



Bay Area HomeBuyer Agency
bridges to home ownership

a dba of the East Bay Delta Housing Finance Agency



First Home, Inc.

First Time Home Buyer Glossary

For first time home buyers, knowing and understanding the following terms are very important when purchasing your first home. By understanding these terms, you will make your purchase less stressful and allow yourself to take a more proactive role.

A

Acceptance- an unqualified agreement to the terms of an offer.

The **acceptance** of your purchase offer means that the seller has agreed to the price and terms that you have outlined in your offer.

Acquisition Cost- the cost of acquiring property in addition to the purchase price, sometimes referred to as closing costs.

Normal **acquisition costs** include escrow fees, title insurance, lenders fees, etc.

Addendum- an addition or change to a contract.

In many transactions, **addendums** are used to outline changes to the contract during the contingency phase. **Addendums** must be approved by both the buyer and seller.

Adjustable Rate Mortgage (ARM)- a loan whose interest rate is periodically adjusted to more closely coincide with current interest rates.

As a first time homebuyer, you will most likely not receive an **ARM** loan. The fluctuating rate will change your monthly mortgage payment and possibly jeopardize your ownership.

Agent- anyone who has the authority to act on behalf of another, representing the business interests of that person.

As a first time homebuyer, you will be represented by your Real Estate **agent, whose** knowledge and expertise will help to ensure a successful transaction.

Amortization- the reduction of a debt through regular payments of both interest and principal.

Amortization is a loan product in which the principal balance is reduced with each payment.

Annual Percentage Rate (APR)- the cost of a mortgage stated as a yearly rate; with all financing costs, including interest, mortgage insurance (see **mortgage insurance**), and loan origination fee (see **loan origination fee**).

The **APR** is the interest rate with all costs and fees included in a year's span.

Appraisal- an estimate of the value of a property reached in a competent, objective and impartial manner, using certain aspects of the property including: age, size, location, quality, etc.

When you make an offer on a property, you will use an **appraisal** to confirm that the offer price is close to what the real value is.

Appreciation- an increase in value as a result of economic or other related changes. The increase may be temporary or permanent.

One of the economic advantages of owning a home is the **appreciation** that may accrue in span of your ownership.

Asking Price- the price at which a piece of real estate is offered to the public.

The **asking price** is what the seller is expecting to get on a property. It is negotiable and your agent will work with you to write an offer that will satisfy both you and the seller's needs.

B

Back-End Ratio- the ratio of all fixed debt, including housing expenses, to gross income.

Most lenders will require that your **back-end ratio** be at 45% or under.

Balloon Payment- a final loan payment that is substantially larger than the other payments and repays the debt in full.

A **balloon payment** can be very difficult for a first time homebuyer because this payment can be up to 15 times the normal payment. In an APM loan, many times a balloon payment is required at the end of the loan.

C

Closing- the act of finalizing the transaction in which the deed is delivered to the buyer, the title is transferred, and all costs are paid.

The **closing** is when all parties complete the contingencies of a transaction and signs the closing instructions then the buyer gets the keys to the house.

Closing Costs- expenses of the sale that must be paid in addition to the purchase price (buyer's expenses) or be deducted from the proceeds of the sale (seller's expense)

On average, **closing costs** are equal to about 2-3% of the purchase price.

Commission- an amount paid to the broker at the close of escrow. The amount is agreed upon before the transaction takes place and is usually percentage of the purchase price.

In most standard real estate transactions, the seller pays the commission, even for the buyers agent.

Comparables- properties that are similar to a subject property and are used in the appraisal process. Also, referred to as comps.

As a first time homebuyer, you may be able tell a home's value by looking at **comparables** in the same area.

Contingency- a provision in a contract that requires the completion of a certain act or the occurrence of a particular event before that contract is binding.

The **contingency** period is a very important time in a transaction. The most common contingencies that are used are financing, appraisal and inspection contingencies.

Conventional loan- a long term loan that is are standardized to eligible to meet FNMA (Fannie Mae) requirements. It has fixed monthly payments for the life of the loan and is usually has a 30-year period of fixed interest rates.

As a first time home buyer, you will most likely be receiving a **conventional loan** with amortized payments.

Counteroffer- in a real estate transaction, the rejection of some of the original terms of an original purchase offer and the submission of a new and different terms.

Counteroffers are a very common aspect of the transaction. It can be as little as including a washer and dryer or as complicated as restructuring the financing.

Credit Rating- an estimate of the credit worthiness and responsibility of a consumer. The rating comes from three credit agencies. Also, the amount, type, and terms of credit that are considered safe to extend to a consumer.

Your **credit rating**, also known as a FICO score, is the most important personal info that lenders look at.

D

Debt Service- the periodic payment specified in the loan contract necessary to repay the total amount of debt.

When calculating your mortgage payment, lenders will look at all of your credit cards, car payments and any other kind of loans. Those payments are known as **debt service**.

