



The Golden Lenders

Mortgage Smartbook

“Opening More Doors to Home Ownership”

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Message from the Golden Lenders President and Founder

Welcome to the Golden Lenders website! My name is David Robbins and I am the President of Golden Lenders. I would like to share with you that we have an unparalleled commitment to customer service and a professionalism that every borrower deserves. I founded the company on the simple, powerful idea that every borrower deserves the best information, advice and loan products available, relayed to them by experienced loan agents who understand your concerns and speak your language - we are on your side.

My staff will work with every type of borrower and enjoy helping you through the "maze" of home ownership. No loan is too small or too big whether it's residential or commercial loans. My business model is set up for referrals, and the finest compliment that Golden Lenders can ever receive is a referral from our past clients.

Our borrowers are educated and will receive the best possible loan out there with over 30 years of experience that we bring to the table.

"Golden Lenders has a comprehensive, exclusive, and FREE Homebuyer 101 class with a simple concept that a little inside information about how the home buyer process or refinance works, can save you thousands of dollars over the life of the loan and probably more importantly how to remain in the home of your dreams"

Golden Lenders looks forward to working with you and putting your mind at ease!

We truly are opening more doors to homeownership!

Thank you for your time and we look forward to serving you.



Appraisals

What is an Appraisal?

An appraisal is actually a process that results in an "opinion of value" of a property's fair market value. An Appraisal can be conveyed as a single value or range of values, verbally, or in written form as an appraisal report. An appraisal is generally required by a lender before loan approval is given, to ensure that the mortgage loan amount is not more than the value of the property. An "Appraiser" is an individual who is licensed and specifically trained to render expert opinions concerning real estate or property values. An appraiser must undergo a significant amount of education, training, and 2000+ internship hours prior to getting licensed. In an appraisal, consideration is given to the whole property: it's location, amenities, and the physical condition of the land, house or any other structures present. What we typically see is the "Appraisal Report" which is the end result of the entire Appraisal Process.

Why get an Appraisal?

The most common reason for ordering an appraisal is to obtain a loan on a property. However, there are several other reasons why an appraisal might be needed. Below are just a few:

- Establish the replacement cost (insurance purposes).
- Contest high property taxes or assessed values.
- Divorce settlement or lawsuits
- Settling of an Estate.
- Use as a negotiation tool (in real estate transactions).
- Determine a reasonable or most probably price when marketing real estate.
- Protect your rights in an eminent domain case.
- Government agencies may require it.
- Removing PMI (Private Mortgage Insurance)

What are the Appraisal Methods?

Appraisers use three common approaches when establishing the opinion of value for a given property:

1 Sales Comparison Approach: In this approach the Appraiser identifies a minimum of 3 or more comparable homes in the subject neighborhood which have recently sold. Ideally, the properties are close in proximity (within a 1/2 mile radius of the subject property) and have sold within the previous six months. The appraiser then compares the sold properties to the subject property. The factors used in the comparison include location, square footage, number of bedrooms and bathrooms, construction style, age, lot size, view, interior or exterior amenities and the home's condition.



Appraisals continued

2 Cost Approach: In this approach the Appraiser estimates the cost of construction by either the Replacement Cost New or Reproduction Cost. The cost is derived by first estimating the site value then adding the cost of new construction. From there the Appraiser subtracts the estimated accrued depreciation of the building in comparison with a new building. The end result is the value estimate using the cost approach. This method is used most commonly in new construction and in combination with the sales comparison approach.

3 Income Approach: In this approach the potential net income of the property is capitalized using a rather complex mathematical process to arrive at a property value. This approach is suited to income-producing properties and is usually used in conjunction with the other valuation methods. The process of converting a future income stream into a present value is known as capitalization.

After thorough exercise and consideration of the three approaches, a final estimate or opinion of value is conveyed in the "Appraisal Report". When evaluating single-family, owner-occupied properties, an Appraiser usually places the most weight on the sales comparison approach.

Who owns the Appraisal?

