resale value, your daily routine, and the cost of making changes or additions down the road.

- Tap Local resources like the Chamber of Commerce, which can provide information about area businesses and community events.
- Seek out neighborhood civic leagues and/or residents and get their opinion about where they live.
- Drive or walk through the neighborhood at various times of the day they live.
- Leverage your agent's expertise in the neighborhood

## 4. Finding Your Home

Once you have obtained a mortgage pre-qualification, you are ready to begin your home search with the help of your agent.

### REVIEW LISTINGS

Using the guidelines you set forth, your agent will present you with available listings. In addition to price and property attributes, pay close attention to data like property taxes, market time and monthly assessments for condos and Townhomes.

### VIEW PROPERTIES

Your Atlantic Sotheby's International Realty agent will schedule showings and accompany you on each appointment. When you walk through a home, some things to consider are: how the space functions for your lifestyle; what's included in the total square footage (balcony, attic or garage); and, in new construction, which features are standard and which are upgrades.

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# THE BUYING PROCESS



## 4. Finding Your Home (cont)

### OPEN HOUSES + NEW CONSTRUCTION

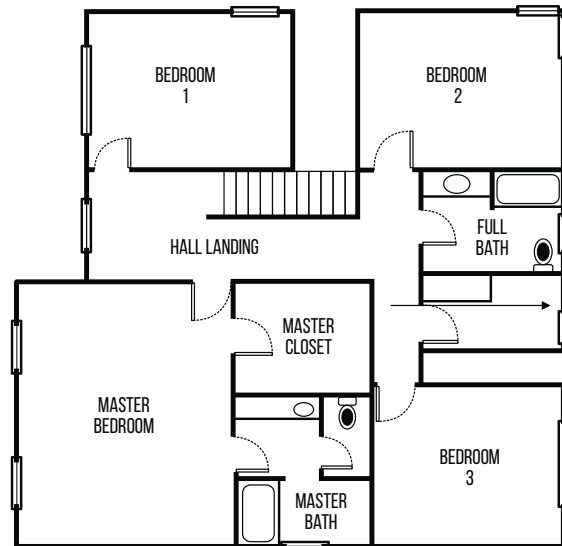
Remember, if you are attending Open Houses without your agent, be sure to mention that you are being represented by an Atlantic Sotheby's International Realty agent. This will save you from being inundated with calls from other agents trying to represent you. Ask your Atlantic Sotheby's International Realty agent to supply you with some of his or her business cards to make the Open House sign-in process even easier.

### COMPARE PROPERTIES

Discuss each home you see with your agent, and provide candid feedback. Your expectations and the marketplace will begin to converge, and your agent will be able to adjust certain parameters such as location and features in order to present you with alternatives. Use the Atlantic Sotheby's International Realty Property Comparison Sheet to track and compare each listing. When you find a home and are ready to make an offer, your agent will perform a Comparative Market Analysis or CMA. This report compares the subject property with other properties that are currently listed and recently sold to help you formulate your offer.

### PROPERTY TYPES

From sprawling single-family estates, to condos, to sturdy beach cottages, Hampton Roads housing is very diverse, giving homebuyers virtually limitless options when looking for a home to call their own. Just about any neighborhood in the city offers a variety of housing styles and a choice between existing, new-construction or rehabbed homes. Following is a brief rundown of the types of residences you're most likely to encounter during a home search in Hampton Roads:



# THE BUYING PROCESS

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## 4. Finding Your Home (cont)

### SINGLE-FAMILY HOMES

Officially defined as a residential structure that includes only one dwelling, single-family homes are readily available in most Hampton Roads neighborhoods. However, buyers should be prepared to pay a premium for extra land, privacy, square footage and outdoor space a single-family home may afford. The variety of single-family homes in Hampton Roads is vast and includes ranch, single-family detached condos, modern homes and multi- million dollar mansions.

### TOWNHOMES

Townhomes are single-level or multi-level dwellings that share at least one common wall with a neighboring home, which typically has a similar façade. In some areas of Hampton Roads, where land costs are high, Townhomes tend to be more affordable than single-family homes since they use land more efficiently. Likewise, the common walls and roofs of Townhomes lessen construction costs for developers. Townhomes are usually lower-maintenance and offer buyers many of the features they would typically find in a single-family home, such as ample living space, a private garage and an outdoor area. Town home buyers enjoy the benefits of a strong community.

### CONDOMINIUMS

Purchasing a condominium in a multi-unit building means the buyer owns an individual unit as well as a share of the building's common areas, such as the lobby, corridors and amenity areas. Many buyers choose condominiums because they require little maintenance, frequently offer amenities such as a swimming pool or fitness center, and in most cases are relatively affordable compared to townhomes or single-family homes. Because of the shared ownership, a condominium association is responsible for decisions regarding the operations of the building, and owners must abide by the rules and regulations set forth by the association. Condominium owners also pay monthly assessments, which cover maintenance and repairs of common areas as well as costs associated with shared amenities. In Hampton Roads, condominiums run the gamut from new-construction urban living with striking views and luxury amenities, to vintage walk-up buildings with charming elements such as original hardwood floors and built-ins.



