

MORTGAGE TERMS GLOSSARY

Adjustable Rate Mortgage (ARM)

(see also *Fixed-Rate Mortgage*)

A mortgage that will have a fixed rate for a set period and then an adjustable rate per the terms of the loan agreement note. There are a multitude of ARMs available; adjustable interest rate terms vary per loan. For example, BECU's 5/5 ARM offers an interest rate that remains fixed for the first five years. The rate adjusts every five years, no more than 2.0% each adjustment. The total rate increase will never exceed more than 5% above the initial rate.

Because adjustable-rate mortgages may initially charge less interest, your mortgage advisor will ask how long you intend to live in the property. Is it a starter home? Do you have plans to eventually move? You might want to buy "more house" with the spending power of a lower interest rate, provided that when the rate increase occurs, your plans include refinancing (*not always an available option*), selling the property, or simply affording the rate difference.

Annual Percentage Rate (APR)

This includes your interest rate – annual interest charge – plus any points or lender fees. Your APR is thus usually higher than your locked interest rate.

Appraisal

An analysis performed by an "appraiser" to determine a property's value. An appraiser is an independent contractor hired by the lender (see Lender). Once a buying contract is signed, the lender will schedule an appraisal to evaluate a property; properties are assigned a total value based on square footage, neighborhood, recent comparative home sales in the area, property condition and more.

In order for a lender to finance a home, the property must appraise at the agreed sale price. Should it appraise for a higher amount, the difference is known as a homebuyer's instant equity (*see Equity*), and the potential homebuyer commences a happy dance. Should the home appraise for lower than the contract price, the lender is loaning more funds and must agree to lend more money to the buyer, or, the buyer must make up the difference with cash. In a "buyer's market" (*see Buyer's Market*), the seller is often willing to adjust the contract price to meet the appraised value.

Buyer's Costs

(see also *Closing Costs or Selling Costs*)

A common misconception is that a buyer is only responsible for the house purchase price. Unfortunately, there are additional costs: As there are multiple requirements involved when buying real estate, and each element and company charges a fee. In addition to the property purchase price, the buyer usually pays additional costs at closing:

- 1 Inspection fee
- 2 Appraisal fee
- 3 Buyer closing costs, e.g., lender's title insurance, escrow fees, recording fees
- 4 Homeowner's Insurance (one year)
- 5 Property taxes (*up to six months*)
- 6 Lender fee(s) – BECU, as a not-for-profit credit union, returns its profits to the members in the form of fewer fees (vs. a typical financial institution)
- 7 Other fees may be required due to property and/or product characteristics



appraiser

Example:

- » Lori buys a 4 bedroom, 2.5 bath rambler for \$475,000.
- » Lori's terms = \$50,000 deposit/\$14,250 earnest money (3% of the sale price)/30-day close
- » Lori pays an inspector to inspect the home
- » Lori finances the remaining \$425,000 owed with BECU
- » During the 30-day closing period, BECU "orders" an appraisal, charging Lori the fee
- » Lori owes, at closing, the remaining \$35,750 + homeowner insurance, property tax, lender fee and miscellaneous closing fees
- » Lori owes, at closing, around \$40 – 43K

Buyer's Market

(see also *Seller's Market*)

A housing market that favors the buyer. A buyer in a buyer's market gets the pick of the pile: A buyer's market typically involves excess housing inventory (multiple properties from which to choose) and the ability to then negotiate favorable buying terms, e.g. paid repairs following an inspection report, seller pays closing costs, or a lengthier closing period.

Closing Costs

(see also *Buying Costs and Selling Costs*)

The fees collected at the "close" of a real estate transaction. All funds are collected by a third-party title company (see *Title Company*). Buyer and seller pay different fees; the seller paying commission and sales tax; the buyer paying acquisition fees, such as lender, appraisal and escrow costs.

