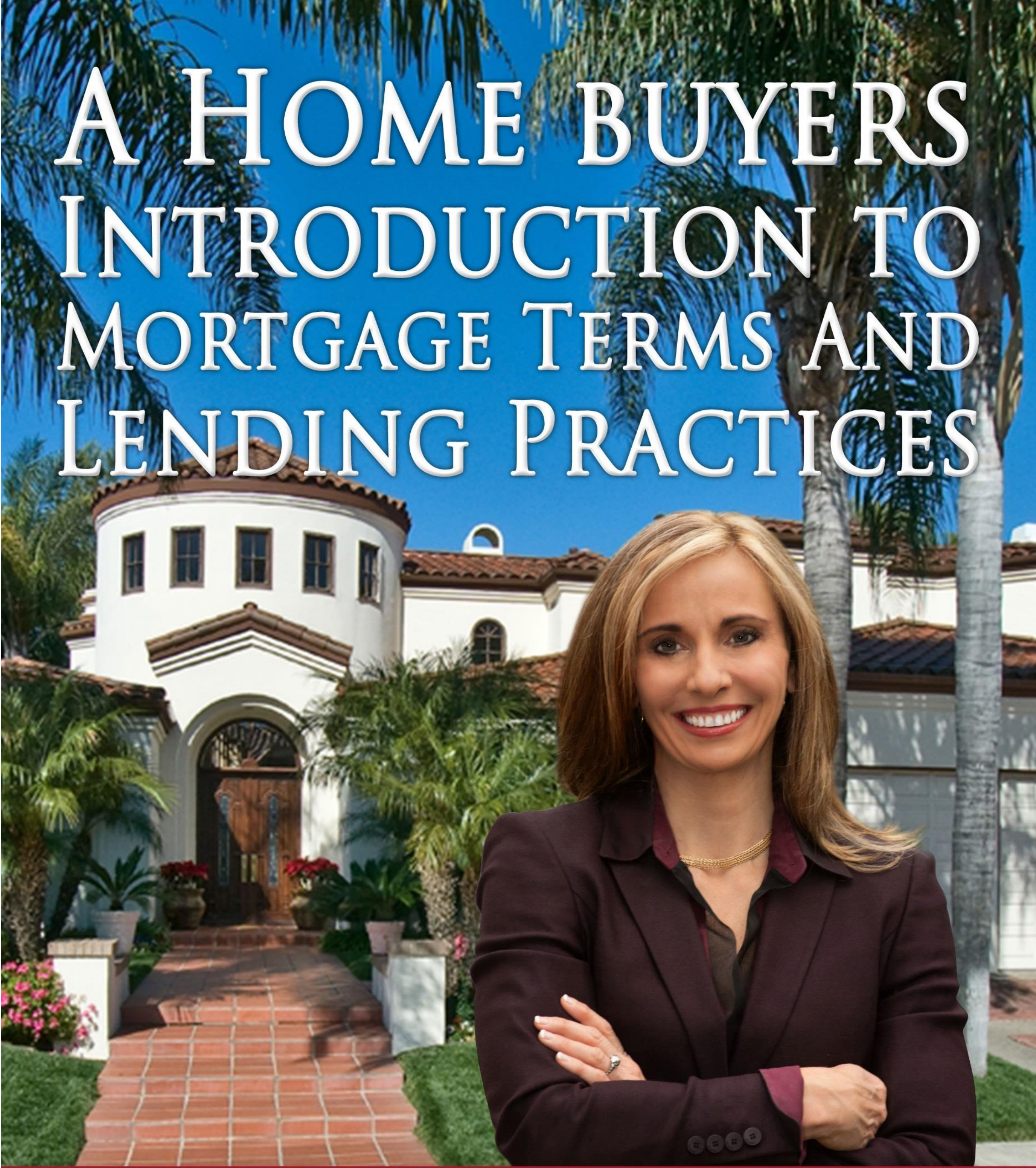
A Home buyers Introduction to Mortgage Terms and Lending Practices



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A Homebuyer's Introduction to Mortgage Terms and Lending Practices

If you are just starting to learn about real estate, you may find mortgages overwhelming.

Fear not – we're here to help. Here's an introduction to some of the terms you will see in common use when it comes to financing your home, along with some information about lending practices and what to expect when you are seeking and applying for a mortgage.

