THE KEDERSHA GROUP
Fort Lauderdale Luxury Homes
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COMPREHENSIVE REAL ESTATE

SELLER'S GUIDE

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ABOUT THE KEDERSHA GROUP

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EILEEN KEDERSHA
BROKER ASSOC., CLHMS, SRES

EKedersha@OneSothebysRealty.com

I have been a full time Business and Real Estate professional for over twenty-five years. As a Professional Realtor, my qualifications and experience enhances my clients' buying or selling experience by making the process more successful, efficient and enjoyable. My goal is to meet or exceed my clients' expectations, either when buying or selling. I strive to help my clients sell their home at a price that meets their objectives and in the time period that meets their needs. I understand that I must gain their trust and confidence by performing in a professional and reliable manner. Having worked and lived in New York, New Jersey, Connecticut and Georgia, I have gained a broad perspective of diverse real estate markets, which has given me a distinct advantage assisting my clients. I am a detailed oriented professional specializing in the South Florida luxury home and condominium markets. I provide my customers and clients with unparalleled service. I use a comprehensive approach to marketing Real Estate, employing latest electronic and computer technology, internet exposure as well as all aspects of media.

I am a Florida resident; a member of the Realtor Association of Greater Fort Lauderdale; I am conversational in German and Italian. I lived in Switzerland for nine years and my husband and I also lived aboard our sail boat for three years, while cruising the Mediterranean. Living in Europe has helped me better serve my European clients and assist them in their International Relocation needs. I have an interior design background. My new home construction and remodeling experience has also proven to be a valuable asset to my clients. Education: Cornell University, Deans List; Professional Designations: Broker Assoc., CLHMS, SRES Designations I believe in old fashioned, personalized service with the professional follow up my clients have come to expect. No task is too small to help my clients enjoy a positive experience during the process of selling or acquiring a property. If you want results... Put me to work for you!

WILLIAM KEDERSHA
CDPE, CNE, ChFC

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William Kedersha initial entry into the real estate market began in the 80's. His experience encompasses sales, site acquisition, obtaining entitlements, construction, turn around properties and financing both residential and commercial projects. Bill attributes much of his success as a realtor to his working partnership with his wife, Eileen and from his personal investing as a principal combined with over 25 years of sales experience working with Clients. He has participated in all facets of real estate transactions; realtor, buyer, seller, developer and financer. He has earned the Certified Negotiation Expert designation (CNE), which is held by less than 1% of all realtors nationwide. His extensive negotiating experience and business background have strengthened his successful real estate career. He also holds the CDPE designation, working with distress properties. He is results-oriented, with strong leadership, negotiating and analytic competence, displaying excellent sales and communication skills with a proven sales record.

Consistent success has been achieved working with his network of investors and clients. Working in a broad range of industries and disciplines has given Bill indispensable knowledge that he uses to achieve positive results for each client. He has conducted or facilitated seminars and workshops, both nationally and internationally. Bill has held the position of Chief Executive Officer with several public and private companies.

Bill and his wife, Eileen are experienced cruisers. They lived aboard their 49' Hallberg Rassy for 3 years in the Mediterranean and have sailed the North East, Florida, Bahamas and the Caribbean for over 30 years. Waterfront properties are his specialty. Bill graduated Monmouth University with a BS in Economics, lives in South Florida and has 4 children.

TESTIMONIALS

“They were a pleasure to deal with”

My wife and I approached Eileen and Bill Kedersha to act as our agents having done extensive research online. We were looking for the consummate professionals who lived and breathed their profession, and who brought integrity, dedication, experience and expertise to the table. I’m very happy to confirm they met and even exceeded our expectations. They acted swiftly and effectively getting our house listed. They produced high quality marketing materials and ensured our house was marketed widely. They advised us throughout; kept us informed throughout; and not surprisingly, they soon brought offers and we closed the sale faster than any of us expected. They were a pleasure to deal with and I highly recommend them to anyone requiring the services of a quality team of capable real estate agents.

Charles & Margaret, Ft Lauderdale, FL

“Bill has this firm’s full endorsement “

Dear William, I’ve written this recommendation of your work. “Bill is the kind of real estate professional who is diligent, responsive, and zealous in his pursuit of his client’s interests. He has a visionary’s instincts and one of his great strengths is the creative energy he applies to any problem. He has this firm’s full endorsement.

J.F. Esq.

“Thank you for a job well done“

On behalf of the trustees of the Celia Luis Estate I would like to thank you for a job well done. We wanted a timely sale for fair market value and you delivered this to us. Right from the initial listing process the level of professionalism you exhibited was remarkable. You led us through the process with amazing clarity and were always responsive to our questions. Your knowledge of the market is exceptional; no task was too small for you to do. You went the extra mile in helping us with the estate matters, even after closing your follow up was extraordinary. Thank you.

Kathleen Lynch and Ingrid Camilo

BEFORE YOU SELL: THE NECESSARY CRITERIA

The top 10 things you need to know when selling a home

1. What's the fair market value?

This is more than just a question. It's actually a process that involves multiple factors, the first and most important of which is getting a feel for the comparable properties in your neighborhood. Regardless of the real estate agent you choose, it is always recommended that you have a professional provide you with the comparable homes in your area. We are always happy to provide these free of charge, and this step will help determine a starting point for what you believe you could fetch for your property on the market. Keep in mind that your own goals, timeframes, and overall level of engagement will influence the maximum asking price that you will be presented with.

WHAT IS A COMPARATIVE MARKET ANALYSIS?

A **Comparative Market Analysis (CMA)** is an evaluation of similar homes in an area - also known as comparables - to determine the value of a home. Real estate agents, buyers and sellers perform a CMA to figure out a home's value when putting a home on the market or for making an offer on a home.

2. Research the type of buyer your property will draw

Determining this is actually very important, since it will determine what kind of preparations, repairs, and staging you choose to perform on the property prior to listing it on the market. When considering type, condition, size, & location, choosing the most likely buyer offers clarity on how to maximize the return on your investment given your current situation, timeframes, and goals.

3. What kind of market is it right now?

Knowing the fundamental underpinnings of your market climate will provide a baseline for what to expect in a buyer's typical offer. Ask your local area real estate expert. We will provide you with a clear understanding of current home to sales ratios, neighborhood competition, buyer activity levels, and more so that your specific situation and goals can be achieved while ensuring you don't leave anything on the table.

Get your copy of the National Association of REALTORS® 2018
Profiles of Home Buyer and Sellers* Just Copy and Paste this link:
https://goo.gl/eKtgnb

*Source 2018
National Association of REALTORS

4. Discover which improvements or repairs to choose to make

Each property type, neighborhood, and condition all are factors in determining which repairs will go the furthest towards increasing your overall net proceeds at the close of the sale. For homes that are in near excellent condition, focusing on cleanliness, odors, and lighting are inexpensive ways to ensure the buyer leaves your property with the best of impressions. For properties in fair or poor condition, determining your budget for repairs is the first step towards choosing which areas of the home are going to offer the most return for your investment. Gains are most dramatic when investments are made to curb appeal, kitchens, bathrooms, and flooring. Your own budget, goals, and timeframes will influence how much time you spend preparing the home for a buyer's showing.

TOP 5 LOW COST HOME IMPROVEMENTS FOR SELLERS

1.	**Cleaning + Decluttering**	**Cost = $290**	Price ▲ $1,990	99% Realtors®	586% ▲ ROI
2.	**Lightening + Brightening**	**Cost = $375**	Price ▲ $1,550	97% Realtors®	313% ▲ ROI
3.	**Home Staging**	**Cost = $550**	Price ▲ $2,194	80% Realtors®	299% ▲ ROI
4.	**Landscaping**	**Cost = $540**	Price ▲ $1,932	93% Realtors®	258% ▲ ROI
5.	**Plumbing + Electrical**	**Cost = $535**	Price ▲ $1,505	92% Realtors®	181% ▲ ROI

5. Choosing the right time to sell

Are you under pressure to sell this instant? If you are, then go for it. However, if you have the luxury of choosing when to sell, a largely undiscussed factor in real estate is the seasonal swings in value each location experiences throughout a given year. This is overwhelmingly a weather phenomenon, and the warmer, brighter, and more beautiful the day - statistically speaking - the better your home value will be. At its core, this is simply due to the fact that buyer demand is highest when it is most pleasant to be outside. Did you buy your home in the pouring rain? Chances are, your buyer will be most engaged when weather is not a distraction.