Closing Date

The day, month and year agreed by the buyer and seller in which to complete the buying process. The date is noted in the offer. The transaction paperwork must be signed by all parties and the sale funded, then recorded, into the county's records before or on the closing date. Buyers

can accomplish this process before the actual date, and all taxes and fees will be prorated in accordance with the closing date. Buyers and sellers will also use the date to cancel/schedule utilities.

Closing Period

The length of time between signing the buying contract (*offer*) and the closing date (see *closing date*).

Contract

(see also *Offer*)

The legally binding paperwork facilitating the sale of a property. The contract can be adjusted based on buyer/seller requests; adjustments (or, addendums) are facilitated by both parties' real estate agents. Earnest money discourages broken contracts (see *earnest money*).

Not to worry – there are few permissible methods in which to break a contract. A buyer can legally back out due to "lost" financing, an "unclear title" (see *Title*), failed inspection, or a seller does not meet contracted dates. Likewise, a seller can back out of a sale should the buyer not meet contracted dates.

How does a buyer "lose" their financing? Although rare, lost financing occurs due to a variety of circumstances: the buyer is affected in such a way to impact their finances, including injury, legal trouble, divorce, job change, etc.; or, the buyer's finances ultimately do not meet the lender's standards.

Commission

Percentage of the home sale paid to the real estate representative of both the buyer and seller. A typical commission to each agent is 3%. Sound steep? If you have the right agent, they are worth every penny! The commission is extracted from the purchase amount paid to the seller (see *Selling Costs*).

Credit Score

(also known as a *FICO Score*)

A credit score is a rating between 300 – 850. It is calculated by culminating an individual's payment,

debt and credit history. Negative factors, such as missed payments, detract from one's score. Positive factors, such as reduced debt, will increase one's score. Mortgage advisors consider both the credit history and score as part of their lending decision.

Earnest Money

A percentage of the buyer's down payment that is immediately paid once a contract is signed. The percentage can vary; the higher the earnest money, the better the offer. Why? It shows dedication to a property: Sellers receive the earnest money (*subsequently, buyers lose the earnest money*) should the buyer "illegally" back out of the contract. It is rare for a buyer to back out of a contract and forfeit their earnest money (*see Contract*).

Earnest money is not in addition to your down payment, however, you will most likely use cash from your intended down payment to pay the earnest money. Earnest money is kept by the title company (*see Title Company*), and is contributed toward the overall buying costs/down payment.

Equity

The accumulated (*either by outside influences or paid funds*) value of a property. Outside influences can include inflation, deflation, neighborhood condition, property condition and amenities, and can increase or decrease a property's value.

Equity example:

Heidi pays \$25,000 as a down payment to buy a \$295,000 bungalow.	The Smiths' 40-year-old property was purchased for \$50,000. They have since paid the mortgage in full.
The bungalow is appraised at \$310,000.	A similar, upgraded house in the neighborhood sells for \$750,000.
Heidi's property immediately gains \$15,000 in "instant" equity.	The Smiths must factor condition in their home's value; their home is valued at \$665,000.
Heidi's equity equals \$40,000: \$310,000 minus money owed (\$270,000).	With nothing owed, the Smiths' equity is \$665,000.

Escrow

An account that holds a portion of your monthly mortgage payment that may be applied to property tax, homeowner's insurance and (*if applicable*) PMI (*see Private Mortgage Insurance*) costs. Your lender (*BECU*) may establish the escrow account on your behalf; you simply pay the bill each month. Your bill will include the monthly loan principal and interest charge, property tax, homeowner's insurance and applicable PMI.

Many lenders, like BECU, may require participation in an escrow account. It not only saves you time – who wants to save up and pay a tax bill every six months? – your lender is also assured all of your financial obligations are fulfilled. Your lender ultimately wants the best for you, and an escrow account helps with that.

Excise Tax

(see also Property Tax)

Excise tax is essentially a property sales tax: The fee charged on the sale of real estate. It is collected by the state. Real estate excise tax is typically paid by the seller, and is paid at closing.