# THE BUYING PROCESS



## 4. Finding Your Home (cont)

### LIVING GREEN

Just as recycling gradually became a part of our everyday lives, “green” features in Hampton Roads homes are becoming more and more common, thanks to demand from homebuyers who want to address their concern for the environment in their every day-to-day living.

Encouraging this trend toward green building is the United States Green Building Council’s LEED (Leadership in Energy and Environmental Design) rating system, which certifies both residential and commercial buildings for meeting environmentally responsible design and construction standards.

Although LEED-certified residences are still somewhat rare, most developers agree that the eco-friendly building techniques and features endorsed by the Council will soon be the standard in new-construction homes. In the meantime, homebuyers in Hampton Roads can choose from plentiful housing options that offer many of the same features that contribute to LEED certification, such as:

- A location near public transportation.
- Building materials containing recycled content.
- Renewable energy sources such as solar power.
- Energy-efficient windows, appliances and heating and cooling systems.
- Plumbing fixtures that reduce overall water use.
- Rapidly renewing or recycled materials for interior finishes, such as bamboo flooring, wool carpet, and countertops made from recycled metal or glass.
- Low-VOC (volatile organic compound) paints, carpet adhesives and sealants, which limit emission of volatile organic compounds and thereby promote a healthier indoor environment.
- Native vegetation in landscaped areas or on a green roof.
- A landscape irrigation system that recycles rainwater.
- Facilities for storage and collection of recyclables.

If green features are important to you, talk to your Atlantic Sotheby’s International Realty agent. We’ll help you find a housing option that fits your needs.





# THE BUYING PROCESS

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## 5. Making An Offer

Chances are, when you find a home you absolutely love, someone else may love it too. So it's important to act quickly and make an educated offer based on a rational approach to pricing and negotiating that you and your agent have discussed. To start the process, your agent will draw up a contract that includes your offering price and other terms and contingencies. Buyers often focus on price, but there are other important terms to a real estate contract. You can include any terms you like, but the more you add, the more likely the seller is to object. Here are the most common elements of a real estate contract:

**PRICE** | The market will determine the final price, but your agent will help you formulate an offer based on comparable listings and sales, and current market conditions.

**MORTGAGE CONTINGENCY** | A mortgage contingency stipulates that you will buy the home subject to obtaining a mortgage. If you cannot obtain a mortgage, and the seller will not agree to finance the sale, then the contract will be void. The terms of the mortgage must be stated in the contract, and you will also need to establish a timeframe for securing financing.

**HOME INSPECTION CONTINGENCY** | A thorough inspection of the property by a licensed home inspector protects you against structural or material problems that are not detectable in a casual "walk-through". Home inspections are just as important in new construction as they are in resale. Obviously, buyers can't inspect a home that isn't built yet, but they can request an inspection prior to closing. In new construction, an inspector will make sure that all mechanical systems are working properly. They may also spot repairs that need to be added to the builder's punch list (a list of items that need to be completed).

### EARNEST MONEY DEPOSIT

Earnest money is a deposit (typically 1% of the offer amount), given by the buyer to the seller, which secures the contract until the closing. An initial deposit, usually in the form of a check, will be given to your agent along with the contract and is typically held in an escrow account until the closing, when it may be applied to the down payment and/or closing costs. If the sale does not go through due to contingencies covered within the contract, then the earnest money may be returned to the buyer. However, if a buyer is in breach of contract, then a seller may be entitled to keep all or a portion of the earnest money.

### CLOSING DATE

One of the most important terms of a real estate contract is the closing date – the date when ownership changes hands. This is usually, but not always, the date that the seller must vacate and the buyer may occupy the property. Flexibility on the closing date can give a buyer a big advantage over other potential buyers. Occasionally, it can also allow you to negotiate a lower price or other, more favorable terms.



# THE BUYING PROCESS

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## 6. Negotiating Counteroffers

In many transactions, there is a fair amount of negotiation – offers and counter offers - before both parties are satisfied.

This is one aspect of a real estate transaction in which an agent is invaluable. Not only can an agent draw upon his or her experience and market knowledge to offer sound advice during a negotiation, but he or she can also serve as a buffer between the buyer and the seller's agent. Negotiating for a home can be a highly charged and emotional process. But the most emotional buyer will look like one cool customer behind the right agent, and in the end, you secure the best deal possible on the house you love.