Even though the borrower typically pays for the appraisal, the Mortgage Company is the Appraiser's "Client" and the entity that owns the appraisal. Because the Mortgage Company orders the appraisal on the borrower's behalf the Appraiser lists that mortgage company's name on the appraisal report as the "client" or "intended user". However, laws state that the borrower has the right to receive a copy of the appraisal if used for a mortgage transaction. It is at the Mortgage Company's discretion whether or not to give the borrower a copy of the appraisal. The Appraiser is not expected to nor can he legally release the appraisal to anyone but the client.

Can I use a different mortgage company after the appraisal has been completed ?

Yes. In most cases, changing your mortgage company does not mean you will have to pay for another appraisal. Legally the first lender can transfer the appraisal to your new lender. Being as they are the owner of that appraisal, the original lender has the right to refuse to transfer the appraisal to another lender. However, lenders sometimes require their company name to be the one listed as the "Client". In this event, you will need to get a new appraisal. Sometimes that new lender will request from the original Appraiser that the report be transferred to their name. Due to regulations, the Appraiser must treat this instance as a "new appraisal assignment" because a new "Appraiser / Client" relationship has now been formed. Many appraisal firms charge a small fee for this because there is a significant amount of clerical work and time involved in preparing an appraisal to reflect the new client or Mortgage Company.



Appraisals continued

This fee is sometimes referred to as an "Appraisal Retype Fee." All Appraisers are bound by strict Ethics Provisions and Regulations that prevent them from simply changing the name or client information on an appraisal and re-releasing it. All Appraisers are subject to USPAP (Uniform Standards of Professional Appraisal Practice) which are basically their guidelines and regulations.

Who determines the price of a property?

The seller or owner of the property is typically the person who sets the PRICE of the property (specifically residential property), and not an Appraiser. This is because most sellers normally do not order an appraisal when getting ready to market their homes. Sellers often wish to obtain the highest possible selling price for their homes and may not want to be bound by the appraiser's opinion of value of their home. A Realtor (real estate agent), who receives a commission percentage of the selling price as compensation and often represents the seller in the transaction, normally assists the seller in setting the sale price.

The real estate agent performs a comparative market analysis (CMA). Real estate agents can perform a CMA without an appraiser's license or certification because a CMA is not considered an appraisal. A CMA is a necessary part of the agent's preparation for a listing and consists of examining sales of properties in the area to arrive at a listing price, not a market value. The reliability of the CMA in determining a reasonable price depends upon the agent's experience and the characteristics of the property and the surrounding area. Typically, the agent will suggest a selling price to the seller based upon their analysis. However, the seller may not accept that price and choose to list the property for a higher price.

Assisting the Appraiser

In order for the Appraiser to perform his/her job properly there might be requests for additional information. Some information that may be requested is as follows:

- What is the purpose of the appraisal and who is the intended user?
- Is the property listed for sale, and if so, for how much and with whom?
- Is there a mortgage on the property right now? If so, the Appraiser will need to know the name of the mortgage company, when the mortgage was obtained, for how much, what type of mortgage [FHA, VA etc.], interest rate, or any other type of financing?
- What personal property, such as appliances, is included in the sale?
- For an income-producing property, a breakdown of income and expenses for the last year or two and a copy of the lease or rental agreements are often required.
- Provide a copy of deed (including legal description), survey (plat map), purchase agreement or other pertinent papers pertaining to the property.
- Provide a copy of current real estate tax bill, statement of special assessments, balance owing and on what [sewer, water, etc.].



Closing Costs

What happens at closing?

At the closing, ownership of the newly purchased home is officially transferred from the seller to you. It may involve you, the seller, the real estate agent, your attorney, the lender's attorney, representatives from the title or escrow firm, and a variety of clerks, secretaries, and other staff. It is possible to have an attorney act on your behalf if you cannot attend the meeting (for example, if the house is in another state). Closing can take as little time as an hour to sign all the forms and transfer ownership or it can take several hours, depending on the contingency clauses in the purchase offer (and any escrow accounts that may need to be set up).