6. Maximizing your position based on your total market picture

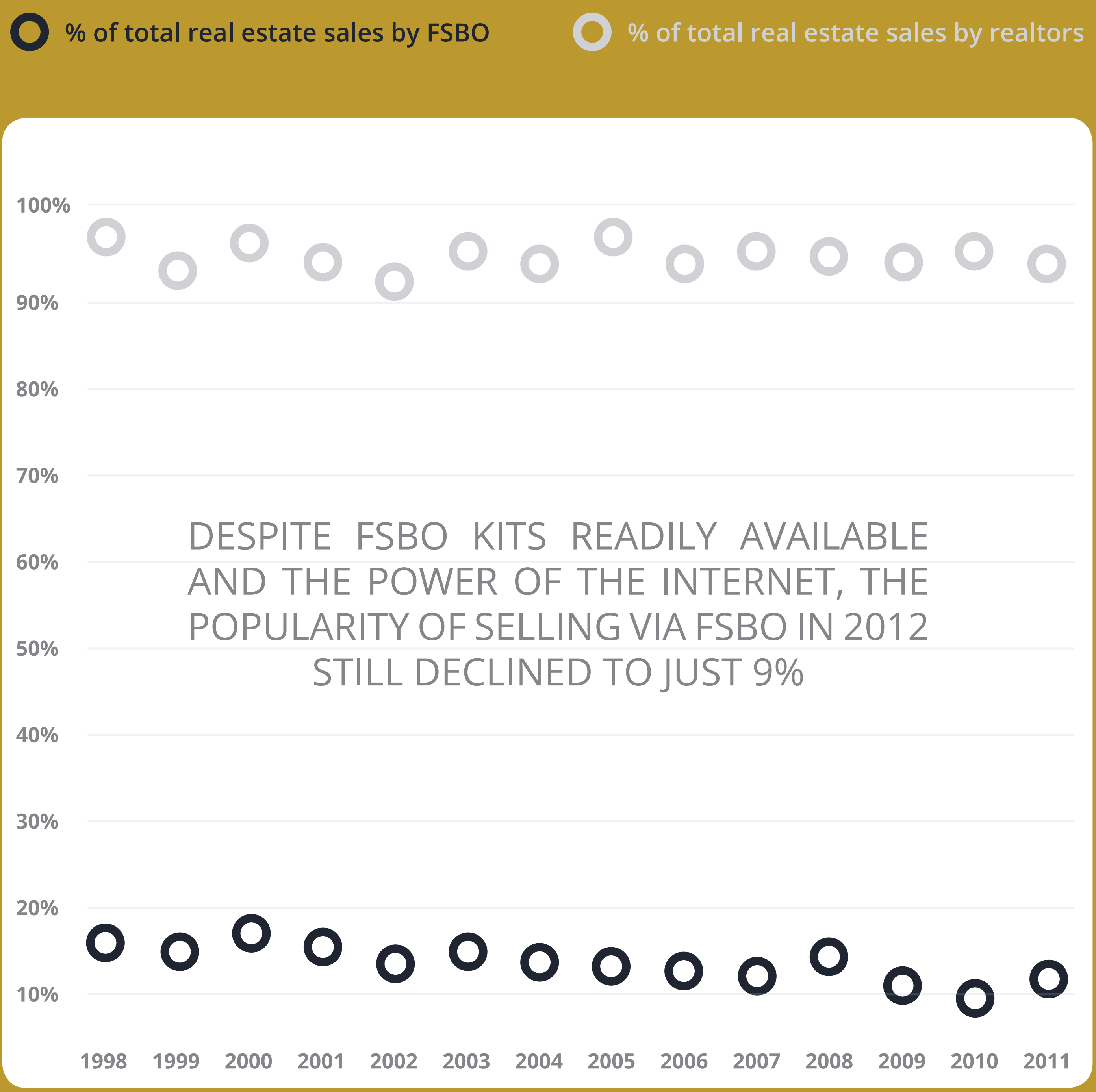
The most common real estate maxim is “location, location, location”, and location in and of itself is a reflection of the desirability of a property within its surrounding area. Simple supply and demand fundamentals will provide you with a range in value you can expect. In every market type, for every property type, location and condition there is a buyer to cater to regardless of overall property value. First time buyers, luxury buyers, investors, retirees and others will all have differing goals and place importance in different areas of your property, as well as in the transaction terms. Find the maximum pricing on your investment by making sure you have tailored correctly, the condition of the home and the terms of the listing in the eyes of your most likely buyer type. Perception is key. Investors prefer in many cases to purchase properties that need cosmetic repair. First time buyers usually lack the savings to pay for many repairs, and will gravitate towards “move-in” friendly, or ready homes in many cases. Remember to leverage this knowledge, as investigating all of this yourself may seem daunting. This is one of the many ways that a great real estate agent will aid you.

7. Choosing the right real estate agent for your transaction

It’s a twenty-first century world out there, and many long term facets of real estate have been turned on their head in recent decades, the foremost change being the advent of online real estate property data. These days, nearly every home listed on the market from any agent is going out to a litany of real estate websites, making the data easier than ever for a buyer to sift through without the aid of a real estate agent. Unfortunately, the drawback is that passionate, knowledgeable, local area experts who would be your top picks for your transaction have been slightly drowned out by all this. Some of the best agents are not as easily identifiable in this world of endless reams of data. So do your homework. Just because an agent is a friend, or listed a home down the block, doesn’t mean that they are the most deserving of your trust. A seasoned, worthy agent will know your area, and most importantly – how to maximum your opportunities better to deliver the best possible outcome to you at the close of escrow.real estate agent will aid you.

TOTAL NUMBER OF PROPERTY SALES BY FSBOs

HAS TUMBLED FROM 20% TO 9% IN THE LAST DECADE



8. Plan for open houses & showing activities

Once the property has been listed on the market, and you have ensured that the pricing and condition of your home are consistent with your timeframes and goals, you will face the challenge of finding the best possible buyer to write an offer to purchase on your property. Keep in mind that more traffic nearly always equates to more offers. Any and every limitation you set on viewing the home reduces the number of buyers who will decide to write an offer. If at all possible, make showing arrangements clear, easy and fast for a buyer's agent to set up with you when they have an interested client. Try to avoid asking for more than 30 minute's notice for any showing request.

ACTIONS TAKEN AS A

RESULT OF INTERNET HOME SEARCH

63%	63%	10%
Drove by to view home from exterior	Scheduled & performed a walk-through	Found the agent used to sell home

9. Make sure to get feedback on your property

Getting feedback from buyers often times can help provide an outside perspective on how desirable your listing is. All the homework you did to understand your market and your property will reflect themselves in the accuracy of how attractive your property is to buyers. In order to ensure that your home is in its best possible positioning for the asking price, double check with a simple phone call from your agent to the buyer's agent. Critiques and praise can reveal overlooked details and possible improvements you can make to the offering.

REALITY TV SHOW MYTHS	REAL WORLD FACTS
Buyers only look at three homes before they make a purchase decision	Most buyers look at MANY more than 3 homes
The homes being chosen from are still for sale	The 'Reality' is being staged for TV - in fact, most homes being look at are already sold and are off the market
The home buyer has not made a purchase decision	Because there is no way to show the entire buying process, TV shows select people who are further along in the purchase process and who have already chosen their home in order to simplify the process
Real estate agents regularly make six-figure commissions	TV doesn't explain that the listing agent and buyers' agent split that commission 50/50 and split it again (this amount varies) with their brokerage, and also pay marketing costs
When you flip a home, your only expenses are the cost of the home plus repairs	Investors also need to take into account taxes, insurance, utilities, interest, closing costs and commissions
You need lots of help, experience and power tools to stage a home on a budget	There are many things that sellers can do to make their house more presentable, including: de-cluttering, putting too-big furniture in storage, and doing a decent paint job yourself
The house should sell at the open house	This would be great if it happens, but most times homes sell after a regular scheduled showing

10. Consider the offer(s) you have been presented with

All of the best matches are between **$$** & **$$$**. That means my home's value should be within that range too!

One of the most confounding things in real estate, is which offer to choose. There are so many factors other than offer price that will need to be considered. Put simply, the best offer you receive, and in most cases, the one best chosen, is one that is most likely to actually close and record. Everything else is just so much distraction. Nothing is ever black and white though, so even that rule of thumb has exceptions, depending on your level of patience and willingness to take risks. Any offer you accept should on the outset, not be a waste of time. Your real estate agent will illuminate the differences and various advantages of each offer you receive. Your own goals and deadlines will influence the choice, along with a large number of offer terms.

This will include type of financing, contingencies, and addendums provided to a contract. It helps to already know what type of market you are facing, and it is at this point in your transaction that it matters most. A strong seller's market will allow you the leverage and leeway to make more demanding and nuanced requests of your buyers. A strong buyer's market puts you at a disadvantage when negotiating offer terms. Make sure you are realistic in your expectations, because the overall real estate climate will influence your starting position. A good real estate agent will know how best to protect you from leaving money on the table during the sale.

WHY YOU NEED A LISTING AGENT

A listing agent will increase your viability and seriousness in the eyes of buyers.

5 REASONS TO HIRE A **REAL ESTATE PROFESSIONAL**

- They help with all disclosures and paperwork necessary in today's heavily regulated environment.
- They are well educated in and experienced with the entire sales process.
- They act as a 'buffer' in negotiations with all parties throughout the entire transaction.
- They help understand today's real estate values when setting the price on a listing or on an offer to purchase.
- They simply and effectively explain today's real estate headlines and decipher what they mean to you.

Do I Need a Listing Agent?

The simple answer is, yes of course. But why is an important matter to consider. Your transaction fundamentally is a legal construct, one that can have legal implications for you in the process as well as into the future once the transaction has been completed. At its most basic, a real estate agency to represent you provides a much needed layer of consumer protection by outlining the rules and best practices in which to follow.

In addition to the obvious legal benefit of hiring a real estate agent, there are many other factors that will help you along the way. Expect your real estate agent to solve immediate challenges, answer tough questions, and complete numerous tasks for you along the way that reduce your own stress levels and workload. In the end, a licensed agent will get an average of 10% higher asking price than going it alone.

Not only is it legally but also financially it is in your benefit to hire a good real estate agent to help you with your sale.

Who Pays a Buyer's Agent?

The buyer's agent is paid by the SELLER. This means that you are still responsible for paying an agent to complete a transaction, regardless of whether you choose to use one yourself.

Who Does the Listing Agent have a Legal Responsibility Towards?

When you hire a listing agent, that agent's fiduciary responsibility is directly to YOU. This means that your agent has a legal obligation to put your interests as a buyer before anyone else (including the agent's own), and your agent must provide you with any important information he or she has that affects your home purchase.yourself.

Who Does the Buyer's Agent Have a Legal Responsibility Towards?

The buyer's agent is the agent representing the buyer of the home in the transaction. Many times, buyers will contact sellers or seller's agent directly assuming that they will net a better deal on the property. The seller's agent has an exclusive fiduciary duty to the seller. They are contractually obligated to make the sale happen in the seller's favor, often as close to the listing price as possible. Do not expect this to be any different in reverse, as a buyer's agent is going to only have a buyer's interests to protect, and will not work to help you seek better terms to a deal.

