

Frequently Asked Questions:

- **Is a Fixed-Rate or an Adjustable-Rate Loan Better?**
First you need to know how long you plan to stay in the house. If you plan to remain in the house for at least 10 years, a fixed-rate loan may be the right choice for you. An adjustable rate may be the best choice if you want to qualify for a larger loan, or if you plan to sell your house in the near future.
- **What is the Difference Between the Rate and APR?**
APR means Annual Percentage Rate. It factors in interest, plus points, closing costs and other miscellaneous fees. It is intended to show you the true cost of your mortgage.
- **What Does Pre-Qualification Mean?**
Pre-qualification is the process of determining how large a loan a prospective home buyer can qualify for; this is usually completed with a lender prior to actually applying a loan. By pre-qualifying, you know up front what price range you can afford—before you start looking for your dream house.
- **What is Escrow?**
Prior to closing, all documents and money (such as a deposit) are held by a neutral third-party. During escrow, all of the conditions of the sale of the property (such as repair work, pest inspections, etc.) are completed and fully-documented by an escrow officer.
- **What is Private Mortgage Insurance (PMI)?**
This is insurance provided by a non-government insurer to protect a lender against loss if a borrower defaults on their loan. PMI is generally required by a lender if the borrower's down payment is less than 20% of the purchase price.

Qualifying for a Mortgage Loan

Before you apply for any loan, it is always best to know the status of your personal finances. During the process, you will be asked to disclose personal financial information and furnish documentation to backup the information when completing the loan application. There are two important factors lenders examine when making loan decisions: debt-to-income ratio and unsecured ratio.

Debt-to-Income Ratio

To calculate your debt-to-income ratio, divide your gross monthly income by your monthly payments (rent, credit cards and loans). This will give you a percentage. Depending on the lender, 40% is usually a satisfactory ratio. In itemizing debts, do not include taxes, insurance, student loans, child support or utilities.

Unsecured Ratio

To calculate your unsecured ratio, divide your gross annual income by all of your outstanding balances on your credit cards, charge card and unsecured loans. This percentage should be no higher than 20-25%.

Glossary of Mortgage Terms

1st Trust Deed Mortgage – A real estate loan that is a security instrument that creates the primary, or first, lien against a specific property.

Adjustable Rate Mortgage (ARM) – A mortgage in which the interest rate is adjusted periodically based on changes to an index, such as the Prime Rate. This may also be called a Variable Rate mortgage.

Amortization – Paying off the outstanding balance of a loan by making equal payments on a regular schedule (usually monthly). The payments are structured so that the borrower pays both interest and principal with each equal payment.

Annual Percentage Rate (APR) – A rate that reflects the actual annual cost of a loan, incorporating the loan interest rate, private mortgage insurance, points and fees.

Appraisal – A professional assessment of the market value of a property.

Appreciation – Increase in value of a property.

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

Closing – The legal procedure in which the transfer of property becomes final. Also called settlement.

Closing Costs – Costs incurred by the buyer and seller in transferring ownership of a property.

Credit Rating – A rating of a borrower made using the borrower's credit history and capacity for making future payments.

Deed – The legal document conveying title to a property.

Default – To fail to make mortgage payments on a timely basis or to comply with other mortgage conditions.

Delinquency – Failure to make a loan payment on time; the loan is not yet in default.

Depreciation – A decline in property value; opposite of appreciation.

Down Payment – The part of the purchase price of a home which the buyer pays in cash up front; not included in the loan; measures the degree of ownership.

Equity – The difference between the current market value of a property and the principal balance of all outstanding loans.

Escrow – the holding of documents and money (such as a deposit) by a neutral third party prior to closing. Also an account held by the lender into which a homeowner pays money for taxes and insurance.

Fixed-Rate Mortgage – A mortgage where the interest does not change for the life of the loan.

Lien – A legal claim on a property.

Loan to Value Ratio (LTV) – The ratio between the amount of the mortgage and the total value of the property.

Margin – The set percentage the lender adds to the index rate to determine the interest rate on an ARM.

Mortgage – A legal document that pledges a property to the lender as security for payment of a debt.

Mortgage Insurance – Insurance that covers the lender against losses incurred as a result of a default on a home loan.

Negative Amortization – Payment terms under which the borrower’s monthly payments are insufficient to cover interest due, thus increasing the loan balance.

Origination Fee – The fee imposed by a lender to cover certain processing expenses in connection with making a loan. Also known as “points.”

PITI – Stands for principal, interest, taxes and insurance—the components of a monthly mortgage payment.

Points – A one-time charge by the lender to increase the yield of a loan. Equal to one percent of the loan amount and paid at closing.

Principal – The amount borrowed or financed.

Private Mortgage Insurance (PMI) -- Insurance provided by a non-government insurer to protect a lender against loss if a borrower defaults. Usually required if down payment is less than 20 percent of the purchase price.

Refinance – To re-organize existing debt by incurring a new debt that incorporates or pays off existing debt.

Recording – the formal filing of documents describing or affecting a property’s title.

Title – A legal document showing a person’s right to or ownership of a property.

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

Transfer Tax – State or local tax payable when title passes from one owner to another.

Truth-in-Lending – A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.