Much of the paperwork involved in closing (or settlement) is done by attorneys and real estate professionals. You may be involved in some of the closing activities and not in others, depending on local customs and on the professionals with whom you are working.

Before you close on the house, you should have a final inspection, or walk-through, to make sure any repairs you requested have been made and that items which were to remain with the house (drapes, light fixtures) are still there.

In most states, settlement is done by a title or escrow firm to which you forward all the materials and information along with the appropriate cashiers' checks, and the firm will make the necessary disbursements. The real estate agent or another representative of the title company will deliver the check to the seller and the house keys to you.

Statutory Costs

Statutory costs are expenses you would have to pay to state and local agencies even if you paid cash for the house and did not need to take out a mortgage. They include the following:

Transfer taxes are required by some localities to transfer the title and deed from the seller to you.

Recording fees for deed pay for the county clerk to record the deed and mortgage and change the property tax billing.

Pro-rated taxes such as school taxes and municipal taxes may have to be split between you and the seller because they are due at different times of the year. For example, if taxes are due in October and you close in August, you would owe taxes for 2 months while the seller would owe taxes for the other 10 months. Prorated taxes usually are paid based on the number of days (not months) of ownership. Some lenders may require you to set up an escrow account to cover these bills. If your lender does not require an escrow account, you may want to set up a special account on your own to make sure you have money set aside for these important, and large, bills.

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Closing Costs Continued

Other state and local fees can include mortgage taxes levied by states as well as other local fees.

Third-Party Costs

Third-party costs are expenses paid to others such as inspectors or insurance firms. You would have to pay many of these expenses even if you paid cash for the house.

Examples of third-party costs are as follows:

Attorney fees: You will probably want to work with an attorney when buying a home. Attorneys usually charge a percentage of the selling price (three-fourths or 1 percent), but some may work for a flat fee or on an hourly basis.

Title search costs: Usually your attorney will do or arrange for the title search to make sure there are no obstacles (liens, lawsuits) to your owning the home. In some cases, you may work with a title company to verify a clear title to the property.

Homeowner's insurance: Most lenders require that you prepay the first year's premium for homeowner's insurance (sometimes called hazard insurance) and bring proof of payment to the closing. This insures that their investment will be secured, even if the house is destroyed.

Real estate agent's sales commission: The seller pays the commission to the real estate agent. If one agent lists the property and another sells it, the commission usually is split between the two. It's important to keep in mind that even the commission is negotiable between the seller and the agent.

Finance and Lender Charges

Most people associate closing costs with the finance charges levied by mortgage lenders. The charges you pay will vary among lenders, so it pays to shop around for the best combination of mortgage terms and closing (or settlement) costs. You may have to pay the following charges:

Origination or application fees: These are fees for processing the mortgage application and may be a flat fee or a percentage of the mortgage.

Credit report: If you are making a small down payment (usually less than 25%), most lenders will require a credit report on you and your spouse or equity partner. This fee often is a part of the origination fee.



Closing Costs Continued

Points: A point is equal to 1% of the amount borrowed. Points can be payable when the loan is approved (before closing) or at closing. Points can be shared with the seller--you may want to negotiate this in the purchase offer. Some lenders will let you finance points, adding this cost to the mortgage, which will increase your interest costs. If you pay the points up front, they are deductible in your income taxes in the year they are paid. Different deductibility rules apply to second homes.

Lender's attorney's fees: Lenders may have their attorney draw up documents, check to see that the title is clear, and represent them at the closing.

Document preparation fees: You will see an amazing array of papers, ranging from the application to the acceptance to the closing documents. Lenders may charge for these, or they may be included in the application and/or attorney's fees.

Preparation of amortization schedule: Some lenders will prepare a detailed amortization schedule for the full term of your mortgage. They are more likely to do this for fixed mortgages than for adjustable mortgages.

Land survey: Most lenders will require that the property be surveyed to make sure that no one has encroached on it and to verify the buildings and improvements to the property.

Appraisals: Lenders want to be sure the property is worth at least as much as the mortgage. Professional property appraisers will compare the value of the house to that of similar properties in the neighborhood or community.

