

Definitions

1. What is the closing?

The closing is a formal meeting at which both the buyer and seller meet to sign all the final documentation required for the buyer's mortgage loan. Once the closing is completed, monies and title are transferred and the transaction is final. The property possession date is not necessarily the same date as the closing and will be specified in the real estate contract.

The closing is a buyer's final opportunity to stop the transaction. If the condition of the property has changed for the worse, the loan terms do not match what the lender disclosed or the buyers' finances have changed for the worse, a buyer should seriously consider stopping or delaying the closing until these issues can be resolved.

You should not complete the purchase if you have any questions, concerns or issues that are not resolved to your satisfaction at the closing.

2. What is earnest money?

Once you find the home you would like to purchase, your real estate agent will write a purchase offer. This is a written proposal submitted to the seller's agent with an earnest money check. This is a deposit that shows the seller your intention to complete the transaction.

The earnest money check will be deposited within days of your contract being accepted and, if the offer is accepted, you will receive credit towards the cash required at closing.

3. What is an Improvement Location Certificate (ILC)?

An Improvement Location Certificate (ILC) is a drawing of the property boundaries and shows the structures and some easements located on the property. It is not a survey. All easements should be listed on the title commitment, but may not be reflected on the ILC.

In some cases a survey rather than an ILC is required.

A full survey which identifies the property lines can be expensive so the cost should be researched before the service is ordered.

4. What is an initial escrow disclosure?

Your monthly mortgage payment consists of principal, interest, taxes and insurance (PITI). The initial escrow disclosure that you will receive at closing projects how the money for the real estate taxes and homeowners insurance will be deposited and distributed.

A detailed list of all fees charged for services provided to both buyer and seller is known as a HUD-1 settlement statement.

A document which contains a promise to repay the debt and describes the interest rate, the amount borrowed, the monthly payment to principal and interest, the payment due date, details of where to send payment, etc., is known as the mortgage note or promissory note.

5. What is PITI?

PITI is principal, interest, taxes, and insurance.

Principal is the portion of the payment that is applied to the original amount borrowed.

Interest is the amount the lender charges for lending money.

Taxes and insurance is the portion of the payment placed in an escrow account to pay for property taxes and homeowners insurance.

6. How can a housing counselor help a borrower?

The housing counselor is a trained professional who works for a not-for-profit housing organization like a community development corporation, a credit counseling agency, or a housing agency. The counselor may provide homebuyer education or individual counseling sessions to help a borrower throughout the home buying process and overcome any barriers to homeownership.

A housing counselor is not a real estate professional or a lender; therefore he/she cannot help negotiate a purchase contract for a buyer nor secure financing.

7. What is the difference between escrow and prepaid items?

Escrows and prepaid items are collected at the closing. The lender usually collects two to three months of property taxes and hazard insurance to set up your escrow account. One prepaid item might be interim interest. Your interim interest due at closing will be for the number of days from the date of the closing to the beginning of the following month.

8. Which of the following best describes a mortgage note or promissory note?

The mortgage note or promissory note is your promise to repay the lender according to the agreed terms. The note describes the interest rate, the amount borrowed, the monthly payment to principal and interest, the payment due dates, and details of where to send your payments. It also describes any fees for late payments and prepayment penalties, if applicable.

A legal document conveying title to the property from the seller to the buyer, and is only signed by the seller is the warranty deed.

A detailed list of all fees charged for services provided to both buyer and seller is the HUD-1 settlement statement.

9. What is gross income?

Gross income is the full pay check amount prior to any deductions. It can also be described as the amount of income earned before taxes and/or payroll deductions is your gross income.

10. How would you describe an individual development account (IDA) that is offered by many non-profit organizations?

An individual development account (IDA) is a special savings account offered by nonprofit organizations. The deposits are matched with a set amount by the nonprofit organization. For example, some institutions might contribute \$3.00 for every \$1.00 you save. This account has very specific purposes, like buying a house.

11. What is net income?

Net income is the amount of money remaining after taxes and/or any other payroll deductions. You will establish a spending plan based on your net monthly income or "take home pay." It can also be defined as **the money you have taken home after withholdings and deductions.**

12. What personal information goes on your credit report?

Your full name, address, social security number and date of birth,

A credit report only includes personal information about you. Your parents' or any other family or household members' information will not appear on your credit report. When you apply for credit you usually give your name, address, telephone number, social security number, date of birth and sometimes employment information. This information appears on your credit report to distinguish you from others with similar names.

Be aware that if you have a common name or others in your family share your name, there is a greater likelihood for error on your credit report.