Deed- a legal document that is the official record of an agreement or official proof of transfer of ownership of real property.

After the purchase transaction is complete, you will receive a **deed** that shows the purchase. Think of a **deed** as a purchase receipt.

Default- failure to pay a contractual debt

As a first time homebuyer, a **default** on your credit report can adversely affect your purchasing power.

Disclosure- the act of showing, or making something known.

When purchasing a home, you will be required to sign many **disclosures** that may include a description of any flaws or defects in the property that you are purchasing.

Down payment- the portion of a property's purchase price paid in cash at the time the sale agreement is executed.

In today's lending environment, you are most likely going to be required to bring in 3-20% of the purchase price as your **down payment**.

E

Earnest money- a cash deposit paid by the prospective buyer of a property to demonstrate his or her good faith intention to complete the transaction.

Usually the **earnest money** deposit is due when your offer is accepted.

Equity- the value remaining in a property after payment of all liens.

The **equity** of a property grows as the amount of your loan decreases. Equity is also subject to fluctuations in property values in the current market.

Escrows- a neutral third party company that handles the closing of a real estate transaction. Funds and documents are deposited with a neutral third party who is instructed to carry out the provisions of the agreement.

Escrows are necessary and beneficial part of a transaction. They will look out for everyone's interests.

Executed contract- a contract which has been signed by all parties.

You must have an **executed contract** before you can close your transaction.

F

Fair market value- the price that a property would bring if freely offered on the open market with both a willing buyer and willing seller.

When an appraisal is done, the appraiser is trying to determine the **fair market value** of the property.

Fannie Mae (Federal National Mortgage Association)- is the nation's largest mortgage investor. The company buys mortgages from lenders and resells them as securities on the secondary mortgage market.

When securing your first loan, **Fannie Mae** will most likely be buying your loan.

Fixed-rate loan- a loan whose interest rate never changes for the life of the loan.

Fixed rate loans are desirable because the payments will always stay the same and manageable.

Foreclosure- the process of selling a debtor's property in the event of default on a mortgage or other lien, in order to repay the remaining debt.

When you stop paying your mortgage, a **foreclosure** will follow in order for the bank to sell the property to get their remaining balance of the loan back.

G

Grant Deed- a deed containing an implied promise that the person transferring the property actually owns the title and that it is not encumbered in any way, except as described in the deed.

When purchasing a property, the **grant deed** is one of the most important documents including in the purchase process.

Gross income- the total income that a person makes before taxes.

When shopping for loans, a person's **gross income** is used in the calculations because of the tax benefits that one can use when purchasing a home.

H

Home equity loan- a cash loan made against the equity in the borrower's home.

A **home equity loan** is a second loan that can be used for big expenses, such as college loans and home improvements.

Homeowners Association (HOA)- a group of property owners in a condominium or other subdivision neighborhood, who manage common areas, collect dues and establish property standards.

When you purchase a condominium, you become a member of the **homeowners association**. You are capable of participating in the HOA meetings and decisions concerning the property.

Homeowner's insurance policy- combined property and liability insurance designed for residential property owners.

When purchasing a home, it is very important that you have a **homeowner's insurance policy** which will cover you from accidental injuries on your properties.

HUD- U.S department of Housing and Urban Development. HUD administers the federal program dealing with better housing and urban renewal.

HUD is very active in all major urban areas setting the income levels that determine appropriate subsidy levels.

I

Impound account- a trust account in which funds are held, usually by a lender, for the payment of property taxes and insurance premiums required to protect the lender's security. These amounts are usually collected with the monthly payment.

An **impound account** is very important because it will help you save for your large property tax payment due twice a year.

Interest rate- a percentage of a sum of money, charged for the use of that money, on a yearly or monthly basis.

In the recent years, **interest** rates have been in the 5-7% range. The interest depends upon your credit score, down payment and other market conditions.

J

Judgment- the final legal decision by a judge in a court of law regarding the legal rights of the parties that are involved or involving payment of a debt.

It is very difficult for a first time homebuyer with a **judgment** in the last seven years to obtain a first loan.

L

Land Trust- a trust created by the owner of real property in which the property is the only asset.

In the Bay Area and other parts of the country, **land trusts** are becoming very popular as a cheaper alternative to homeownership.

Leasing Agent- an agent who secures qualified tenants for leases residential, commercial or industrial property.

A **leasing agent** is a person who helps renters obtain property rather than purchasing property.

Lien- a form of encumbrance that holds property as security for the payment of a debt.

The most common type of **liens** often comes from unpaid taxes and child support.

Listing- a property listed for sale by an agent.

When you agree to work with an agent to sell your property, you are entering into a **listing**.

Loan to value ratio (LTV)- the ration of the amount borrowed to the appraised value or sales price of a home.