Lender's mortgage insurance: If your down payment is less than 20%, many lenders will require that you purchase private mortgage insurance (PMI) for the amount of the loan. This way, if you default on the loan, the lender will recover his money. These insurance premiums will continue until your principal payments plus down payment equal 20% of the selling price, but they may continue for the life of the loan. The premiums usually are added to any amount you must escrow for taxes and homeowner's insurance.

Lender's title insurance: Even though there is a title search for any obstacle (liens, lawsuits), many lenders require insurance so that should a problem arise, they can recover their mortgage investment. This is a one-time insurance premium, usually paid at closing; it is insurance for the lender only, not for you as a purchaser.

Release fees: If the seller has worked with a contractor who has put a lien on the house and who expects to be paid from the proceeds of the sale of the house, there may be some fees to release the lien. Although the seller usually pays these fees, they could be negotiated in the purchase offer.



Closing Costs Continued

Inspections required by lender (termite, water tests): If you apply for an FHA or VA mortgage, the lender will require a termite inspection. In many rural areas, lenders will require a water test to make sure the well and water system will maintain an adequate supply of water to the house (this is usually a test for quantity, not a test for water quality).

Prepaid interest: Your first regular mortgage payment is usually due about 6 to 8 weeks after you close (for example, if you close in August, your first regular payment will be in October; the October payment covers the cost of borrowing money for the month of September). Interest costs, however, start as soon as you close. The lender will calculate how much interest you owe for the fraction of the month in which you close (for example, if you close on August 25, you would owe interest for 6 days). In some cases this is due at closing.

Escrow account: Lenders will often require that you set up an escrow account into which you will make monthly payments for taxes, homeowner's insurance, and PMI (mortgage insurance, if required). The amount placed in this escrow account at closing depends on when property taxes are due and the timing of the settlement transaction. The lender should be able to give you a close approximation of these costs at the time you apply for your mortgage loan.

Other Up-Front Expenses

The major portion of other up-front expenses is the deposit or binder you make at the time of the purchase offer and the remaining cash down payment you make at closing. In addition to the deposit and down payment, other up-front expenses can include the following:

Inspections: In addition to inspections required by the lender, you may make the purchase offer contingent on satisfactory completion of some other inspections. These inspections might include: structural, water quality tests and radon tests. You and the seller will need to negotiate these fees.

Owner's title insurance: You may want to purchase title insurance for yourself so that if problems arise, you are not left owing a mortgage on a property you no longer own. A thorough title search (going back to 1900 if necessary) is often assurance enough of a clear title.

Appraisal fees: You may want to hire your own appraiser, either before you sign a purchase offer or after seeing the results of the lender's appraisal.

Money to the seller: You will need to pay for items in the house that you want and that were not negotiated in the purchase offer. Such items may include appliances, light fixtures, drapes, or lawn furniture and also fuel oil and propane left in tanks.

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Closing Costs Continued

Moving expenses: If you are changing jobs, your new employer may pay for your move. Otherwise, you must figure in the cost of moving, either truck rental and hired help or a professional mover. Shopping around for moving services can pay off. You will also need cash for utility deposits (phone, cable, and the like).

Escrow account funds: In the purchase offer, you can request that the seller set up an escrow account to defray any costs of major cleanup, radon mitigation procedures, house painting, or other items. Also, if you have not had a chance to try out some appliances (the furnace if you buy in the summer or the air conditioner if you buy in the winter), you may request an escrow account to cover repairs if necessary.

Depending on the purchase offer contract and contingency clauses, you may find you have some expenses immediately upon moving in. For example, suppose your purchase offer contract has a clause making the purchase contingent on a satisfactory structural inspection, and the inspector determines that the house will need a new roof. You could negotiate to have the seller arrange for the work to be done, but this will probably delay the closing date--and you may have to agree to a higher price for the house or to cover some of the expenses of the new roof. Or you and the seller may be able to split the cost of a new roof, put on after you move in, using estimates from a contractor of your choice, each of you putting funds into an escrow account for the new roof. Or the seller may be willing to reduce the sale price of the house by an amount you think is fair. In either case, shortly after moving into your new home, you will need cash for a new roof.