## 7. From Contract to Closing

In a real estate transaction, there are dozens of loose ends to tie up, between signing the contract and closing the sale. Atlantic Sotheby's International Realty is known for our attention to detail during this important phase in which we coordinate and oversee the following steps:

- Deliver earnest money to the escrow agent.
- Recommend and schedule a home inspector and accompany the buyer on the inspection. It is always highly recommended that the buyer attend the inspection along with his or her Atlantic Sotheby's International Realty agent in order to make sure that any issues that come up are properly relayed and addressed.
- Recommend a title and settlement agent.
- Obtain important documents, such as property disclosure forms and condominium documents (budget, declaration, condo association minutes), and deliver them to the buyer and buyer's settlement agent.
- Recommend mortgage professionals and help expedite the loan application process.
- Monitor all contingencies to ensure that they have been met.
- Recommend service providers for moving, home-improvement and repairs.
- Schedule a final walk-through. Again, both buyer and buyer's agent should be present.
- Coordinate and attend your closing.

# THE BUYING PROCESS

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## 7. Closing

**Your Atlantic Sotheby's International Realty agent will work closely with you, your lender, your real estate settlement agent, and the seller's agent to make sure everything is in place for a smooth and efficient closing.**

Typically, a day or two prior to the closing, your lender will forward all loan documentation to the title company and let you know the amount required to close. You will be responsible for bringing the balance of your down payment and closing costs (such as lender fees, title company fees, and state and city transfer taxes) to the closing in the form of a cashier's check. At the closing, your settlement agent will guide you through the many documents you need to sign, including the bill of sale, the deed and the affidavit of title.

Atlantic Sotheby's International Realty's goal is to provide you with the information you need to feel confident at your closing. If you have questions about your closing, contact your agent.

In addition, if you have an existing home to sell, Atlantic Sotheby's International Realty will customize a comprehensive marketing program to help you achieve the highest possible sales price in the shortest amount of time. For more information, ask your Atlantic Sotheby's International Realty agent or visit

**[atlanticsothebysrealty.com](http://atlanticsothebysrealty.com)**

## 8. After You Buy

**While your transaction is complete, our work is not. In fact, Atlantic Sotheby's International Realty maintains relationships with our clients long after closing. We are always glad to help you find a variety of service providers and tradesmen to perform work on your home or make life a little easier.**

As you're getting settled into your new home, here are a few situations you may encounter in the coming months and years that are important to think about.

### **REBUILDING YOUR SAVINGS & MAINTAINING FINANCIAL DISCIPLINE**

Buyers should definitely take the time to review and evaluate their finances after a home purchase. One important step to consider is setting up an automatic electronic payment with your mortgage lender, which lets you avoid costly penalties associated with late payments.

Also, make a plan for gradually rebuilding your savings account, which many buyers deplete in order to make their down payment and pay for moving costs. As a homeowner, it's more important than ever to have a cash reserve set aside for unanticipated maintenance that your home may require. In fact, a general rule of thumb is that homeowners should expect to spend about 1 to 2 percent of the cost of their home per year on maintenance and repairs.

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# THE BUYING PROCESS

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## 8. After You Buy, (cont)

**HOME IMPROVEMENT** | Whether it's a fresh coat of paint, new hardwood floors or a major kitchen remodel, most new homeowners have at least a few projects they want to undertake once they move in. Your Atlantic Sotheby's International Realty agent can help you find a variety of service providers and tradesmen to perform work on your home.

**REFINANCING** | Keep an eye on interest rates even after you purchase your home. If rates go down, you may be able to save money by refinancing, which simply means you take out a new mortgage at a lower interest rate to replace your original loan. Another common situation that calls for refinancing is the expiration of the initial, fixed-rate period on an Adjustable Rate Mortgage (ARM). If prevailing fixed rates are substantially lower than the rate your ARM will carry once it adjusts, then it might make sense to refinance into a fixed-rate loan.

Today, many lenders offer no-cost refinancing, which basically means they take the costs and fees associated with refinancing and roll them into the interest rate. It's a way for homeowners to lower their monthly payment with little or no money out of pocket.

While refinancing a mortgage has become much easier in recent years, it is still a major financial transaction with important implications. So be just as diligent in a refinance as you were in securing your original mortgage. Your Atlantic Sotheby's International Realty agent will happily refer you to a mortgage professional to help you determine the right time to refinance.





# FINANCING YOUR NEW HOME

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## Mortgages

As your Realtor®, it is our responsibility to arm you with the very best information, resources and advice you need to successfully complete your transaction. So when it comes to financing your home purchase, Atlantic Sotheby's International Realty is here to answer your questions and point you in the direction of a reliable mortgage professional.

Over the past decade, the proliferation of mortgage products has made it easier than ever for people to own a home, but it has also given home buyers a whole new set of choices to grapple with. Fortunately, our agents will work in tandem with your lender to make sure the financing process runs as smoothly as possible.

ASIR is one of Hampton Roads top real estate firms. We're happy to make a referral to a local mortgage loan officer.