Still, can't I save on commission by going it alone?

Many people are under the impression that they can save money by dealing directly with a buyer's agent. They perceive that they'll be able to save themselves about half the commission.

TECH TRENDS IN THE 2013 PROFILE OF

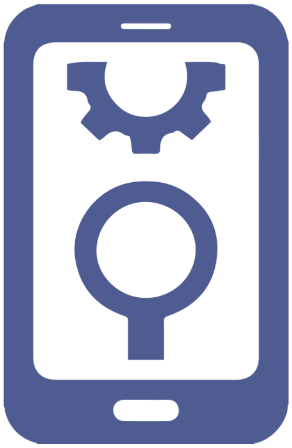
HOME BUYERS & SELLERS

9 in 10 buyers used the internet at some point while looking for a home.

Over half of buyers started their home search online.

43 percent of recent buyers first found the home they purchased online.

BUYERS ARE GOING MOBILE



Forty-five percent of home buyers used a mobile or tablet website or application to search for a home.

Twenty-two percent of mobile searchers reported they found the home they ultimately purchased with a mobile application.

By listing for sale by owner, you only stand to save 2.5-3% of the listing price. Contrast that with the 10% average offer price increase an agency represented listing will receive, and a picture emerges of it costing more money to save money.

When a buyer's agent represents a buyer, they are increasing their workload and their liability, so they're almost never willing to simply cut their commission in half. They're not going to negotiate on your behalf to get you a better price.

70% OF FSBOs SAID THEY HAVE SIGNIFICANT DIFFICULTY SELLING

Based on NAR's 2012 data on sellers that did not know buyer

Realtors get **19%** more than FSBO

REALTOR
$215,000 AVERAGE PRICE

FSBO
$174,900 AVERAGE PRICE

Realtor properties sell for $41,000 more

In 2012 FSBOs accounted for as little as 9% of the property listing and had a significantly lower selling price on average. FSBO properties sold for $174,900 where the realtor properties sold for $215,000.

FSBO takes 19 more days to sell

Not only do FSBOs empirically take longer to sell, 20% of them end up relisting on MLS which converts to an average 68 days longer on the market than realtor properties.

FSBO = For Sale By Owner

Realtor sells home

FSBO sells home

REALTOR
69 Days on market

FSBO
88 Days on market

LIFE CYCLE OF A REAL ESTATE TRANSACTION

There's a lot more involved in selling a home than you may realize!

THE LIFE OF A REAL ESTATE TRANSACTION

WHEN TO INVEST IN YOUR HOUSE

How do you know when it is right to make that repair?

Home ownership is one of the largest obligations you can place on yourself, and with it comes a slew of costs and responsibilities. Even when selling your home, there are costs to consider, and investments in the home to make to ensure you get the most for your transaction.

TODAY'S LUXURY HOMEBUYER

75%

BELIEVE INVESTING IN A HOUSE IS A MORE SOUND INVESTMENT THAN THE STOCK MARKET

Be prepared to for this to take a little while

Unless the market is skyrocketing or you are selling a fixer-upper, it almost never makes sense to sell a home only to see it re-sold two, three, or even 6 months later. When you sell the house for a profit, there are still high transaction costs inherent in buying or selling properties, and that means you could potentially lose money. Even if you do make money, keep in mind that you're subject to capital gains tax if you haven't occupied the home for more than two years!

When home prices are flat or on the decline, that's even more reason to do your homework so that you get the pricing just right.

Before you list for sale, ask yourself a few questions:

- Is the condition of the home going to attract buyers, and what can I do to encourage better offers?
- Are there economic, employment and employer considerations I should be making?
- Is my spouse, partner or significant-other involved in considering these same questions?

Does It Make More Sell or to Rent?

A lot of homeowners believe, often falsely, that they are "not interested in being a land-lord." Depending on your circumstances, it may make more sense to build your equity by saving the difference between your rental income and the costs of home ownership. A general rule of thumb is that if you pay 35% less in ownership costs (mortgage, tax, insurance, maintenance and repairs), than you would receive in rental payments, then it makes more sense to continue owning and to save the difference to build equity.

What repairs do I make?

That depends a lot on your budget, goals and the starting condition of the property. But in general, regardless of the intentions, I recommend a minimum budget of $1,000.00 to ensure that you cover any and all concerns visually and cosmetically on the premises to ensure you are providing the buyer with the clearest view of the properties condition.

Some great minor repairs or upgrades could include:

- Mowing the lawn
- Cleaning the gutters
- Powerwashing the front of the property
- Steam cleaning the carpets
- Polishing the woodwork
- Washing the windows & trim
- Repairing broken tiles, or vinyl/linoleum flooring
- Washing the interior walls
- De-odorizing
- Painting Cabinets

For your larger home investments, start in your kitchen & bathrooms first. These can be your biggest sources of value additions. As a rule of thumb, you should get $1.50 for every $1.00 spent.

FINANCES AND UNDERSTANDING **THE BUYER FOR YOUR HOUSE**

If they are ready to buy a home, they need to get their finances in order first.

BABY BOOMERS INVESTING IN THE FUTURE OF REAL ESTATE

A national survey by Better Homes and Gardens® Real Estate finds that baby boomers are providing financial support to help their children and grandchildren become homeowners.

75%

Believe providing financial support for homeownership is a good investment

58% Believe owning a home is part of the American Dream

1 in 5 have provided financial support a home down payment

Love is a key driver of their support

More than **2/3** want to provide financial support toward homeownership

Like most people out there, the decision to buy a house is one of the biggest financial decisions one will ever make in their life. Not only do they have to gather enough money together to pay a 20% deposit on a home (usually), but they will also have to secure a loan for the remaining balance that they will probably be paying for a very long time! Before you start accepting offers, make sure they have their financial house in order first.

Check the Credit

Understanding credit can be confusing. The bureaucracy of it has led to the existence of 3 different major credit agencies, and one bad score could mean very bad things for your buyer's loan aspirations! Each of the 3 major credit agencies allow you to check a credit report for free once per year. It isn't ever a bad idea to check with their lender, to ensure they have prequalified to purchase your home and have a good shot at being approved for the loan.

If you find a problem, your buyers will generally need to contact the agencies directly to figure out how to correct them. This can take anywhere from a few days to a few months, which is why you'll want to make sure you paid attention to this first. An offer is only an offer unless it can actually be completed. If the reports are accurate, and your buyer just has a legitimately low credit score, be prepared to consider other offers and abandon a deal that is unlikely to be approved.

How Much Can I Ask for?

You can only ask for as much as a lender will approve, which in most cases is heavily dependent on the price determined by the appraisal. With limited exception, don't expect to get much higher than an appraiser will value. Your buyers in only the most advantageous of markets and occasions will have the fortitude and capital to provide additional monies above what the total of the loan will cover.

The Down Payment

This is a huge factor in determining what offer you accept. Typically, down payments are 20% of the total cost of the home. If your buyers are able to make a larger down payment, they should be able to qualify for a larger loan.

While 20% is the standard, it isn't mandatory. In fact, various private and public agencies, such as the Federal Housing Administration, Freddie Mac, Fannie Mae, and the Department of Veteran Affairs, offer low down payment mortgages through banks and mortgage companies.

To qualify for a low down payment mortgage, they general need to meet the following criteria:

- Enough income to support monthly payment
- Enough cash to cover closing costs (this can be several thousand dollars)
- Good credit background with no recent foreclosure, short-sale or bankruptcy
- Manageable debt

A lot of lenders will also require Private Mortgage Insurance (to protect the bank in case you default), which can add an additional .5% to the total loan amount.

If they don't have enough cash, they still have a few options. Remember, the loan type effects how likely your transaction is to close. For a first-time homebuyer, a loan may be more strenuous and difficult since they usually lack the capital to provide a significant down payment.

THE MORTGAGE LOAN, AND MORE

If you're ready to sell a home, you need to know your buyer's loan types.

Information Lenders Want to Know

1. **Credit Score** – This comes from the credit reports from each of the 3 major credit bureaus.
2. **Credit Standing** – Make sure you have low credit card balances and have paid all your bills on time!
3. **Credit Accounts** – Avoid closing current accounts or applying for new ones.
4. **Down Payment** – The more money you're prepared to pay up front, the more likely you are to be approved.
5. **Income** – Lenders want to see that you have a steady job with steady income. If you are self-employed, be prepared to provide tax returns and income statements.
6. **Interest Rates** – These generally won't determine whether or not you're approved, although they will determine your monthly payments.
7. **Available Funds** – Lenders want to make sure you have money set aside to pay for closing costs and points (if necessary).

THE PARTS THAT EFFECT YOU

1. The effectiveness and responsiveness of the loan officer.
2. The overall credit worthiness and down payment of the buyer. .
3. The **Pre-qual letter**, which will summarize the amount of the loan your buyers are applying for, and the overall loan type and buyer capability.
4. The loan type, which itself can manifest itself in the terms of your agreement. VA loans, FHA loans, and Conventional loans all have differing underwriting standards and requirements.

They will select a lender that makes the most sense for them, not necessarily for you. Be sure to understand what liabilities you may be agreeing to when you accept an offer so that you aren't surprised down the road.

So, how much is the offer for?

To determine how much your buyer allowed to borrow, the lender is going to use a number of different ratios. Those ratios are:

1. **Front-End Ratio** – This is the monthly percentage of the yearly gross income that's dedicated to mortgage payments. The PITI (principal, interest, taxes, and insurance) should not exceed 28% of gross income (although some lenders will lend to borrowers with PITI over that number). Also, some lenders will quote based only on PI (principal and interest). Make sure to inquire as to which method they're using.
2. **Back-End Ratio** – This is the percentage of gross income that is required to service the buyer's debts, i.e. car payments, credit cards, student loans, other loans, etc. Most lenders will require that this ratio not exceed 36% of gross income, (although it is possible for lenders to still approve a loan above this number, it does usually result higher interest rate, reducing your buyers overall purchasing power).
3. **Down Payment Percentage** – The down payment should be at least 20%. With a down payment under 20%, your buyers are probably paying a higher rate, and will also probably have to purchase mortgage insurance, which can cost up to .5% of the loan amount. This also reduces their overall purchasing power.