13. What is a mortgage loan with a balloon payment?

It is a mortgage loan with monthly payments for a specified period, but a lump-sum final payment at an agreed upon date. Mortgage loans in which monthly payments are due for a specified period, followed by a lump sum final payment at agreed upon date are known as balloon payments

These periods are typically for five, seven or 10 years; at which time the lender will require that the outstanding balance be paid in full.

14. What is the difference between conventional and government loans?

Mortgages originated by private lenders and guaranteed by the government are FHA (Federal Housing Administration), VA (Veterans Affairs), and USDA (United States Department of Agriculture) Rural Development, Rural Housing Service loans. These are known as Government loans. The government determines the fees and regulations concerning the lending decision. The interest rates on these loans are not necessarily higher or lower than other loan programs; the rates on these loans are not set by the government.

- FHA loans are available to any qualified borrower that applies with an approved lender. This program requires a down payment of three and one half per cent of the purchase price; however, because of the low down payment the borrower will be required to purchase mortgage insurance premium (MIP) until the outstanding principal balance of the loan reaches 78 percent of the original appraised value or the sale price whichever is less. There are two types of Mortgage Insurance:
- **Upfront Mortgage Insurance Premium** – This is a onetime fee that is added to a borrower's loan balance when the loan is originated. It is 1% of the loan amount and mandatory on all loans.
- **Annual Mortgage Insurance Premium (MIP)** – This is paid monthly as part of a borrower's mortgage payment. The amount varies depending on the parameters of the loan.
- VA loans are only for veterans and active service members of the US armed forces and require no down payment. The veteran or service member will have to pay a funding fee. A veteran or an armed service member wishing to obtain a VA loan needs to contact the VA to request the Certificate of Eligibility. Once the certificate is issued the veteran or service member should contact a qualified VA lender.
- USDA Rural Development (RD) loans require low or no down payment, have flexible qualifying guidelines and below market interest rates. These loans are available in designated rural areas for people of low to moderate income levels and are offered directly through your local RD office and an approved lender.

A conventional loan is a loan made on real estate that is not insured by the government. The lender (mortgagee) can be an institutional lender or a private party. The loan is conventional in the sense that it conforms to accepted underwriting standards. Conventional loans include those loans insured by private mortgage insurance (PMI) companies. Conventional loans are frequently more flexible with respect to terms and interest rates, although they sometimes carry a higher interest rate and larger down payment requirements due to the higher risk

involved. Conventional loans are subject to institutional regulation, which may be statutory, federal or self-imposed by the lender.

A portfolio is a conventional loan originated and serviced by a lending institution and not sold in the secondary mortgage market.

15. What happens when a borrower makes their mortgage payment or a partial mortgage payment more than thirty days after the due date?

The delinquency is reported to the three major consumer credit reporting agencies.

Payment expectations:

Make the entire mortgage loan payment on time. The whole payment is due on the first day of the month however, lenders will typically grant a grace period. If payment is not received by the end of the grace period, the borrower will be charged a late fee. The borrower will then receive a letter from the lender requesting payment for the full monthly payment amount and the late fee as soon as possible.

Consequences of a late payment:

If a payment is 30 days late, the lender will typically send a notice of delinquency letter to the three major credit reporting agencies. This information will show on the borrower's credit file. A one time 30 day late mortgage payment will negatively impact the credit score. When two consecutive mortgage payments are missed, this is referred as a 60 day late and will further impact a borrower's credit score and after 90 days, or three consecutive missed monthly payments, the mortgage loan maybe considered in default, and many lenders will start the legal process of foreclosure.

16. What benefits do mortgage revenue bond programs provide and who do these serve?

State and local housing finance agency bond programs are mortgage programs available to homebuyers. The programs are sometimes limited to First Time Home Buyers while other programs may not be. These programs might offer below market interest rates, down payment assistance or tax credits based on mortgage interest expense for borrowers that have low to moderate income. In Indiana the general public can access this type of financing through Indiana Housing & Community Development Authority.

17. What is "option adjustable rate mortgage" or Option ARM?

An option ARM mortgage is a loan program that typically starts at a very low interest rate which adjusts frequently and has the possibility of negative amortization. These loans are called option ARM's because in addition to having the same characteristics of an adjustable rate mortgage, it gives the borrower three payment options every month:

1. pay less than the actual monthly interest
2. pay the actual interest only
3. pay the principal and interest

If a borrower chooses option one, this results in negative amortization. Negative amortization is when the monthly payments are less than the interest due and the interest shortage is added to the unpaid principal. The loan balance increases over the term of the loan rather than decreases. Negative amortization can result in owing more on the property than the property is actually worth.