Online, at [www.atlanticsothebysrealty.com](http://www.atlanticsothebysrealty.com) will also help you approach the mortgage process with insight and confidence. Whether you are a first-time or repeat buyer, our agents can direct help you seek out valuable information and resources, including interest rates; information on getting pre- approved and ordering your credit score; and FAQs. *Following are some mortgage basics.*

**A mortgage qualification is one of the most important steps in the home-buying process, and one that should be performed before you begin your search. Here's why.**

First, a pre-qualification lets you know exactly how much you can afford. Your time is valuable, and you don't want to waste it looking at properties outside of your price range. That doesn't only apply to homes that are too expensive. Uniformed buyers underestimate their buying power just as often as they overestimate it.

Second, a pre-qualification demonstrates to potential sellers that you are a willing and able buyer. Most sellers would rather accept a lower offer from a bonafide buyer than risk a higher bid from someone who is not pre-approved. Finally, getting pre-approved before you begin your home search gives you an important head start on the process of securing an actual loan commitment. Keep in mind there are important differences between being pre-qualified, pre-approved and approved for a mortgage.

- **Pre-Qualification:** Pre-qualification is an informal assessment of your borrowing power based on information you provide to a lender. Actual financial documents are not used or verified when determining this estimate.
- **Pre-approval:** Pre-qualification is an estimate of the amount you can borrow based on a lender's verification of your financial documents, employment and credit history.
- **Pre-approval Letter:** When pre-approved, your lender will issue a loan commitment which states that your lending institution has verified your financial information.

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*\*Please see the Glossary of Terms for additional information.*

# FINANCING YOUR NEW HOME

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## Mortgages

### ITEMS NEEDED FOR LOAN SUBMISSION OR APPROVAL



Photo Identification



Three (3) Pay Stubs



Past Two (2) Years  
of w-2 Forms  
If Self Employed,  
Past Two (2) years  
of Tax Returns



2 Months of Bank  
Statements



Latest Quarterly  
Statements for any  
401ks

Today, most mortgage lenders use consumer credit scores as the key measure for evaluating borrowers. A credit score is an objective appraisal of your credit risk, based on past credit activity. Scores range from a low of 300 to a high of 850, and lenders equate a higher score with less risk – and better terms for the borrower. Since your credit score is based on several factors, including your payment history, outstanding credit obligations and the length of time you have these obligations, there are steps you can take to maintain a high score or improve a low score.

- **Pay Bills On Time**
  - **Maintain low balance on credit cards and revolving credit.**
  - **Payoff any revolving debt rather than moving it from one card to another**
  - **Apply for and open new credit accounts only as needed**
  - **Maintain some open credit**
  - **If you miss payments or run into problems, take steps to re-establish a good track record as soon as possible**
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# GLOSSARY OF TERMS

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## **ACCELERATION CLAUSE**

A provision in a mortgage note that gives a lender the right to demand repayment of the entire balance of the loan under certain conditions, such as the failure to make timely payments or a transfer of the property.

## **ADDITIONAL PRINCIPAL PAYMENT**

An amount paid by a borrower of more than the scheduled principal amount due. This type of payment reduces the remaining balance and shortens the term of the loan. Also called "principal curtailment."

## **ADJUSTABLE-RATE MORTGAGE (ARM)**

A mortgage that permits the lender to periodically adjust the interest rate on the basis of changes in a specified index.

## **ADJUSTMENT DATE**

The date on which the interest rate changes for an adjustable-rate mortgage (ARM).

## **ADJUSTMENT PERIOD**

For an adjustable-rate mortgage, the time period between interest rate change dates, as stated in the mortgage note.

## **AFFORDABILITY ANALYSIS**

An estimation of a borrower's ability to afford the purchase of a home and/or the payment on a loan. An affordability analysis may consider income, liabilities, the type of mortgage, the loan amount, purchase price, the expected closing costs, and other factors.

## **AMORTIZATION**

The gradual reduction of the mortgage debt through regularly scheduled payments over the term of the loan.

## **AMORTIZATION SCHEDULE**

A timetable for payment of a mortgage loan. An amortization schedule shows: the amount of each payment; the amount to be applied to principal and interest; and the remaining principal balance after each payment is made.

## **AMORTIZE**

To repay a mortgage with regular payments that cover both principal and interest.

## **ANNUAL PERCENTAGE RATE (APR)**

The measure of the cost of credit stated as a yearly rate; includes such items as the stated interest rate, plus certain charges.

## **ANNUITY**

An amount paid yearly or at other regular intervals, often at a guaranteed minimum amount. Also, a type of insurance policy in which the policy holder makes payments for a fixed period or until a stated age, and then receives annuity payments from the insurance company.

## **APPRAISAL**

A written estimate or opinion of a property's value prepared by a qualified appraiser.