How Much Are Closing Costs?

Closing costs for a buyer are considered to be everything outside of the purchase price that a buyer would pay to complete a real estate transaction. These costs can include fees paid to title, escrow, or lawyers; city/county transfer or property taxes, credit reports ,appraisals, recording or notary fees, inspections, and loan fees (such as prepaid interest or points).

THE CLOSING PROCESS

Closing Process from Beginning to End

Closing Process

Let's start at the beginning... what do **closing**, **escrow**, and **settlement** mean?

Closing refers to the time when the property changes hands and the property title is actually transferred from the seller to the buyer. At the same time, a mortgage or deed of trust is signed by the buyer/borrower and given to the lender—the bank or agency who is putting up the money.

It is very exciting to sell a house or other property, and when you know something about how everything works, you will be relaxed throughout the process. Following is a guide you can follow to learn all about how a closing proceeds.

The countdown to closing starts when you the seller accepts the sales agreement, which is a binding contract. Timing is important to ensure that all information for a successful closing is available at the time of closing. The lender for the buyers, or more likely your real estate agent can recommend a title company to have the documents prepared for closing. In some areas, the closing is handled by a settlement agent, an escrow company or an attorney.

Once a closing agent has been decided, he or she will take over the process from there. The buyers should have made a deposit with the sales agreement, as good faith towards ensuring the deal is effectively pursued. The closing agent will make sure it is deposited properly into an escrow account. The funds will be held in the escrow account until the date of the closing.

This good faith deposit is your insurance against the buyer backing out of the contract unexpectedly after contingencies have been removed.

The closing agent will order the initial title work, and will have a title professional research public records and do a title search to determine if the title is clear or if anyone can make a claim against the property. Any title flaws that are found must be cleared before a property can be signed over to the buyer.

The closing agent will make sure all state and local taxes are paid and there are no unexpected liens on the property such as a judgment, code enforcement lien, or undisclosed mortgage. The closing agent will make sure that title is clear and any issues are resolved well before closing. If there is an existing mortgage, the closing agent will obtain payoff figures from the mortgage holder. In the event the buyer is assuming an existing mortgage, that will be handled by the closing agent as well. The buyer's agent can also schedule a termite report and property inspections as requested. A survey to determine property lines should be ordered as well.

The HUD-1 Closing Statement is also prepared by the closing agent. The statement contains all costs for both the seller and the buyer at closing. The HUD-1 form is available to download online to read the list of terms on the form.

The property will be legally transferred to the buyer from the seller at the closing. Your closing agent will have you sign a number of documents and each one will be explained to you. For more information on how closings are conducted, consult with your closing agent. When all papers are satisfactorily signed, the property is officially sold. Congratulations!

Be aware that after the closing, some of the process will continue behind the scenes. The agent will distribute funds to the seller and pay all other bills connected to the closing. A final title search will be conducted and then the documents will be recorded in the county court house. You do not have to do anything after the closing, as your closing agent will take care of these details.

CLOSING THE DEAL ON YOUR PROPERTY

When it comes to sealing the deal, exercise your haggling muscles!

Thoroughly review the Offer

Your buyers found their dream home... and now you want to make sure they have a solid offer! Negotiating an offer is one of the most compelling reasons to hire an experienced agent to represent you.

A professional listing agent will be able to advise you on the details of a buyer's offer, and be able to substantiate it with a wealth of market knowledge. There are also a number of additional items that a professional listing agent can help negotiate, including:

- Getting the buyer to pay some or all of the closing costs
- Increasing the amount of earnest money they deposit (the amount of money that they deposit when making an offer to show that you that they are serious about buying the property, anywhere from 1%-10%)
- Negotiating to exclude personal property from the deal
- Length of any option period
- Closing date and occupancy date
- Reducing or splitting any costs to pay for repairs (or reduce purchase price to compensate)
- Requesting the buyer pay the home warranty

With the initial offer, you'll have an earnest money check, (anywhere from 1% to 10% of the purchase price) to show that they are serious about buying the property. The check will be made out to the title company and later applied to your net proceeds.

We'll also review the offer to make absolutely sure that the deal is contingent on:

- The approval of their mortgage;
- A problem-free home inspection; and
- The sale of their existing home, if applicable.

The Home Inspection

You'll want to prepare ahead of time for your home inspection, because your buyers will learn a lot about the condition of your house, including what it's made of, how it's wired, and whether or not there are any problems that need to be addressed. If problems are found, your agent will negotiate with the buyer to either remedy the problem or reduce the purchase price accordingly. Home inspections generally cost anywhere from $300 to $1000 and typically take 3-4 hours to complete. Don't worry, the buyer's usually pay this cost themselves, so you receive the report of the information at no cost to you. We can always recommend home inspectors to a buyer's agent that we have had good experiences with in the past, so don't be afraid to ask!

The Home Warranty

The last thing your buyers want to fret about is having something go wrong in their new home. Home warranties can be pretty affordable, averaging around $350, and are an especially good idea for first time homebuyers. Often, offering to pay part or all of this cost can increase the likelihood that the buyer closes the sale of the home on time and with little to fear.

The Day Before

The day before closing, your buyers will want to conduct a final walk-through of the home. This is to make sure that no substantial damage or changes have occurred since the initial inspection (i.e. if your mover's dropped something and shattered some of the tiles in the kitchen).

Also, you will receive a HUD-1 settlement statement which will list out the various items you and the buyer are paying for, and what proceeds you will be getting from the sale at closing.

Closing Day

After everything else you've come through, the actual closing will be a breeze! You can relax a bit now, unless you are purchasing another property!

CLOSING COSTS

There are a bunch of them, and you should be aware of what they are!

Closing Costs Explained

Closing your home should be exciting, and once you understand the process and how it works, it can be.

Here you will find a list of costs commonly associated with closing on a home. Fees may vary depending on where you live, so be sure to talk to your lender, real estate agent, and closing agent for more specific information.

All closing costs must be listed on your HUD-1 settlement form, a document that is required to be filled out prior to finalizing the purchase of your home.

Real Estate Commission Fees/Broker (Section 700)

If you find and purchase your home through a real estate agent, his or her fee will normally be paid by the seller. A percentage of the sale price is paid to the listing broker and divided among agents who brought the buyer and seller together. As a rule of thumb, the real estate agent always works for the seller, even though he or she helps the buyer through the process. If you are a buyer and want your own agent, you would be expected to pay your own agent, who would work for you and try to get you the best deal possible. Real estate commissions are almost always negotiable, but understand that in cases where the agent accepts a lower fee, he or she may not work as hard as they would for a client who pays more money for the same service. Regardless of how agents are paid, it is always stated on the HUD forms, and both buyer and seller will know ahead of time exactly what costs are involved for each. You will be informed how much money you will need at closing.

Buyers Loan Fees - (Section 800) Direct Loan Costs

A mortgage loan is needed by most people to purchase their home. The fees listed below are the usual fees incurred in obtaining a loan, including those paid to the lender. Fees paid to third parties, such as mortgage brokers or other loan originators, are also stated in the HUD-1.

- **Loan Origination Fee** – This is the fee charged by the lender for the cost of getting the financing and administering your loan. It can be a flat amount but is usually charged as a percentage of the amount of the loan. In some cases, instead of, or in addition to, an origination fee, a flat application fee or underwriting fee will be charged. Various front-end charges may be charged by different lenders and in connection with different loan programs. Before settling on a lender or loan program, research and study all terms and fees and be sure you understand exactly what you will owe before closing. It usually is too late to change any terms or fees during closing.
- **Loan Discount or "Points"** – The lender charges this one-time fee in order to offer a lower interest rate for your loan. One point equals 1% of the total mortgage amount. The interest rate you will pay for your loan can be reduced by paying points up front. Determining whether this is the best loan program for you is dependent on how much cash you have and how long you plan to keep the home. In general, the longer you expect to live in the home and keep the original mortgage before refinancing or selling, the better it will be for you to have a low interest rate. The cost of the points will be paid at closing.
- **Appraisal Fee** – The lender must have an accurate estimate of the worth of the home you intend to buy. This fee is to pay a certified, independent, licensed appraiser to estimate the market value of the house.
- **Credit Report Fee** – Your credit report will tell mortgage lenders if your credit is good enough for them to offer you a loan, the amount they will be willing to lend to you, and the interest rate they will charge. At present, most credit reports include a credit score. This score indicates your responsible handling of your finances by showing your willingness and ability to repay loans. The lender sees you as a better risk if your credit score is high.
- **Lender Inspection Fees** – Many lenders require the completion of a variety of inspections before the closing. This is particularly true where recent extensive repairs or new construction are involved. The inspection fees are stated in HUD-1.
- **Mortgage Insurance Premium** – Payment of a mortgage insurance premium for the first year may be required at closing. This payment is a lump sum and it covers the life, or duration, of the loan. The fee is paid to a private mortgage insurance company. Here is also where the funding fees would be shown if the loan is a federally insured or guaranteed loan.
- **Assumption Fee** – If you are assuming an existing mortgage loan already on the home, a charge is usually applied for assuming the mortgage. This is called an assumption fee.
- **Mortgage Broker Fee** – If a mortgage broker is hired by the borrower to find mortgage financing, this fee is to cover the cost of their services. In general, the mortgage broker will present a borrower's loan application to several funding sources or lending agencies and then help the borrower make his or her selection.