Time investment: An often overlooked major up-front cost in buying a home is the time investment. The average household spends about 4 month's house hunting and looks at an average of 20 houses before closing a deal. In addition to shopping for a home, you also spend time trying to find the best mortgage terms and an attorney who will assist you with the legal issues in purchasing a home.

How much time you spend looking for a home, a mortgage, and an attorney depends on your location. You will spend less time if you know what you want in a house and know much you can afford, and working with real estate agents will help narrow the choices. How many mortgage lenders are in your area? You can reduce time costs in mortgage shopping by keeping an eye on advertisements and use the internet to search for the best deals.

What is RESPA?

The Real Estate Settlement Procedures Act (RESPA) contains information on the settlement or closing costs you are likely to face. Within 3 days of the time you apply for the mortgage, your lender is required to provide you with a "good faith estimate of settlement costs," based on his or her understanding of your purchase contract. This estimate should give you a good idea of how much cash you will need at closing to cover pro-rated taxes, first month's interest, and other settlement costs.

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Closing Costs Continued

The act also requires lenders to give you an information booklet, Settlement Costs and You, written by the U.S. Department of Housing and Urban Development, which discusses how to negotiate a sales contract, how to work with various professionals (attorneys, real estate agents, lenders), and your rights and responsibilities as a home buyer. It also shows an example of the uniform settlement statement that will be used at your closing.

One business day before you close, you are entitled to see a copy of the Uniform Settlement Statement with your figures on it so you will know just how much the final costs will be.

What is Truth in Lending?

Mortgage lenders are required to give you a Truth in Lending (TIL) statement containing information on the annual percentage rate, the finance charge, the amount financed, and the total payments required. For adjustable rate loans, the "total payments" figure is estimated as a "worst case" scenario. The figure represents the payments you would make if your loan adjusted upward to the maximum rate allowed by annual and lifetime caps and then stayed there for the duration of the loan.

The TIL statement may also contain information on security interest, late charges, prepayment provisions, and whether the mortgage is assumable or not. If you have an adjustable rate loan, it may outline the limits on the adjustments (annual and lifetime caps) and give an example of what your next year's payment might be, depending on interest rates.



Credit

What is a credit report?

Your credit payment history is recorded in a file or report. These files or reports are maintained and sold by "consumer reporting agencies" (CRAs). One type of CRA is commonly known as a credit bureau. You have a credit record on file at a credit bureau if you have ever applied for a credit or charge account, a personal loan, insurance, or a job. Your credit record contains information about your income, debts, and credit payment history. It also indicates whether you have been sued, arrested, or have filed for bankruptcy.

Do I have a right to know what's in my report?

Yes, if you ask for it. The CRA must tell you everything in your report, including medical information, and in most cases, the sources of the information. The CRA also must give you a list of everyone who has requested your report within the past year-two years for employment related requests.

What type of information do credit bureaus collect and sell?

Credit bureaus collect and sell four basic types of information:

Identification and employment information

Your name, birth date, Social Security number, employer, and spouse's name are routinely noted. The CRA also may provide information about your employment history, home ownership, income, and previous address, if a creditor requests this type of information.

Payment history

Your accounts with different creditors are listed, showing how much credit has been extended and whether you've paid on time. Related events, such as referral of an overdue account to a collection agency, may also be noted.

Inquiries

CRAs must maintain a record of all creditors who have asked for your credit history within the past year, and a record of those persons or businesses requesting your credit history for employment purposes for the past two years.

Public record information

Events that are a matter of public record, such as bankruptcies, foreclosures, or tax liens, may appear in your report.



Credit continued

What is credit scoring?

Credit scoring is a system creditors use to help determine whether to give you credit. Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from your credit application and your credit report. Using a statistical program, creditors compare this information to the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points -- a credit score -- helps predict how creditworthy you are, that is, how likely it is that you will repay a loan and make the payments when due.