Fixed-Rate Mortgage

(See also *Adjustable Rate Mortgage (ARM)*)

A loan that charges the same interest rate for the entirety of the loan. Pro? Get peace of mind as your rate never increases. Con? Fixed-rate mortgage interest is usually higher initially than adjustable-rate mortgages. Your mortgage advisor will ask how long you intend to stay in the home – the longer you reside at a property, the more a fixed-rate mortgage makes sense.

Homeowner's Insurance

(also known as *Hazard Insurance*)

Much like auto insurance, home insurance guarantees a structure is restored should it be damaged. Homeowner's insurance is required by law on all financed transactions; the first year of which is paid at closing as part of the buyer's closing costs (see *Buyer Closing Costs*).

Inspection

A thorough review of the inside and outside of a home. Home buyers, not lenders, initiate an inspection either before or after an offer; the terms of a buying contract may dictate whether an inspection affects the sale of the home. Buyers can opt to terminate a sale with a failed inspection.

Inspectors have limits – they lack x-ray vision, for example, and cannot see inside interior walls – however, what can be seen is compiled into a thorough report. Inspectors grade a home's condition regarding its foundation, structure, plumbing, fixtures, appliances, crawl spaces, utilities and more. Inspection costs vary, and are typically based on the size of the property. The buyer pays for the inspection.

Interest Rate

The amount of interest which you will be annually charged to borrow money. The lower the interest rate, the less your monthly payment. Your lender can "lock in," or guarantee, an interest rate for a specific window of time; your closing period usually takes place during this window.

How to lower your interest rate? First and foremost, start with excellent credit. Then, consider a shorter loan: The shorter the payback

time frame, usually the less the interest rate. You'll also want to shop the current marketplace. Rates can vary based on a multitude of factors (*stock market, global market, etc.*). Investigate whether financial experts advise buying now or later.

Lender

Your homebuying companion and label for the financial institute loaning, or "lending" the funds to finance a property. Lender can be used plural or singular: Plural, the financial institution as a whole; singular, your individual contact at the financial institution (also called *Mortgage Advisor at BECU*).

Mortgage Advisor

(see *Lender*)

Your BECU homebuying contact, guide and advisor.

Offer

The buying contract, signed by the buyer, that lists purchase price and terms. Terms can include the closing date, inspection addendums, requests for home appliances and more – the hotter the real estate market, the more a buyer's real estate agent will adjust the terms to favor a seller and hopefully "win" the bid.

Points

An interest rate unit of measure. Buyers can "buy down" or purchase points to lower their mortgage's interest rate. Each point is assigned a cost. Have extra cash on hand? It might pay to initially buy down your rate – you'll pay more up front, but less in interest over the life of the loan. Ask your mortgage advisor regarding your loan type and points.

Basis Points	Percentage Terms
1	0.01%
10	0.1%
50	0.5%
100	1%
1,000	10%
10,000	100%



Pre-Qualification

Being analyzed, processed and initially qualified to buy a home before you make an offer on a home. The pre-qualification is somewhat tenuous as it does not fully vet a buyer's financial history (*a full financial review is done once a buying contract is signed*).

Upon request, a financial institution may provide documentation certifying a temporary approval for a set amount of funds. The pre-qualification documentation can be a golden ticket to a selling agent. It indicates that the buyer should possess the ability to purchase the home on which they are making an offer.

Work with your lender to request pre-qualification. Most financial institutions simplify the process by uploading application materials online.

Private Mortgage Insurance (PMI)

Lenders typically require a 20% minimum down payment on a home. As home prices and the cost of living creep up, saving 20% of a home price can be daunting. Happily, lenders allow potential homebuyers to purchase a home with a lower down payment in exchange for a mortgage insurance fee, or, PMI.