- **YSP—Yield Spread Premium** – The funding lender may pay this fee directly to a loan originator or mortgage broker. The fee is to secure a borrower for the lender with the agreed-upon terms and interest rate higher than at par. Sometimes this fee is called Par-Plus Pricing. The borrower does not pay this fee and it typically paid by the lender. If a mortgage broker receives this type of compensation, it will be shown on HUD-1.

Items for Which the Lender Requires Payment in Advance (Section 900)

A lender may require advance payment for certain fees before the actual date of closing or at least on the closing day. These may include:

- **Interest** – Usually lenders require the loan interest payment from the closing day through the last day of the closing month. After the initial interest payment, the interest accrues and is included in the monthly loan payment.
- **Mortgage Insurance Premium** – Payment of a mortgage insurance premium for the first year may be required at closing. This payment is a lump sum and it covers the life, or duration, of the loan. The fee is paid to a private mortgage insurance company. Here is also where the funding fees would be shown if the loan is a federally insured loan or a federally guaranteed loan.
- **Hazard Insurance Premium** – Also known as homeowner's insurance, against hazards such as windstorms, fire and other damage. Lenders may require a one year payment of the premium as a binder before closing.
- **Flood Insurance** – The lender may also require flood insurance and the first year's premium paid before closing. Whether flood insurance is a requirement will depend on your home's location.

Impounds/Escrows/Reserves (Section 1000)

You should be aware of whether or not your lender is collecting reserves or keeping funds in escrow for your mortgage insurance if needed, taxes, flood and hazard insurance. Your lender may use an escrow account to allow the buildup of funds to pay for these necessary items when they are due. It is more convenient for the borrower to pay a monthly sum along with the mortgage payment every month rather than having to have a large out of pocket expense when they are due. Be sure you understand how these bills will be handled. Lenders usually give a yearly statement showing the accrual of funds and how they were paid out, although they are not required to provide a report.

Title and Closing Charges (Section 1100)

Charges for the title examination, title search, administrative costs, title binder and title insurance are also covered under closing costs. You may select the title insurance agent of your choice.

- **Settlement/Closing Fee** – The closing agent who calculated the figures, prepared the documents and oversaw the closing procedure is also paid a fee for service. The cost is sometimes split between seller and buyer but can be negotiated within the sales contract.
- **Title Search, Title Examination, Title Insurance Binder** – A title insurance professional conducts a title search to ensure a clear title, meaning no one has a claim on your property, and there are no pre-existing problems. Documentation will be drawn up and presented at closing. The charges for these items may appear in separate places on the closing statement or they can be included on the HUD-1. Charges may be added for the title policy of the lender who provides the mortgage.
- **Preparation of Documents** – The closing agent may charge for preparing the closing documents. These may include the deed of trust, the mortgage, note, deed, and other title and loan documentation. This fee typically appears in the HUD-1 in the Direct Loan Costs section.
- **Notary Fee** – A licensed notary must verify the identity of the people who sign the legal documents. All documents must be signed in the notary's presence and there is a charge for their services.
- **Attorney Fees** – The seller and/or the buyer may be represented by an attorney. Generally, each person pays his or her own attorney.
- **Title Insurance** – Owner's and Loan policies are two types of title insurance. The sales price of the home determines the cost of the Owner's Policy and the Loan Policy is determined by the amount of the loan. There are different criteria from area to area for who pays these fees. Your closing agent will be able to inform you of the requirement for your area. Ask if you are eligible for a discount if the property was recently insured.

You can also purchase an expanded coverage policy that covers more than the traditional Owner's Policy. The local title company can give you an explanation of this type of policy so you can make an informed decision on the type of policy that is right for you.

Government Filing/Recording Fees (Section 1200)

Buying a home is a matter of public record. It is a requirement that the information on the loan and the property information is filed in the county courthouse or with the appropriate government recording agency.

- **Recording Fees** – This fee is to enter an official record when the property changes ownership and is paid to government agency.
- **Transfer Taxes** – Also called Transaction or Document Stamps, this is an amount charged by the government and determined by the mortgage amount and sometimes on the purchase price as well. There could be a county, state or city tax depending on where you are located, or a combination of taxes involved.

Miscellaneous Charges (Section 1300)

- **Survey Fee** – A surveyor is often required by the title insurer and the lender to survey the property for the purpose of defining the boundaries and size of the property. One reason is to make sure no part of the house or other buildings are encroaching on the neighbor's property, or the other property on yours. The surveyor also checks for setback violations or other potential problems.

- **Inspection Fees** – An inspection is highly recommended when a house is sold, and most often the contract will have a contingency clause for receiving an accept able report. This fee is to pay the inspector who checks the property for any problems with the structure. This is often a term imposed in the sales contract by the buyer in order to have an accurate report of the property's condition. The fee is collected at closing even though the work is done before the closing, and the report is given to the buyer before closing. There are several possible inspections that the buyer may want or the lender may require. Common inspections are lead paint inspections for buildings constructed before 1978, termite and other pests that destroy the property, water/well inspections and certifications, septic tank inspections, chimney inspections, mechanical or structural inspections, and several other specific inspections determined by the location and type of property.

WHY YOU BENEFIT FROM BETTER MARKETING

Get the most for your home by maximizing the exposure on the market

Why You Need To Market your Home

When selling a home, the only way to attract buyers is to make sure they are aware that it is for sale. We will ensure your listing gets all the marketing it deserves, both in print and online to ensure that the most motivated of buyers are all looking at your property.

The online MLS

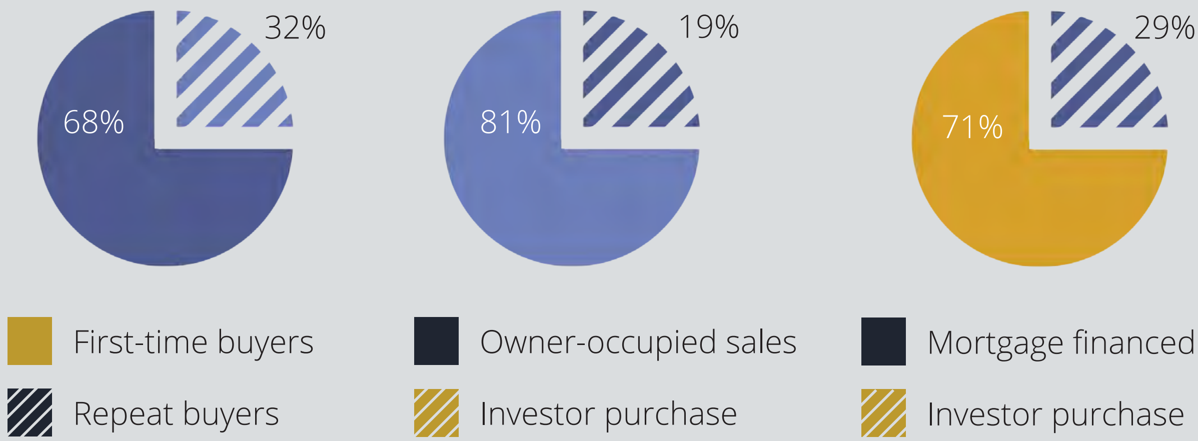
Your property will be listed electronically along with all the rest of the area's agencies and real estate agent listings available. Make sure yours stands out by having professional quality photos taken of the home, and that the information entered into the database is as complete and attractive as possible.

INFORMATION SOURCES USED IN HOME SEARCH

INTERNET SEARCH	88%
REAL ESTATE AGENT	87%
YARD SALE	55%
OPEN HOUSE	45%
NEWSPAPER	30%
MAGAZINE	19%

75% BUYERS WHO WOULD WOULD USE THE SAME AGENT AGAIN

THE NATURE OF TODAY'S REAL ESTATE TRANSACTIONS



The Overall Reach of your Marketing

Although in principle, the online MLS databases have been a leveling element in the playing field of real estate, there are still many differences from agency to agency as to how much additional marketing is deployed for your property.

Additional marketing materials should include:

- Onsite Flyers
- Open Houses, with ads online or in print
- Feature placement on the agency website
- Syndication to other popular real estate portals
- In print advertising
- Broker Tours

Some areas rely more or less heavily on a broker tour, and as such not every agency will provide them on request when you are listing your home for sale.

The Results should be measurable

Remember, the point of marketing is to reach the most motivated buyers in the area, and convince as many as possible to make serious and credible offers on your property to purchase. The more exposure through marketing, word of mouth and onsite visits will result in a better chance of receiving multiple offers on your property, and helping to give you added leverage in selecting one that most maximizes your net and your goals.

Realtors get **19%** more than FSBO

REALTOR

$215,000 AVERAGE PRICE

FSBO

$174,900 AVERAGE PRICE

Realtor properties sell for $41,000 more

In 2012 FSBOs accounted for as little as 9% of the property listing and had a significantly lower selling price on average. FSBO properties sold for $174,900 where the realtor properties sold for $215,000.