The model for best lending practices is defined by the National Association of Mortgage Brokers (NAMB) Professional Standards & Best Lending Practices, which asks NAMB members to:

- Abide by federal and state regulations pertaining to the mortgage lending industry;
- Offer rates and fees to all equally without discrimination based on race, color,
- religion, national origin, gender, marital status, sexual preference, or disability;
- Refrain from engaging in or responding to any party that seeks to circumvent
- professional industry standards, guidelines, rules or regulations in a mortgage
- transaction;
- Charge only those fees disclosed or re-disclosed on the Loan Estimate;
- Provide accurate and complete information in all solicitations and advertising;

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- Provide a written agreement, which explains the nature of the business and how I
- am compensated in this transaction;
- Inform client of lock-in options, and provide a written document which states loan
- terms and rate, and whether the rate is floating or locked;
- Disclose and explain all costs associated with the loan transaction;
- Explain the loan application and associated disclosures and documents;
- Present and explain all programs and pricing options;
- Explain the loan process from application to closing;
- Maintain open communication throughout the loan process.

When it comes to lending practices, areas of concern include:

- Predatory lending, which lends money but with unfair or abusive loan terms for a loan that the borrower doesn't need or want or can't afford. It typically involves deception or fraud; and
- Discriminatory lending, which does not lend money, or lends on unfair terms, based on race/color, religion, national origin, sex/marital status, age, disability income, and other factors. It is illegal to use those factors to refuse credit when an applicant applies for it, discourage anyone from applying for credit, offer terms that are less favorable (like a higher interest rate), or close an account. "Redlining" is refusing to provide mortgage loans in certain neighborhoods.

These practices are illegal.

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Mortgage Terminology

Here are just a few of the terms you are likely to see as you seek out a mortgage loan to buy your next home. There are many others. If you see one you don't understand, just ask us, we're happy to help.

APR – Annual Percentage Rate: A broader measure than interest rate of the cost to borrow money. APR accounts for the points, mortgage broker fees, and other charges to obtain a loan.

ARM – Adjustable Rate Mortgage: A mortgage loan with an interest rate that can change over the term of the loan.

Amortization: To pay down principal over time.

Appraisal: A written report that estimates the property's current market value, based on data including recent sales prices for similar properties, current condition of the property, etc.

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Closing: Meeting of buyer, seller, lender or their agents to complete the sale of the property where the funds and property legally change hands.

Closing costs: Fees that are part of a real estate or mortgage transaction paid by the borrower and/or seller during a closing, usually about three to six percent of the mortgage loan amount.

Construction loan: A loan used to pay those building you a new house that is paid off with a mortgage when construction is complete.

Conventional Mortgage: A mortgage loan not guaranteed or insured through a government program like FHA or VA.

Debt-to-Income Ratio: Your monthly bills and payments, including mortgage payments, compared to your monthly income.

Equity: The difference between the current value of your house and what you owe on the mortgage.

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FHA loan: A loan based on criteria from the Federal Housing Administration (FHA) that allows lower-income borrowers to qualify for mortgages.

Fixed-Rate Mortgage: A mortgage loan with an interest rate that stays the same over the term of the loan.

Interest rate: The cost to borrow money.

Loan-to-Value (LTV): For a mortgage loan, how much is borrowed versus how much the property is worth. An LTV of 80%, for example, means your down payment is 20% of the value of the property, and your mortgage loan is worth 80% of the property's value.

Mortgage: A loan used to buy real estate that is secured by the property being purchased.

Mortgage rate: The amount of interest charged on the funds lent to you to purchase a piece of property.

Points: Percentage points of the loan amount. You can "buy down" your mortgage to a lower interest rate in some cases by paying a percentage point up front.

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Principal: Your original mortgage loan amount; the outstanding balance on the loan, excluding interest; and/or the percentage your monthly payment reduces the amount owed on the loan, without the interest.

Private Mortgage Insurance (PMI): When loan-to-value (LTV) is higher than 80%, lenders ask the borrower to get and pay for private mortgage insurance (PMI), which guarantees that until the borrower reaches 80% LTV, the lender is covered from default (failure by the borrower to pay the loan).

Term: The term of a loan is the length of time over which you repay the loan. Terms range from 10 years up to 40 years, though a 30-year loan is the most common.

Title: Legal document that gives evidence of ownership of a property, and rights of ownership and possession.

Underwriting: The analysis of how much risk a lender assumes by approving your mortgage loan application.

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VA Mortgage: A mortgage loan guaranteed by the Veterans Administration (VA) offered to veterans and their families.

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