## **APPRECIATION**

An increase in the value of an item (e.g., the increase in the market value of real estate).

## **ASSESSED VALUE**

Typically the value placed on property for the purpose of taxation. This is not always an indication of actual value.

## **ASSESSOR**

A public official who establishes the value of a property for taxation purposes.

# GLOSSARY OF TERMS

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## **ASSIGNMENT OF MORTGAGE**

A document evidencing the transfer of ownership of a mortgage from one person to another.

## **BALLOON MORTGAGE**

A mortgage in which the borrower's monthly payments are amortized over a longer period than the actual term of the mortgage. As a result, at the end of the loan term, the borrower must pay off the remaining balance with a single lump sum payment or refinance the loan.

## **BALLOON PAYMENT**

The final lump sum payment that is made at the maturity date of a balloon mortgage.

## **BEFORE-TAX INCOME**

Income before taxes are deducted. Also known as "gross income."

## **BRIDGE LOAN**

A short-term loan secured by the borrower's current home (which is usually for sale) that allows the proceeds to be used for building or closing on a new house before the current home is sold. Also known as a "swing loan."

## **BROKER**

An individual or firm that acts as an agent between providers and users of products or services, such as a mortgage broker or real estate broker.

## **BUILDING CODE**

Local regulations that set forth the standards and requirements for the construction, maintenance and occupancy of buildings. The codes are designed to provide for the safety, health and welfare of the public.

## **CAP**

For an adjustable-rate mortgage (ARM), a limitation on the amount the interest rate or mortgage payments may increase or decrease.

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## **CASH-OUT REFINANCE**

A refinance transaction in which the borrower receives additional funds over and above the amount needed to repay the existing mortgage, closing costs, points, and any subordinate liens.

## **CERTIFICATE OF DEPOSIT**

A document issued by a bank or other financial institution that is evidence of a deposit, with the issuer's promise to return the deposit plus earnings at a specified interest rate within a specified time period.

## **CERTIFICATE OF ELIGIBILITY**

A document issued by the U.S. Department of Veterans Affairs (VA) certifying a veteran's eligibility for a VA-guaranteed mortgage loan.

## **CHAIN OF TITLE**

The history of all of the documents that have transferred title to a parcel of real property, starting with the earliest existing document and ending with the most recent.

## **CHANGE ORDERS**

A change in the original construction plans ordered by the property owner or general contractor.

## **CLEAR TITLE**

Ownership that is free of liens, defects, or other legal encumbrances.

## **CLOSING**

The process of completing a financial transaction. For mortgage loans, the process of signing mortgage documents, disbursing funds, and, if applicable, transferring ownership of the property. In some jurisdictions, closing is referred to as "escrow," a process by which a buyer and seller deliver legal documents to a third party who completes the transaction in accordance with their instructions.



# GLOSSARY OF TERMS

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## **COST OF FUNDS INDEX (COFI)**

An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the weighted monthly average cost of deposits, advances, and other borrowings of members of the Federal Home Loan Bank of San Francisco.

## **CREDIT HISTORY**

A record of an individual's debts and repayment record. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely manner.

## **CREDIT REPORT**

A document provided by a credit reporting agency containing information about an individual's previous mortgage history, bank loans, credit cards, and public records dealing with financial matters.

## **CREDIT SCORE**

A numerical value that ranks a borrower's credit risk at a given point in time based on a statistical evaluation of information in the individual's credit file that has been proven to be predictive of loan performance.

## **DEBT-TO-INCOME RATIO**

The relationship between a borrower's total monthly debt payments (including proposed housing expenses) and his or her gross monthly income; this calculation is used in determining the mortgage amount that a borrower qualifies for.

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## **DEED**

The legal document conveying title to a property (i.e., transferring the ownership of real property from one party to another.)

## **DEED OF TRUST**

A legal document that conveys title to real estate to a disinterested third party (a "trustee") who holds the title until the borrower has repaid the debt. In some states, this document is used in place of a mortgage.

## **DEFAULT**

The failure to make a scheduled payment or otherwise comply with the terms of a mortgage loan or other contract.

## **DELINQUENCY**

Failure to make a payment when it is due. The condition of a loan when a scheduled payment has not been received by the due date, but generally used to refer to a loan for which payment is 30 or more days past due.

## **DOWN PAYMENT**

The amount of cash a buyer puts toward a purchase.

## **EARNEST MONEY DEPOSIT**

A deposit submitted with a purchase offer to show that the buyer's offer is being made in "good faith."

## **EASEMENT**

A right to the use of, or access to, land owned by another.

## **FORECLOSURE**

The legal process by which a property that is mortgaged as security for a loan may be sold and the proceeds of the sale applied to the mortgage debt. A foreclosure occurs when the loan becomes delinquent because payments have not been made or when the borrower is in default for a reason other than the failure to make timely mortgage payments.