GLOSSARY TERMS

acceleration clause
A clause in your mortgage that allows the lender to demand payment of the outstanding loan balance for various reasons. The most common reasons for accelerating a loan are if the borrower defaults on the loan or transfers title to another individual without informing the lender.

adjustable-rate mortgage (ARM)
A mortgage in which the interest changes periodically, according to corresponding fluctuations in an index. All ARMs are tied to indexes.

adjustment date
The date the interest rate changes on an adjustable-rate mortgage.

amortization
The loan payment consists of a portion which will be applied to pay the accruing interest on a loan, with the remainder being applied to the principal. Over time, the interest portion decreases as the loan balance decreases, and the amount applied to principal increases so that the loan is paid off (amortized) in the specified time.

amortization schedule
A table which shows how much of each payment will be applied toward principal and how much toward interest over the life of the loan. It also shows the gradual decrease of the loan balance until it reaches zero.

annual percentage rate (APR)
This is not the note rate on your loan. It is a value created according to a government formula intended to reflect the true annual cost of borrowing, expressed as a percentage. It works sort of like this, but not exactly, so only use this as a guideline: deduct the closing costs from your loan amount, then using your actual loan payment, calculate what the interest rate would be on this amount instead of your actual loan amount. You will come up with a number close to the APR. Because you are using the same payment on a smaller amount, the APR is always higher than the actual note rate on your loan.

application
The form used to apply for a mortgage loan, containing information about a borrower's income savings, assets, debts, and more.

appraisal
A written justification of the price paid for a property, primarily based on an analysis of comparable sales of similar homes nearby.

appraised value
An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. Since an appraisal is based primarily on comparable sales, and the most recent sale is the one on the property in question, the appraisal usually comes out at the purchase price.

appraiser
An individual qualified by education, training, and experience to estimate the value of real property and personal property. Although some appraisers work directly for mortgage lenders, most are independent.

appreciation
The increase in the value of a property due to changes in market conditions, inflation, or other causes.

assessed value
The valuation placed on property by a public tax assessor for purposes of taxation.

assessment
The placing of a value on property for the purpose of taxation.

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

asset
Items of value owned by an individual. Assets that can be quickly converted into cash are considered "liquid assets." These include bank accounts, stocks, bonds, mutual funds, and so on. Other assets include real estate, personal property, and debts owed to an individual by others.

assignment
When ownership of your mortgage is transferred from one company or individual to another, it is called an assignment.

assumable mortgage
A mortgage that can be assumed by the buyer when a home is sold. Usually, the borrower must "qualify" in order to assume the loan.

assumption
The term applied when a buyer assumes the seller's mortgage.

balloon mortgage
A mortgage loan that requires the remaining principal balance be paid at a specific point in time. For example, a loan may be amortized as if it would be paid over a thirty year period, but requires that at the end of the tenth year the entire remaining balance must be paid.

balloon payment
The final lump sum payment that is due at the termination of a balloon mortgage.

bankruptcy
By filing in federal bankruptcy court, an individual or individuals can restructure or relieve themselves of debts and liabilities. Bankruptcies are of various types, but the most common for an individual seem to be a "Chapter 7 No Asset" bankruptcy which relieves the borrower of most types of debts. A borrower cannot usually qualify for an "A" paper loan for a period of two years after the bankruptcy has been discharged and requires the re-establishment of an ability to repay debt.

bill of sale
A written document that transfers title to personal property. For example, when selling an automobile to acquire funds which will be used as a source of down payment or for closing costs, the lender will usually require the bill of sale (in addition to other items) to help document this source of funds.

bi-weekly mortgage
A mortgage in which you make payments every two weeks instead of once a month. The basic result is that instead of making twelve monthly payments during the year, you make thirteen. The extra payment reduces the principal, substantially reducing the time it takes to pay off a thirty year mortgage. Note: there are independent companies that encourage you to set up bi-weekly payment schedules with them on your thirty year mortgage. They charge a set-up fee and a transfer fee for every payment. Your funds are deposited into a trust account from which your monthly payment is then made, and the excess funds then remain in the trust account until enough has accrued to make the additional payment which will then be paid to reduce your principle. You could save money by doing the same thing yourself, plus you have to have faith that once you transfer money to them, they will actually transfer your funds to your lender.

bond market
Usually refers to the daily buying and selling of thirty year treasury bonds. Lenders follow this market intensely because as the yields of bonds go up and down, fixed rate mortgages do approximately the same thing. The same factors that affect the Treasury Bond market also affect mortgage rates at the same time. That is why rates change daily, and in a volatile market can and do change during the day as well.

bridge loan
Not used much anymore, bridge loans are obtained by those who have not yet sold their previous property, but must close on a purchase property. The bridge loan becomes the source of their funds for the down payment. One reason for their fall from favor is that there are more and more second mortgage lenders now that will lend at a high loan to value. In addition, sellers often prefer to accept offers from buyers who have already sold their property.

broker
Broker has several meanings in different situations. Most Realtors are “agents” who work under a “broker.” Some agents are brokers as well, either working form themselves or under another broker. In the mortgage industry, broker usually refers to a company or individual that does not lend the money for the loans themselves, but broker loans to larger lenders or investors. (See the Home Loan Library that discusses the different types of lenders). As a normal definition, a broker is anyone who acts as an agent, bringing two parties together for any type of transaction and earns a fee for doing so.

buy-down
Usually refers to a fixed rate mortgage where the interest rate is “bought down” for a temporary period, usually one to three years. After that time and for the remainder of the term, the borrower’s payment is calculated at the note rate. In order to buy down the initial rate for the temporary payment, a lump sum is paid and held in an account used to supplement the borrower’s monthly payment. These funds usually come from the seller (or some other source) as a financial incentive to induce someone to buy their property. A “lender funded buy-down” is when the lender pays the initial lump sum. They can accomplish this because the note rate on the loan (after the buy-down adjustments) will be higher than the current market rate. One reason for doing this is because the borrower may get to “qualify” at the start rate and can qualify for a higher loan amount. Another reason is that a borrower may expect his earnings to go up substantially in the near future, but wants a lower payment right now.

call option
Similar to the acceleration clause.

cap
Adjustable Rate Mortgages have fluctuating interest rates, but those fluctuations are usually limited to a certain amount. Those limitations may apply to how much the loan may adjust over a six month period, an annual period, and over the life of the loan, and are referred to as "caps." Some ARMs, although they may have a life cap, allow the interest rate to fluctuate freely, but require a certain minimum payment which can change once a year. There is a limit on how much that payment can change each year, and that limit is also referred to as a cap.

cash-out refinance
When a borrower refinances his mortgage at a higher amount than the current loan balance with the intention of pulling out money for personal use, it is referred to as a "cash out refinance".

certificate of deposit
A time deposit held in a bank which pays a certain amount of interest to the depositor.

certificate of deposit index
One of the indexes used for determining interest rate changes on some adjustable rate mortgages. It is an average of what banks are paying on certificates of deposit.

Certificate of Eligibility
A document issued by the Veterans Administration that certifies a veteran's eligibility for a VA loan.

Certificate of Reasonable Value (CRV)
Once the appraisal has been performed on a property being bought with a VA loan, the Veterans Administration issues a CRV.

chain of title
An analysis of the transfers of title to a piece of property over the years.

clear title
A title that is free of liens or legal questions as to ownership of the property.

closing
This has different meanings in different states. In some states a real estate transaction is not consider "closed" until the documents record at the local recorder's office. In others, the "closing" is a meeting where all of the documents are signed and money changes hands.

closing costs
Closing costs are separated into what are called "non-recurring closing costs" and "pre-paid items." Non-recurring closing costs are any items which are paid just once as a result of buying the property or obtaining a loan. "Pre-paids" are items which recur over time, such as property taxes and homeowners insurance. A lender makes an attempt to estimate the amount of non-recurring closing costs and prepaid items on the Good Faith Estimate which they must issue to the borrower within three days of receiving a home loan application.

closing statement
See Settlement Statement.

cloud on title
Any conditions revealed by a title search that adversely affect the title to real estate. Usually clouds on title cannot be removed except by deed, release, or court action.

co-borrower
An additional individual who is both obligated on the loan and is on title to the property.

collateral
In a home loan, the property is the collateral. The borrower risks losing the property if the loan is not repaid according to the terms of the mortgage or deed of trust.

collection
When a borrower falls behind, the lender contacts them in an effort to bring the loan current. The loan goes to "collection." As part of the collection effort, the lender must mail and record certain documents in case they are eventually required to foreclose on the property.

commission
Most salespeople earn commissions for the work that they do and there are many sales professionals involved in each transaction, including Realtors, loan officers, title representatives, attorneys, escrow representative, and representatives for pest companies, home warranty companies, home inspection companies, insurance agents, and more. The commissions are paid out of the charges paid by the seller or buyer in the purchase transaction. Realtors generally earn the largest commissions, followed by lenders, then the others.

common area assessments
In some areas they are called Homeowners Association Fees. They are charges paid to the Homeowners Association by the owners of the individual units in a condominium or planned unit development (PUD) and are generally used to maintain the property and common areas.

common areas
Those portions of a building, land, and amenities owned (or managed) 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.

common law
An unwritten body of law based on general custom in England and used to an extent in some states.

community property
In some states, especially the southwest, property acquired by a married couple during their marriage is considered to be owned jointly, except under special circumstances. This is an outgrowth of the Spanish and Mexican heritage of the area.

comparable sales
Recent sales of similar properties in nearby areas and used to help determine the market value of a property. Also referred to as "comps."

condominium
A type of ownership in real property where all of the owners own the property, common areas and buildings together, with the exception of the interior of the unit to which they have title. Often mistakenly referred to as a type of construction or development, it actually refers to the type of ownership.

condominium conversion
Changing the ownership of an existing building (usually a rental project) to the condominium form of ownership.

condominium hotel
A condominium project that has rental or registration desks, short-term occupancy, food and telephone services, and daily cleaning services and that is operated as a commercial hotel even though the units are individually owned. These are often found in resort areas like Hawaii.

construction loan
A short-term, interim loan for financing the cost of construction. The lender makes payments to the builder at periodic intervals as the work progresses.

contingency
A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

contract
An oral or written agreement to do or not to do a certain thing.

conventional mortgage
Refers to home loans other than government loans (VA and FHA).

convertible ARM
An adjustable-rate mortgage that allows the borrower to change the ARM to a fixed-rate mortgage within a specific time.

cooperative (co-op)
A type of multiple ownership in which the residents of a multiunit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

cost of funds index (COFI)
One of the indexes that is used to determine interest rate changes for certain adjustable-rate mortgages. It represents the weighted-average cost of savings, borrowings, and advances of the financial institutions such as banks and savings & loans, in the 11th District of the Federal Home Loan Bank.