Because your credit report is an important part of many credit scoring systems, it is very important to make sure it's accurate before you submit a credit application. To get copies of your report, contact the three major credit reporting agencies:

- Equifax: (800) 685-1111
- Experian (formerly TRW): (888) EXPERIAN (397-3742)
- Trans Union: (800) 916-8800

These agencies may charge you up to \$9.00 for your credit report.

Why is credit scoring used?

Credit scoring is based on real data and statistics, so it usually is more reliable than subjective or judgmental methods. It treats all applicants objectively. Judgmental methods typically rely on criteria that are not systematically tested and can vary when applied by different individuals.

How reliable is the credit scoring system?

Credit scoring systems enable creditors to evaluate millions of applicants consistently and impartially on many different characteristics. But to be statistically valid, credit scoring systems must be based on a big enough sample. Remember that these systems generally vary from creditor to creditor.

Although you may think such a system is arbitrary or impersonal, it can help make decisions faster, more accurately, and more impartially than individuals when it is properly designed. And many creditors design their systems so that in marginal cases, applicants whose scores are not high enough to pass easily or are low enough to fail absolutely are referred to a credit manager who decides whether the company or lender will extend credit. This may allow for discussion and negotiation between the credit manager and the consumer.

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Credit continued

What can I do to improve my score?

Credit scoring models are complex and often vary among creditors and for different types of credit. If one factor changes, your score may change -- but improvement generally depends on how that factor relates to other factors considered by the model. Only the creditor can explain what might improve your score under the particular model used to evaluate your credit application.

Nevertheless, scoring models generally evaluate the following types of information in your credit report:

- Have you paid your bills on time? Payment history typically is a significant factor. It is likely that your score will be affected negatively if you have paid bills late, had an account referred to collections, or declared bankruptcy, if that history is reflected on your credit report.
- What is your outstanding debt? Many scoring models evaluate the amount of debt you have compared to your credit limits. If the amount you owe is close to your credit limit that is likely to have a negative effect on your score.
- How long is your credit history? Generally, models consider the length of your credit track record. An insufficient credit history may have an effect on your score, but that can be offset by other factors, such as timely payments and low balances.
- Have you applied for new credit recently? Many scoring models consider whether you have applied for credit recently by looking at "inquiries" on your credit report when you apply for credit. If you have applied for too many new accounts recently, YOUR SCORE MAY BE NEGATIVELY AFFECTED. However, not all inquiries are counted. Inquiries by creditors who are monitoring your account or looking at credit reports to make "prescreened" credit offers are not counted.
- How many and what types of credit accounts do you have? Although it is generally good to have established credit accounts, too many credit card accounts may have a negative effect on your score. In addition, many models consider the type of credit accounts you have. For example, under some scoring models, loans from finance companies may negatively affect your credit score.

Scoring models may be based on more than just information in your credit report. For example, the model may consider information from your credit application as well: your job or occupation, length of employment, or whether you own a home.

To improve your credit score under most models, concentrate on paying your bills on time, paying down outstanding balances, and not taking on new debt. It's likely to take some time to improve your score significantly.



Credit continued

What happens if you are denied credit or don't get the terms you want?

If you are denied credit, the Equal Credit Opportunity Act requires that the creditor give you a notice that tells you the specific reasons your application was rejected or the fact that you have the right to learn the reasons if you ask within 60 days. Indefinite and vague reasons for denial are illegal, so ask the creditor to be specific. Acceptable reasons include: "Your income was low" or "You haven't been employed long enough." Unacceptable reasons include: "You didn't meet our minimum standards" or "You didn't receive enough points on our credit scoring system."

If a creditor says you were denied credit because you are too near your credit limits on your charge cards or you have too many credit card accounts, you may want to reapply after paying down your balances or closing some accounts. Credit scoring systems consider updated information and change over time.