# GLOSSARY OF TERMS

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## **CLOSING COSTS**

The fees charged in connection with a mortgage loan transaction. Money paid by a buyer (and or seller or other third party, if applicable) to effect the closing of a mortgage loan, generally including, but not limited to a loan origination fee, title examination and insurance, survey, attorney's fee, and prepaid items, such as escrow deposits for taxes and insurance.

## **CLOSING DATE**

The date on which the sale of a property is to be finalized and a loan transaction completed. Often, a real estate sales professional coordinates the setting of this date with the buyer, the seller, the closing agent, and the lender.

## **CLOSING DISCLOSURE (CD)**

The combined mortgage loan disclosure statement of final loan terms and closing costs prescribed under the Real Estate Settlement Procedures Act of 1974 (RESPA) (12 U.S.C. § 2601 et seq.) and Consumer Financial Protection Bureau Regulation X (12 C.F.R. Part 1024) and Regulation Z (12 C.F.R. Part 1026).

## **CO-BORROWER**

Any borrower other than the first borrower whose name appears on the application and mortgage note, even when that person owns the property jointly with the first borrower and shares liability for the note.

## **COMMISSION**

The fee charged for services performed, usually based on a percentage of the price of the items sold (such as the fee a real estate agent earns on the sale of a house).

## **COMMITMENT LETTER**

A binding offer by a lender to loan money at a future date subject to the borrower's compliance with stated conditions.

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## **COMMON AREAS**

Those portions of a building, land, or improvements and amenities owned by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

## **COMPARABLES**

An abbreviation for "comparable properties," in a CMA which are used as a comparison in determining the current value of a property that is being appraised.

## **COMPARATIVE MARKET ANALYSIS (CMA)**

A comparative market analysis is an examination of the prices at which similar properties in the same area recently sold. Real estate agents perform a comparative market analysis for their clients to help them determine a price to list when selling a home or a price to offer when buying a home.

## **CONDOMINIUM**

A real estate project in which each unit owner holds title to an individual unit in a building, and an undivided interest in the common areas.

## **CONTINGENCY**

A condition that must be met before a contract is legally binding. For example, home purchasers often include a home inspection contingency; the sales contract is not binding unless and until the purchaser has a satisfactory home inspection.

# GLOSSARY OF TERMS

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## **FORFEITURE**

The loss of money, property, rights, or privileges due to a breach of a legal obligation.

## **FULLY AMORTIZED MORTGAGE**

A mortgage in which the monthly payments are designed to retire the obligation at the end of the mortgage term.

## **GENERAL CONTRACTOR**

A person who oversees a home improvement or construction project and handles various aspects such as scheduling workers and ordering supplies.

## **LOAN ESTIMATE**

A form required by the Real Estate Settlement and Procedures Act (RESPA) that discloses an estimate of the amount or range of charges, for specific settlement services the borrower is likely to incur in connection with the mortgage transaction.

## **GOVERNMENT MORTGAGE**

A mortgage loan that is insured or guaranteed by a federal government entity such as the Federal Housing Administration (FHA) or guaranteed by the U. S. Department of Veterans Affairs (VA), or the Rural Housing Service (RHS).

## **GROWING-EQUITY MORTGAGE (GEM)**

A fixed-rate mortgage in which the monthly payments increase according to an agreed-upon schedule, with the extra funds applied to reduce the loan balance and loan term.

## **HOME EQUITY CONVERSION MORTGAGE (HECM)**

A special type of mortgage developed and insured by the Federal Housing Administration (FHA) that enables older home owners to convert the equity they have in their homes into cash, using a variety of payment options to address their specific financial needs. Sometimes called a reverse mortgage.

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## **HOME EQUITY LINE OF CREDIT**

A type of revolving loan, that enables a home owner to obtain multiple advances of the loan proceeds at his or her own discretion, up to an amount that represents a specified percentage of the borrower's equity in the property.

## **HOME INSPECTION**

An examination of the construction, condition and internal systems of a home prior to purchase; satisfactory home inspection may be a condition of purchase.

## **HOMEOWNER'S INSURANCE**

A broad form of insurance coverage that combines hazard insurance with personal liability protection and other coverage.

## **HOMEOWNER'S WARRANTY (HOW)**

Insurance offered by a seller that covers certain home repairs and fixtures for a specified period of time.

## **HOMEOWNERS' ASSOCIATION**

An organization of homeowners residing within a particular area whose principal purpose is to ensure the provision and maintenance of community facilities and services for the common benefit of the residents.

## **HOUSING EXPENSE RATIO**

The percentage of a borrower's gross monthly income that is devoted to housing costs.

## **HUD-1 SETTLEMENT STATEMENT**

A document that lists all closing costs on a real estate purchase or refinance transaction. Also known as the "closing statement" or "settlement sheet."