18. What is prepayment penalty as it relates to a mortgage loan?

A prepayment penalty is an amount set by the lender to the borrower for paying off the debt before it matures. The prepayment penalty is charged by the lender to recoup a portion of interest that the lender had planned to earn when the loan was made. It covers the lender for initial costs to set up the loan, to service it and to carry it in the early years of high risk.

19. What is a reverse mortgage?

A reverse mortgage enables homeowners age 62 or older to borrow against the equity in their homes so they can receive monthly payments. Under this plan, the inflow and outflow of funds is in reverse to the standard conventional loan. The homeowner receives periodic (not necessarily equal) payments based on accumulated equity; the payments are made directly by the lender or through the purchase of an annuity from an insurance company. In most cases, interest is added to the principal periodically, relieving the borrower of making any mortgage payments. The loan comes due either upon a specific date or upon the occurrence of a specific event, such as sale of the property or death of the borrower.

20. What is 80/20 financing?

An 80/20 financing is a creative way of financing 100 percent of the value of a home without paying private mortgage insurance (PMI). These programs combine two mortgage loans, a first loan for 80 percent and a second for 20 percent of the value of the home. It is important to know that a borrower may have two different mortgage loan programs with two different interest rates in addition to typically higher closing costs for closing two different mortgage loans. Also, second mortgage loan programs typically carry higher interest rates and a balloon payment as part of their loan terms.

21. What does it mean if a mortgage loan does not have a prepayment penalty?

This is the right of the borrower to pay off part or all of a debt, without penalty or premium or other fee, prior to maturity. When shopping for a mortgage loan, verify if the mortgage loan program has a prepayment penalty. Before refinancing or making a prepayment on an existing mortgage loan, a borrower should verify that the mortgage loan does not have prepayment penalties. A borrower should contact the lender and ask if prepayments are accepted and if there are any penalties for making this payment.

22. What is an affidavit?

An affidavit is a document wherein you as a buyer, are asked to affirm under oath to certain information in writing. For example, you may be asked to sign an affidavit affirming that you intend to occupy the property as your primary residence.

23. What is a biweekly payment plan and how does it benefit a borrower?

A biweekly payment plan calls for 26 payments a year, resulting in an earlier loan retirement date and lower total interest costs than with a fully amortized loan with regular monthly payments. When using this payment method, you will make half of your monthly mortgage payment every two weeks, making one extra payment a year and reducing the repayment period. Please note to ask as the lender if there are any fees associated with this.

24. What is a mortgage broker?

A mortgage broker is a person or firm that acts as an intermediary between borrower and lender and is compensated to arrange a loan and deliver it to that lender.

Mortgage brokers typically have access to more loan products than you might find at your local bank or credit union. Mortgage brokers will take the loan application and find a product from a specific lender that will fit your need. Loans originated by mortgage brokers are usually closed in the lender's name and usually serviced by the lender. This is in contrast to mortgage bankers, who close loans in their own names and continue to service them as well.

It is highly recommended that you shop around for an ethical mortgage broker who has the experience and skills to find the best loan program available for you. Regardless of whether you are using a mortgage broker or bank, you have the right to receive certain disclosures comparing rates, fees and loan terms. Review these carefully before you make your final lender selection.

25. What is a deficiency Judgment?

A **deficiency judgment** is an unsecured money judgment against a borrower whose mortgage foreclosure sale did not produce sufficient funds to pay the underlying promissory note, or loan, in full.

26. What is a deed-in-lieu of foreclosure?

A deed in lieu of foreclosure requires the borrower to relinquish his or her rights in a property to the lender in exchange for being released from liabilities specifically named in the loan documents; a deed in lieu of foreclosure can often be the result of a settlement. The borrower is freed from having a foreclosure on his or her credit history.

27. What is forbearance?

Forbearance is a period of time during which your lender **temporarily reduces or suspends** your regular payments. You are then required to make these payments up at a later time after the financial crisis is over.

28. What is Seller Financing?

It is a loan provided by the seller of a property to the purchaser. Usually, the purchaser will make some sort of down payment to the seller, and then make installment payments (usually on a monthly basis) over a specified time, at an agreed-upon interest rate, until the loan is fully repaid. This is when the seller in a transaction offers the buyer a loan rather than the buyer obtaining one from a bank. In general the loan is secured by the property being sold. In the event that the buyer defaults, the property is repossessed or foreclosed on exactly as it would be by a bank.