credit
An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

credit history
A record of an individual's repayment of debt. Credit histories are reviewed my mortgage lenders as one of the underwriting criteria in determining credit risk.

creditor
A person to whom money is owed.

credit report
A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

credit repository
An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

debt
An amount owed to another.

deed
The legal document conveying title to a property.

deed-in-lieu
Short for "deed in lieu of foreclosure," this conveys title to the lender when the borrower is in default and wants to avoid foreclosure. The lender may or may not cease foreclosure activities if a borrower asks to provide a deed-in-lieu. Regardless of whether the lender accepts the deed-in-lieu, the avoidance and non-repayment of debt will most likely show on a credit history. What a deed-in-lieu may prevent is having the documents preparatory to a foreclosure being recorded and become a matter of public record.

deed of trust
Some states, like California, do not record mortgages. Instead, they record a deed of trust which is essentially the same thing.

default
Failure to make the mortgage payment within a specified period of time. For first mortgages or first trust deeds, if a payment has still not been made within 30 days of the due date, the loan is considered to be in default.

delinquency
Failure to make mortgage payments when mortgage payments are due. For most mortgages, payments are due on the first day of the month. Even though they may not charge a "late fee" for a number of days, the payment is still considered to be late and the loan delinquent. When a loan payment is more than 30 days late, most lenders report the late payment to one or more credit bureaus.

deposit
A sum of money given in advance of a larger amount being expected in the future. Often called in real estate as an "earnest money deposit."

depreciation
A decline in the value of property; the opposite of appreciation. Depreciation is also an accounting term which shows the declining monetary value of an asset and is used as an expense to reduce taxable income. Since this is not a true expense where money is actually paid, lenders will add back depreciation expense for self-employed borrowers and count it as income.

discount points
In the mortgage industry, this term is usually used in only in reference to government loans, meaning FHA and VA loans. Discount points refer to any "points" paid in addition to the one percent loan origination fee. A "point" is one percent of the loan amount.

down payment
The part of the purchase price of a property that the buyer pays in cash and does not finance with a mortgage.

due-on-sale provision
A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

earnest money deposit
A deposit made by the potential home buyer to show that he or she is serious about buying the house.

easement
A right of way giving persons other than the owner access to or over a property.

effective age
An appraiser's estimate of the physical condition of a building. The actual age of a building may be shorter or longer than its effective age.

eminent domain
The right of a government to take private property for public use upon payment of its fair market value. Eminent domain is the basis for condemnation proceedings.

encroachment
An improvement that intrudes illegally on another's property.

encumbrance
Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

Equal Credit Opportunity Act (ECOA)
A federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

equity
A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

escrow
An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the earnest money deposit is put into escrow until delivered to the seller when the transaction is closed.

escrow account
Once you close your purchase transaction, you may have an escrow account or impound account with your lender. This means the amount you pay each month includes an amount above what would be required if you were only paying your principal and interest. The extra money is held in your impound account (escrow account) for the payment of items like property taxes and homeowner's insurance when they come due. The lender pays them with your money instead of you paying them yourself.

escrow analysis
Once each year your lender will perform an "escrow analysis" to make sure they are collecting the correct amount of money for the anticipated expenditures.

escrow disbursements
The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

estate
The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

eviction
The lawful expulsion of an occupant from real property.

examination of title
The report on the title of a property from the public records or an abstract of the title.

exclusive listing
A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time.

executor
A person named in a will to administer an estate. The court will appoint an administrator if no executor is named. “Executrix” is the feminine form.

Fair Credit Reporting Act
A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one’s credit record.

fair market value
The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

Fannie Mae (FNMA)
The Federal National Mortgage Association, which is a congressionally chartered, shareholder-owned company that is the nation’s largest supplier of home mortgage funds. For a discussion of the roles of Fannie Mae, Freddie Mac (FHLMC), and Ginnie Mae (GNMA), see the Library.

Fannie Mae's Community Home Buyer's Program
An income-based community lending model, under which mortgage insurers and Fannie Mae offer flexible underwriting guidelines to increase a low- or moderate-income family's buying power and to decrease the total amount of cash needed to purchase a home. Borrowers who participate in this model are required to attend pre-purchase home-buyer education sessions.

Federal Housing Administration (FHA)
An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

fee simple
The greatest possible interest a person can have in real estate.

fee simple estate
An unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condominium project, the unit owner is the exclusive owner only of the air space within his or her portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.

FHA mortgage
A mortgage that is insured by the Federal Housing Administration (FHA). Along with VA loans, an FHA loan will often be referred to as a government loan.

firm commitment
A lender's agreement to make a loan to a specific borrower on a specific property.

first mortgage
The mortgage that is in first place among any loans recorded against a property. Usually refers to the date in which loans are recorded, but there are exceptions.

fixed-rate mortgage
A mortgage in which the interest rate does not change during the entire term of the loan.

fixture
Personal property that becomes real property when attached in a permanent manner to real estate.

flood insurance
Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

foreclosure
The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

401(k)/403(b)
An employer-sponsored investment plan that allows individuals to set aside tax-deferred income for retirement or emergency purposes. 401(k) plans are provided by employers that are private corporations. 403(b) plans are provided by employers that are not for profit organizations.

401(k)/403(b) loan
Some administrators of 401(k)/403(b) plans allow for loans against the monies you have accumulated in these plans. Loans against 401K plans are an acceptable source of down payment for most types of loans.

government loan (mortgage)
A mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Rural Housing Service (RHS). Mortgages that are not government loans are classified as conventional loans.

Government National Mortgage Association (Ginnie Mae)
A government-owned corporation within the U.S. Department of Housing and Urban Development (HUD). Created by Congress on September 1, 1968, GNMA performs the same role as Fannie Mae and Freddie Mac in providing funds to lenders for making home loans. The difference is that Ginnie Mae provides funds for government loans (FHA and VA)

grantee
The person to whom an interest in real property is conveyed.

grantor
The person conveying an interest in real property.

hazard insurance
Insurance coverage that in the event of physical damage to a property from fire, wind, vandalism, or other hazards.

Home Equity Conversion Mortgage (HECM)
Usually referred to as a reverse annuity mortgage, what makes this type of mortgage unique is that instead of making payments to a lender, the lender makes payments to you. It enables older home owners to convert the equity they have in their homes into cash, usually in the form of monthly payments. Unlike traditional home equity loans, a borrower does not qualify on the basis of income but on the value of his or her home. In addition, the loan does not have to be repaid until the borrower no longer occupies the property.

home equity line of credit
A mortgage loan, usually in second position, that allows the borrower to obtain cash drawn against the equity of his home, up to a predetermined amount.

home inspection
A thorough inspection by a professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

homeowners' association
A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no ownership interest in the common elements. In a PUD project, it holds title to the common elements.

homeowner's insurance
An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

homeowner's warranty
A type of insurance often purchased by homebuyers that will cover repairs to certain items, such as heating or air conditioning, should they break down within the coverage period. The buyer often requests the seller to pay for this coverage as a condition of the sale, but either party can pay.

HUD median income
Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).

HUD-1 settlement statement
A document that provides an itemized listing of the funds that were paid at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow (impound) amounts. Each type of expense goes on a specific numbered line on the sheet. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. It is called a HUD1 because the form is printed by the Department of Housing and Urban Development (HUD). The HUD1 statement is also known as the "closing statement" or "settlement sheet."

joint tenancy
A form of ownership or taking title to property which means each party owns the whole property and that ownership is not separate. In the event of the death of one party, the survivor owns the property in its entirety.

judgment
A decision made by a court of law. In judgments that require the repayment of a debt, the court may place a lien against the debtor's real property as collateral for the judgment's creditor.

judicial foreclosure
A type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court. Other states use non-judicial foreclosure.

jumbo loan
A loan that exceeds Fannie Mae's and Freddie Mac's loan limits, currently at $227,150. Also called a nonconforming loan. Freddie Mac and Fannie Mae loans are referred to as conforming loans.

late charge
The penalty a borrower must pay when a payment is made a stated number of days. On a first trust deed or mortgage, this is usually fifteen days.

lease
A written agreement between the property owner and a tenant that stipulates the payment and conditions under which the tenant may possess the real estate for a specified period of time.

leasehold estate
A way of holding title to a property wherein the mortgagor does not actually own the property but rather has a recorded long-term lease on it.

lease option
An alternative financing option that allows home buyers to lease a home with an option to buy. Each month's rent payment may consist of not only the rent, but an additional amount which can be applied toward the down payment on an already specified price.

legal description
A property description, recognized by law, that is sufficient to locate and identify the property without oral testimony.

lender
A term which can refer to the institution making the loan or to the individual representing the firm. For example, loan officers are often referred to as "lenders."

liabilities
A person's financial obligations. Liabilities include long-term and short-term debt, as well as any other amounts that are owed to others.

liability insurance
Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party. It is usually part of a homeowner's insurance policy.

lien
A legal claim against a property that must be paid off when the property is sold. A mortgage or first trust deed is considered a lien.

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

line of credit
An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time to a specified borrower.