# GLOSSARY OF TERMS

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## **INCOME PROPERTY**

Real estate developed or purchased to produce income, such as a rental unit.

## **INDEX**

A number used to compute the interest rate for an adjustable-rate mortgage (ARM). The index is generally a published number or percentage, such as the average interest rate or yield on U.S. Treasury bills. A margin is added to the index to determine the interest rate that will be charged on the ARM. This interest rate is subject to any caps on the maximum or minimum interest rate that may be charged on the mortgage, stated in the note.

## **INITIAL INTEREST RATE**

The original interest rate for an adjustable-rate mortgage (ARM). Sometimes known as the “start rate.”

## **INSTALLMENT**

The regular periodic payment that a borrower agrees to make to a lender.

## **INSTALLMENT DEBT**

A loan that is repaid in accordance with a schedule of payments for a specified term (such as an automobile loan).

## **INTEREST**

The fee charged for borrowing money, usually expressed as an annual percentage of the principal.

## **INTEREST ACCRUAL RATE**

The percentage rate at which interest accumulates or increases on a mortgage loan.

## **INTEREST RATE CAP**

For an adjustable-rate mortgage, a limitation on the amount the interest rate can change per adjustment or over the lifetime of the loan, as stated in the note.

## **INTEREST RATE CEILING**

For an adjustable-rate mortgage (ARM), the maximum interest rate, as specified in the mortgage note.

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## **INVESTMENT PROPERTY**

A property purchased to generate rental income, tax benefits, or profitable resale rather than to serve as the borrower’s primary residence. Contrast with “second home.”

## **JUDGMENT LIEN**

A lien on the property of a debtor resulting from the decree of a court.

## **JUMBO LOAN**

A loan that exceeds the mortgage amount eligible for purchase by Fannie Mae or Freddie Mac. Also called “nonconforming loan.”

## **LEASE-PURCHASE OPTION**

An option sometimes used by sellers to rent a property to a consumer, who has the option to buy the home within a specified period of time. Typically, part of each rental payment is put aside for the purpose of accumulating funds to pay the down payment and closing costs.

## **LIABILITY INSURANCE**

Insurance coverage that protects property owners against claims of negligence, personal injury or property damage to another party.

## **LIEN**

A legal encumbrance or claim on property as security for a debt.

## **LIFETIME CAP**

For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate or monthly payment can increase or decrease over the life of the loan.

## **LIQUID ASSET**

A cash asset or an asset that is easily converted into cash.

## **LOAN ORIGATION**

The process by which a lender makes a loan which may include taking a loan application, processing and underwriting the application, and closing the loan.

# GLOSSARY OF TERMS

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## **LOAN ORIGATION FEE**

A fee to cover some of the administrative costs of processing a loan. It is often expressed in points. One point is equal to 1 percent of the loan amount.

## **LOCK-IN**

An agreement in which the lender agrees to “lock-in” the borrower’s interest rate for a set period of time before closing.

## **MARGIN**

For an adjustable-rate mortgage (ARM), the amount that is added to the index to determine the interest rate on each adjustment date, as stated in the note.

## **MORTGAGE**

A loan to finance the purchase of real estate, for which the borrower pledges the real property as security for the repayment of the loan. The borrower gives the lender a lien on the property as collateral for the loan.

## **MORTGAGE BROKER**

An individual or firm that brings borrowers and lenders together for the purpose of loan origination. A mortgage broker typically takes loan applications and may process loans, but generally does not use its own funds to close the loan. Mortgage brokers often act as independent contractors and not as an agent of the borrower or lender.

## **NEGATIVE AMORTIZATION**

An increase in the balance of a loan caused by adding unpaid interest to the loan balance; this occurs when the payment does not cover the interest due.

## **ORIGINAL PRINCIPAL BALANCE**

The total amount of principal owed on a mortgage before any payments are made.

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## **OWNER FINANCING**

A transaction in which the property seller provides all or part of the financing for the buyer’s purchase of the property.

## **OWNER OCCUPIED PROPERTY**

A property that serves as the borrower’s primary residence.

## **PARTIAL PAYMENT**

A payment that is less than the scheduled monthly payment on a mortgage loan.

## **PENDING**

Once all contingencies are met in the sale you are clear to close.

## **PERSONAL PROPERTY**

Any property that is not real property.

## **PITI**

An acronym for the four primary components of a monthly mortgage payment: principle, interest, taxes, and insurance (PITI).

## **PITI RESERVES**

A cash amount that a borrower has available after making a down payment and paying closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

## **POINT**

An amount equal to 1 percent of the loan amount.

## **PRE-APPROVAL**

A process by which a lender provides a prospective borrower with an indication of how much money he or she will be eligible to borrow when applying for a mortgage loan. This process typically includes a review of the applicant’s credit history and may involve the review and verification of income and assets to close.