Most traditional loans require that that the **loan to value ratio** be at 80% to avoid mortgage insurance costs.

M

Market value- the highest price that a property is expected to bring under fair and normal market conditions.

The **market value** of a house is determined by the amount of willing buyers, availability of lendable money and neighborhood factors.

Mortgage Insurance- a fee charged for either an FHA or a private mortgage insurance policy.

You will have to pay **mortgage insurance** if the loan to value ratio is over 80%. Whenever your loan to value ration gets below 80%, you do not have to continue to pay mortgage insurance.

Mixed-use property- a property that may have more than one use.

A home that doubles as a business is considered a **mixed-use property**.

N

Net income- the amount remaining after expenses are deducted from gross income.

The **net income** is calculated after all taxes and withholdings have been deducted from your paycheck.

Note- a loan document that is signed by the borrower and serves as evidence of a debt.

When you sign your mortgage it then becomes a **note**, which is a promise to pay that money back.

Notice of Delinquency- When first and second loans exist, the borrower may authorize the first lender to send a notice the second lender in the event of a default.

If you have two loans, the major loan may absorb the second loan in order to consolidate the debt. This authorization comes as a **notice of delinquency**.

O

Offer- a presentation or proposal to form a contract.

When a person is interested in a home, they must write an **offer** that summarizes the details of the purchase.

Origination fee- the fee charged by a lender for creating a mortgage. The fee is generally a percentage of the loan.

Most lenders will charge about 1-2% of the loan as the **origination fee**.

P

Planned Unit Development (PUD)- a development in which owner owns his or her own housing unit and land, and has an undivided interest in common areas with other owners.

Many new developments with 5 or more homes are **Planned Unit Developments**.

Points- a factor used in rate adjustment. One point is equal to 1% of the loan amount.

If you are a buyer with less than perfect credit, you may be forced to pay additional **points** as a penalty to obtain financing.

Power of Attorney- a written instrument giving a person legal authority to act on behalf of another person.

A power of **attorney** is a common practice for people attempting to purchase a home when they are out of the country.

Pre-qualified- a loan that is in a application status, and based on a preliminary interview and a credit report, whose requirements it appears the borrower appears will be able to meet.

It is essential for buyers to be **pre-qualified** before writing offers on a property.

Property tax- tax that is charged for either personal or real property.

When you buy a home, the **property tax** is based on a percentage of the total price of the house.

R

Recording- the act of filing with the county recorder document affecting the title of the property.

After a transaction closes, the county will **record** your right to ownership of the property..

Refinancing- creating a new loan, usually with a lower interest rate, to pay off an existing loan using the same property as security.

When interest rates decline, **refinancing** becomes a very popular option.

S

Second mortgage- a mortgage that is subordinate to a first mortgage, often created when a borrower needs additional funds.

Many cities offer down payment assistance loans that act as a **second mortgage** behind your first loan.

Seller's market- a stage in the real estate market where supply is greater than demand and prices rise.

During the early 2000's, the Bay Area housing was experiencing a **seller's market**. Presently, it has transitioned into a buyer's market which results in lower housing prices.

Senior Loan- a real estate loan that has first priority.

A **senior loan** is in most cases the first loan.

Short Sale- a sale of encumbered property that produces less money than is owed to the lender.

With the declining real estate market, **short sales** are becoming a very common practice for homeowners that own a declining value property. There is a major damage to ones credit by executing a short sale.

T

Tax Lien- a lien imposed on property for non-payment of taxes. A tax lien stays with the property until the debt is paid.

When a homeowner doesn't pay the **property taxes**, a tax lien will be recorded against the property.

Title- evidence of the ownership of land, publically recorded in the county in which the property is located.

Once your transaction closes and **title** is recorded, you are the owner with all rights to the property.

Title Insurance- an insurance policy that protects the insured against loss and damage due to defects in the property's title.

Title insurance is a very important policy that ensures that you are the rightful owner of the property.

Transfer tax- a state tax imposed on the sale of real property, to be paid by the seller.

Transfer tax is just one of the many taxes and fees that are associated with the sale of real property.

U

Underwriting- the process of determining a borrower's financial strength, on which the loan amount and terms are based.

When obtaining a mortgage, an **underwriter** will be looking at all factors to determine if the loan is safe and secure.

V

Voluntary lien- a lien placed on a property by the owner, such as a mortgage or a deed.

There are many types of **voluntary liens**, which first liens and home equity lines of credit.

W

Walk-through- the final inspection of a property just before the sale closes.

The **walk-through** is the last chance for the buyer to confirm that the property is vacant, not damaged and to ensure that the fixtures that were reported in the contract are still in the property.

Y

Yield- the return on an investment.

When purchasing a home, you will realize your yield after you sell or refinance your property.

Z

Zoning- the regulation of land use.

Zoning laws affect the use of land, lot sizes, types of structures permitted, building heights, setbacks and densities.