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

loan
A sum of borrowed money (principal) that is generally repaid with interest.

loan officer
Also referred to by a variety of other terms, such as lender, loan representative, loan "rep," account executive, and others. The loan officer serves several functions and has various responsibilities: they solicit loans, they are the representative of the lending institution, and they represent the borrower to the lending institution.

loan origination
How a lender refers to the process of obtaining new loans.

loan servicing
After you obtain a loan, the company you make the payments to is "servicing" your loan. They process payments, send statements, manage the escrow/impound account, provide collection efforts on delinquent loans, ensure that insurance and property taxes are made on the property, handle pay-offs and assumptions, and provide a variety of other services.

loan-to-value (LTV)
The percentage relationship between the amount of the loan and the appraised value or sales price (whichever is lower).

lock-in
An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a certain cost.

lock-in period
The time period during which the lender has guaranteed an interest rate to a borrower.

margin
The difference between the interest rate and the index on an adjustable rate mortgage. The margin remains stable over the life of the loan. It is the index which moves up and down.

maturity
The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

merged credit report
A credit report which reports the raw data pulled from two or more of the major credit repositories. Contrast with a Residential Mortgage Credit Report (RMCR) or a standard factual credit report.

modification
Occasionally, a lender will agree to modify the terms of your mortgage without requiring you t refinance. If any changes are made, it is called a modification.

mortgage
A legal document that pledges a property to the lender as security for payment of a debt. Instead of mortgages, some states use First Trust Deeds.

mortgage banker
For a more complete discussion of mortgage banker, see “Types of Lenders.” A mortgage banker is generally assumed to originate and fund their own loans, which are then sold on the secondary market, usually to Fannie Mae, Freddie Mac, or Ginnie Mae. However, firms rather loosely apply this term to themselves, whether they are true mortgage bankers or simply mortgage brokers or correspondents.

mortgage broker
A mortgage company that originates loans, then places those loans with a variety of other lending institutions with whom they usually have pre-established relationships.

mortgagee
The lender in a mortgage agreement.

mortgage insurance (MI)
Insurance that covers the lender against some of the losses incurred as a result of a default on a home loan. Often mistakenly referred to as PMI, which is actually the name of one of the larger mortgage insurers. Mortgage insurance is usually required in one form or another on all loans that have a loan-to-value higher than eighty percent. Mortgages above 80% LTV that call themselves “No MI” are usually a made at a higher interest rate. Instead of the borrower paying the mortgage insurance premiums directly, they pay a higher interest rate to the lender, which then pays the mortgage insurance themselves. Also, FHA loans and certain first-time homebuyer programs require mortgage insurance regardless of the loan-to-value.

mortgage insurance premium (MIP)
The amount paid by a mortgagor for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (MI) company.

mortgage life and disability insurance
A type of term life insurance often bought by borrowers. The amount of coverage decreases as the principal balance declines. Some policies also cover the borrower in the event of disability. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds. In the case of disability insurance, the insurance will make the mortgage payment for a specified amount of time during the disability. Be careful to read the terms of coverage, however, because often the coverage does not start immediately upon the disability, but after a specified period, sometime forty-five days.

mortgagor
The borrower in a mortgage agreement.

Multi-dwelling units
Properties that provide separate housing units for more than one family, although they secure only a single mortgage.

negative amortization
Some adjustable rate mortgages allow the interest rate to fluctuate independently of a required minimum payment. If a borrower makes the minimum payment it may not cover all of the interest that would normally be due at the current interest rate. In essence, the borrower is deferring the interest payment, which is why this is called "deferred interest." The deferred interest is added to the balance of the loan and the loan balance grows larger instead of smaller, which is called negative amortization.

no cash-out refinance
A refinance transaction which is not intended to put cash in the hand of the borrower. Instead, the new balance is caculated to cover the balance due on the current loan and any costs associated with obtaining the new mortgage. Often referred to as a "rate and term refinance."

no-cost loan
Many lenders offer loans that you can obtain at "no cost." You should inquire whether this means there are no "lender" costs associated with the loan, or if it also covers the other costs you would normally have in a purchase or refinance transactions, such as title insurance, escrow fees, settlement fees, appraisal, recording fees, notary fees, and others. These are fees and costs which may be associated with buying a home or obtaining a loan, but not charged directly by the lender. Keep in mind that, like a "no-point" loan, the interest rate will be higher than if you obtain a loan that has costs associated with it.

note
A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

note rate
The interest rate stated on a mortgage note.

notice of default
A formal written notice to a borrower that a default has occurred and that legal action may be taken.

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

origination fee
On a government loan the loan origination fee is one percent of the loan amount, but additional points may be charged which are called "discount points." One point equals one percent of the loan amount. On a conventional loan, the loan origination fee refers to the total number of points a borrower pays.

owner financing
A property purchase transaction in which the property seller provides all or part of the financing.

partial payment
A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan. Normally, a lender will not accept a partial payment, but in times of hardship you can make this request of the loan servicing collection department.

payment change date
The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the interest rate adjustment date.

periodic payment cap
For an adjustable-rate mortgage where the interest rate and the minimum payment amount fluctuate independently of one another, this is a limit on the amount that payments can increase or decrease during any one adjustment period.

prepayment
Any amount paid to reduce the principal balance of a loan before the due date. Payment in full on a mortgage that may result from a sale of the property, the owner's decision to pay off the loan in full, or a foreclosure. In each case, prepayment means payment occurs before the loan has been fully amortized.

prepayment penalty
A fee that may be charged to a borrower who pays off a loan before it is due.

pre-qualification
This usually refers to the loan officer's written opinion of the ability of a borrower to qualify for a home loan, after the loan officer has made inquiries about debt, income, and savings. The information provided to the loan officer may have been presented verbally or in the form of documentation, and the loan officer may or may not have reviewed a credit report on the borrower.

prime rate
The interest rate that banks charge to their preferred customers. Changes in the prime rate are widely publicized in the news media and are used as the indexes in some adjustable rate mortgages, especially home equity lines of credit. Changes in the prime rate do not directly affect other types of mortgages, but the same factors that influence the prime rate also affect the interest rates of mortgage loans.

principal
The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

principal balance
The outstanding balance of principal on a mortgage. The principal balance does not include interest or any other charges. See remaining balance.

principal, interest, taxes, and insurance (PITI)
The four components of a monthly mortgage payment on impounded loans. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and mortgage and hazard insurance.

private mortgage insurance (MI)
Mortgage insurance that is provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

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

public auction
A meeting in an announced public location to sell property to repay a mortgage that is in default.

Planned Unit Development (PUD)
A project or subdivision that includes common property that is owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

purchase agreement
A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

purchase money transaction
The acquisition of property through the payment of money or its equivalent.

qualifying ratios
Calculations that are used in determining whether a borrower can qualify for a mortgage. There are two ratios. The "top" or "front" ratio is a calculation of the borrower's monthly housing costs (principle, taxes, insurance, mortgage insurance, homeowner's association fees) as a percentage of monthly income. The "back" or "bottom" ratio includes housing costs as will as all other monthly debt.

quitclaim deed
A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

rate lock
A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate for a specified period of time at a specific cost.

real estate agent
A person licensed to negotiate and transact the sale of real estate.

Real Estate Settlement Procedures Act (RESPA)
A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

real property
Land and appurtenances, including anything of a permanent nature such as structures, trees, minerals, and the interest, benefits, and inherent rights thereof.

Realtor®
A real estate agent, broker or an associate who holds active membership in a local real estate board that is affiliated with the National Association of Realtors.

recorder
The public official who keeps records of transactions that affect real property in the area. Sometimes known as a "Registrar of Deeds" or "County Clerk."

recording
The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

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

remaining balance
The amount of principal that has not yet been repaid. See principal balance.

remaining term
The original amortization term minus the number of payments that have been applied.

rent loss insurance
Insurance that protects a landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.

repayment plan
An arrangement made to repay delinquent installments or advances.

replacement reserve fund
A fund set aside for replacement of common property in a condominium, PUD, or cooperative project -- particularly that which has a short life expectancy, such as carpeting, furniture, etc.

revolving debt
A credit arrangement, such as a credit card, that allows a customer to borrow against a preapproved line of credit when purchasing goods and services. The borrower is billed for the amount that is actually borrowed plus any interest due.

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.

right of ingress or egress
The right to enter or leave designated premises.

right of survivorship
In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

sale-leaseback
A technique in which a seller deeds property to a buyer for a consideration, and the buyer simultaneously leases the property back to the seller.

second mortgage
A mortgage that has a lien position subordinate to the first mortgage.

secondary market
The buying and selling of existing mortgages, usually as part of a “pool” of mortgages.

secured loan
A loan that is backed by collateral.

security
The property that will be pledged as collateral for a loan.

seller carry-back
An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage.

servicer
An organization that collects principal and interest payments from borrowers and manages borrowers’ escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

servicing
The collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

settlement statement
See HUD1 Settlement Statement

subdivision
A housing development that is created by dividing a tract of land into individual lots for sale or lease.

subordinate financing
Any mortgage or other lien that has a priority that is lower than that of the first mortgage.

survey
A drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, encroachments, and other physical features.

sweat equity
Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash.

tenancy in common
As opposed to joint tenancy, when there are two or more individuals on title to a piece of property, this type of ownership does not pass ownership to the others in the event of death.

third-party origination
A process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

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

title company
A company that specializes in examining and insuring titles to real estate.

title insurance
Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

title search
A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

transfer of ownership
Any means by which the ownership of a property changes hands. Lenders consider all of the following situations to be a transfer of ownership: the purchase of a property "subject to" the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract or any other land trust device.

transfer tax
State or local tax payable when title 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 results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

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

two-step mortgage
An adjustable-rate mortgage (ARM) that has one interest rate for the first five or seven years of its mortgage term and a different interest rate for the remainder of the amortization term.

two- to four-family property
A property that consists of a structure that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed.

trustee
A fiduciary who holds or controls property for the benefit of another.

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

vested
Having the right to use a portion of a fund such as an individual retirement fund. For example, individuals who are 100 percent vested can withdraw all of the funds that are set aside for them in a retirement fund. However, taxes may be due on any funds that are actually withdrawn.

Veterans Administration (VA)
An agency of the federal government that guarantees residential mortgages made to eligible veterans of the military services. The guarantee protects the lender against loss and thus encourages lenders to make mortgages to veterans.