# GLOSSARY OF TERMS

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## **PRE-QUALIFICATION**

A preliminary assessment by a lender of the amount it will lend to a potential homebuyer. The process of determining how much money a prospective home buyer may be eligible to borrow before he or she applies for a loan.

## **PREPAYMENT**

Any amount paid to reduce the principal balance of a loan before the scheduled due date.

## **PREPAYMENT PENALTY**

A fee that a borrower may be required to pay to the lender, in the early years of a mortgage loan, for repaying the loan in full or prepaying a substantial amount to reduce the unpaid principal balance.

## **PRINCIPAL**

The amount of money owed on a loan, excluding interest. Also, the part of the monthly payment that reduces the remaining balance of a mortgage.

## **PRIVATE MORTGAGE INSURANCE (PMI)**

Insurance for conventional mortgage loans that protects the lender from loss in the event of default by the borrower.

## **PROMISSORY NOTE**

A written promise to repay a specified amount over a specified period of time.

## **PURCHASE AND SALE AGREEMENT**

A document that details the price and conditions for a transaction. In connection with the sale of a residential property, the agreement typically would include: information about the property to be sold, sale price, down payment, earnest money deposit, financing, closing date, occupancy date, length of time the offer is valid, and any special contingencies.

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## **QUALIFYING GUIDELINES**

Criteria used to determine eligibility for a loan.

## **QUALIFYING RATIOS**

Calculations that are used in determining the loan amount that a borrower qualifies for, typically a comparison of the borrower's total monthly income to monthly debt payments and other recurring monthly obligations.

## **RATE CAPS**

For an adjustable-rate mortgage loan, the maximum interest rate that may be charged, either at the time of each adjustment date or over the life of the loan.

## **RATE LOCK**

An agreement in which a lender "locks in" or guarantees an interest rate for a specified period of time prior to closing.

## **REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)**

A federal law that requires lenders to provide home mortgage borrowers with information about transaction-related costs prior to settlement, as well as information during the life of the loan regarding servicing and escrow accounts. RESPA also prohibits kick-backs and unearned fees in the mortgage loan business.

## **REAL PROPERTY**

Land and anything permanently affixed there to – including buildings, fences, trees, and minerals.

## **REFINANCE TRANSACTION**

The process of paying off one loan with the proceeds from a new loan using the same property as security.



# GLOSSARY OF TERMS

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## **REVOLVING DEBT**

Credit that is extended by a creditor under a plan in which (1) the creditor contemplates repeated transactions; (2) the creditor may impose a finance charge from time to time on an outstanding unpaid balance; and (3) the amount of credit that may be extended to the consumer during the term of the plan is generally made available to the extent that any outstanding balance is repaid.

## **RIGHT OF FIRST REFUSAL**

A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

## **SECURED LOAN**

A loan that is backed by property such as a house, car, jewelry, etc.

## **SETTLEMENT**

The process of completing a loan transaction at which time the mortgage documents are signed and then recorded, funds are disbursed, and the property is transferred to the buyer (if applicable). Also called closing or escrow in different jurisdictions.

## **SETTLEMENT STATEMENT**

A document that lists all closing costs on a real estate purchase or refinance transaction.

## **SINGLE-FAMILY PROPERTIES**

One- to four-unit properties including detached homes, townhouses, condominiums, and cooperatives, and manufactured homes attached to a permanent foundation and classified as real property under applicable state law.

## **TAXES AND INSURANCE**

Funds collected as part of the borrower's monthly payment and held in escrow for the payment of the borrower's state and local property taxes and insurance premiums.

## **TITLE**

A legal document evidencing a person's right or ownership of a property.

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## **TITLE INSURANCE**

Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against losses arising from defects in the title not listed in the title report or abstract.

## **TITLE SEARCH**

A check of the public records to ensure that the seller is the legal owner of the property and to identify any liens or claims against the property.

## **TRANSFER TAX**

State or local tax payable when title to property passes from one owner to another.

## **TREASURY INDEX**

An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the result of auctions by the U.S. Treasury of Treasury bills and securities.

## **TRUTH-IN-LENDING**

A federal law intended to promote the informed use of consumer credit by requiring disclosure about its terms and costs. Creditors are required to disclose the cost of credit as a dollar amount (the finance charge) and as an annual percentage rate (APR).

## **UNDERWRITING**

In mortgage lending, the process of evaluating a loan application to determine the risk involved for the lender. Underwriting involves an analysis of the borrower's credit-worthiness, ability to repay the loan, and the value of the property securing the loan.

## **VA GUARANTEED LOAN**

A mortgage loan that is guaranteed by the U.S. Department of Veterans Affairs (VA).

## **WALKTHROUGH**

A common clause in a sales contract that allows the buyer to examine the property being purchased at a specific time immediately before the closing, for example, within the 24 hours before closing.



**"WE DO NOT SELL HOMES.  
WE CELEBRATE THEM."**

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