Sometimes you can be denied credit because of information from a credit report. If so, the Fair Credit Reporting Act requires the creditor to give you the name, address and phone number of the credit reporting agency that supplied the information. You should contact that agency to find out what your report said. This information is free if you request it within 60 days of being turned down for credit. The credit reporting agency can tell you what's in your report, but only the creditor can tell you why your application was denied.

If you've been denied credit, or didn't get the rate or credit terms you want, ask the creditor if a credit scoring system was used. If so, ask what characteristics or factors were used in that system, and the best ways to improve your application. If you get credit, ask the creditor whether you are getting the best rate and terms available and, if not, why. If you are not offered the best rate available because of inaccuracies in your credit report, be sure to dispute the inaccurate information in your credit report.



Credit continued

Fair Credit Reporting Act

The Fair Credit Reporting Act (FCRA) is designed to help ensure that CRA's furnish correct and complete information to businesses to use when evaluating your application.

- Your rights under the Fair Credit Reporting Act:
You have the right to receive a copy of your credit report. The copy of your report must contain all of the information in your file at the time of your request.
- You have the right to know the name of anyone who received your credit report in the last year for most purposes or in the last two years for employment purposes.
- Any company that denies your application must supply the name and address of the CRA they contacted, provided the denial was based on information given by the CRA.
- You have the right to a free copy of your credit report when your application is denied because of information supplied by the CRA. Your request must be made within 60 days of receiving your denial notice.
- If you contest the completeness or accuracy of information in your report, you should file a dispute with the CRA and with the company that furnished the information to the CRA. Both the CRA and the furnisher of information are legally obligated to reinvestigate your dispute.
- You have a right to add a summary explanation to your credit report if your dispute is not resolved to your satisfaction.



Foreclosure

What is Foreclosure?

Foreclosure is a situation in which a homeowner is unable to make principal and/or interest payments on his or her mortgage, so the lender (be it a bank or building society) can seize and sell the property as stipulated in the terms of the mortgage contract.

What happens when I miss my mortgage payments?

When you miss your mortgage payments foreclosure can occur. This is the legal means that your lender can use to repossess your home. When this happens, you are required to move out of your house. If your property is worth less than the total amount you owe on your mortgage loan, a deficiency judgment could be pursued.

Both foreclosures and deficiency judgments can affect your ability to qualify for credit in the future. So you should avoid foreclosure if possible.

What should I do to avoid Foreclosure?

If you are having problems making your payments, call or write to your lender's Loss Mitigation Department without postponement. Explain your situation to them. Be prepared to provide them with financial information, such as your monthly income and expenses. Without this information, they may not be able to help. To avoid foreclosure, consider these three rules:

- Rule #1: Contact your lender as soon as you know your payments will be late.
- Rule #2: Never ignore the lender's letters or phone calls. Ignoring the problem won't make it go away.
- Rule #3: Never assume your situation is hopeless.

What are some alternate solutions for long-term problems to avoid Foreclosure?

Mortgage Modification

If you can make your regular payment now, but cannot catch-up the past due amount, the lender might agree to modify your mortgage. One solution is to add the past due amount into your existing loan, financing it over a long term.

Modification might also be possible if you no longer have the ability to make payments at the former level. The lender can modify your mortgage to extend the length of your loan (or take other steps to reduce your payments).



Foreclosure continued

Pre-foreclosure Sale

This will allow you to avoid foreclosure by selling your property for an amount less than the amount necessary to pay off your mortgage loan.

You may qualify if:

- 1) The loan is at least 2 months delinquent;
- 2) You are able to sell your house within 3 to 5 months; and
- 3) A new appraisal (that your lender will obtain) shows that the value of your home meets program guidelines.

Deed in Lieu of Foreclosure

When the lender allows you to give-back your property--and forgives the debt. Although it does have a negative impact on your credit record, it is not as detrimental as foreclosure.

The lender might require that you attempt to sell the house for a specific time period before agreeing to this option, and it might not be possible if there are other liens against the home.

For FHA Loans

The lender might be able to help you receive a one-time payment from the FHA Insurance fund. Your loan must be at least 4 months but no more than 12 months past due and you must show you are able to begin making full mortgage payments.