Because credit unions (*like BECU*) return profits to members in the form of fewer fees and lower rates, a credit union *typically* charges a smaller PMI fee. Regulations per transaction, financial institution and state vary, but buyers usually must pay PMI until their paid equity has reached 20%; buyers could be required to pay PMI for a minimum of two years, regardless of reaching the 20% threshold.

Qualify for a VA Loan? Despite purchasing a home with less than 20% down, qualifying veterans may avoid PMI.

Processing

When a financial institution analyzes your home-buying application along with your financial documents and the home-buying contract (*see contract*).

Property Tax

(*see also Excise Tax*)

Property tax is paid bi-annually by the homeowner. Property taxes are collected by the state and contribute to a variety of state-funded programs, including transportation, schools, public safety and more. Your home value determines the amount you are taxed; falling home values typically result in falling property tax (*a phenomenon that occurred during the Great Recession*).

You may elect to directly pay property taxes, or, you may use the convenience of an escrow account (*see escrow account*), allowing a third party to pay them on your behalf. BECU offers this service.

Rate

(*see Interest Rate*)

Real Estate Agent

Your confidant, advisor, and ultimate defender – make sure you pick an agent you are comfortable peppering with questions; likewise, ensure you trust their advice throughout the process.

A real estate agent is different from that of a realtor; realtors are certified real estate agents who adhere to an additional Code of Ethics (www.realtor.org).

Whether buying or selling a home, a real estate agent should always look out for your best interest. Be it frank, honest advice about a neighborhood, financial transaction, or home inspection, find an agent whose advice and business savvy you trust.

A good agent can write you an offer on a home; a great agent will negotiate you into that home – or find you one that’s even better.

Selling Costs

(see also *Closing Costs*)

Despite a buyer paying the seller an agreed price, the profit is how much money is earned after fees are removed.

Selling costs:

- 1 Buyer/Seller real estate agent commission fees
- 2 Seller closing costs, e.g., owner’s title insurance, escrow fees, courier fee, notary fee
- 3 Outstanding home liens (e.g., utilities)
- 4 Outstanding money owed on home mortgage(s)
- 5 State excise taxes

Example:

- » Jerry bought his 3 bedroom, 2 bath craftsman for \$300,000
- » Ten years later, Jerry has paid almost \$100,000 of his home loan
- » Jerry sells the craftsman for \$550,000
- » Before fees, Jerry should receive about \$250,000
- » Fees are removed, the biggest include the loan amount owed, commission and state excise taxes
- » Jerry receives around \$200,000 and goes to Vegas invests his money in a new property

Seller’s Market

(see also *Buyer’s Market*)

A housing market that favors the seller. If you’re selling, you’re a happy camper: Seller’s markets typically offer low housing inventory to meet housing demand, and the buyer is forced to act quickly and sometimes aggressively to “win” a house, e.g., a bidding war that increases home price, waived inspection (*or inspection with no concessions paid by seller*) and a quick closing period.

Title

Official documentation linked to the property: A title can be held by multiple parties who own either a legal or equitable interest. A title that is “clean” or “clear” is a title that does not pose a problem – there are no outstanding creditor liens, levies, and no property ownership dispute. Third-party companies called Title Companies (see *Title Companies*) facilitate the review, transfer and recording of a property’s title; they also conduct the funding of the home sale.

Title Company

Acts as a third-party intermediary to both buying and selling parties; the title company collects all buying and selling costs, funds the sale from the lender’s financial institution, and is responsible for recording the sale with the county. Once a sale is “recorded,” the profit (see *Selling Costs*) is released to the seller, and the keys are given to the buyer.

Underwriter

The department (*underwriting*) that analyzes the entire loan packet, including personal information, financial information and the buying contract. The underwriter ultimately confirms that the financial institution is willing to take on the risk, or debt. The term “underwriter” dates back to a time when an insurance agent would take responsibility for the purchase of a large ship in exchange for a premium, paid by the person requesting coverage. The agent would sign “under” the inherent risks. ■