- You must sign a promissory note which allows HUD to place a lien on your property for the amount received from the fund.
- The note is interest free, but must eventually be repaid.
- The note becomes due when you pay off the loan or when you sell the property.

For VA Loans

VA Regional Loan Centers offer financial counseling that's designed to help you avoid foreclosure. Call us to discuss options for your specific situation.

What are some alternate solutions for temporary problems to avoid Foreclosure?

Reinstatement

Reinstatement might be possible when you are behind in your payments but can promise a lump sum to bring payments current by a specific date.



Foreclosure continued

Forbearance

In forbearance, you are allowed to delay payments for a short period, with the understanding that another option will be used afterwards to bring the account current. Lenders sometimes combine Forbearance with Reinstatement if you know you'll have the funds to bring your account current by a specific date.

A Repayment Plan

If your account is past due, but you can now make payments, the lender might agree to let you catch up by adding a portion of the past due amount to a certain number of monthly payments until your account is current.

Partial Claim

Your lender may be able to work with you to obtain a one-time payment from the FHA-Insurance fund to bring your mortgage current.

You may qualify if:

- 1) Your loan is at least 4 months delinquent but no more than 12 months delinquent;
- 2) You are able to begin making full mortgage payments.

When your lender files a Partial Claim, the U.S. Department of Housing and Urban Development will pay your lender the amount necessary to bring your mortgage current. You must execute a Promissory Note, and a Lien will be placed on your property until the Promissory Note is paid in full.

The Promissory Note is interest-free and is due when you pay off the first mortgage or when you sell the property.

How do I know if I qualify for any of these solutions?

Your lender will determine if you qualify for any of the alternate solutions. A housing counseling agency can also help you determine which, if any, of these options may meet your needs and also assist you in interacting with your lender.



Private Mortgage Insurance

What is PMI?

If you make a down payment of less than 20% of the purchase price of the home, mortgage lenders generally require that you take out Private Mortgage Insurance (PMI). This protects the lender in case you default on your mortgage. You may need to pay up to a year's worth of premium for this coverage at closing, which can amount to as much as several hundred dollars. One way to avoid this extra cost is to make a 20% down payment. There are also other ways to eliminate PMI such as 80-10-10 financing which is further described in this section.

How does PMI work?

PMI companies write insurance protecting approximately the top 20% of the mortgage against default (non-payment). This depends on the lender's and investor's requirements, the loan-to-value ratio, and the particular loan program involved. Should a default occur, then the lender sells the property to liquidate the debt and is reimbursed by the PMI Company for any remaining amount up to the policy value.

What does PMI cost?

Costs vary from insurer to insurer, as well as from plan to plan. For example, a highly leveraged adjustable rate mortgage would require the borrower to pay a higher premium to obtain coverage. Buyers with 5% down payment can expect to pay a premium of approximately 0.78% times the annual loan amount (\$92.67 monthly for a \$150,000 purchase price). But the PMI premium would drop to around 0.52% times the annual loan amount (\$58.50 monthly) if a 10% down payment was made on the loan.

How is PMI paid?

PMI fees can be paid in several ways, depending on the PMI Company used. Borrowers can choose to pay the first-year premium at closing; then an annual renewal premium is collected monthly as part of the house payment. Or the borrower can choose to pay no premium at closing, but add on a slightly higher premium monthly to the principal, interest, tax, and insurance payment. Buyers who want to sidestep paying PMI at closing but not increase their monthly house payment can finance a lump-sum PMI premium into their loan. With this type of payment plan, should the PMI be canceled before the loan term expires (through refinancing, paying off the loan, or removal by the loan servicer), the buyers may obtain the rebate of the premium.



Private Mortgage Insurance continued

How does the buyer apply for PMI?

Although the buyer typically bears the cost of PMI, the lender is the PMI Company's client, and shops for the PMI on behalf of the borrower. Many lenders deal with only a few PMI companies because they know the guidelines for those insurers. This can be a problem when one of the lender's prime companies turns down a loan because the borrower doesn't fit its risk parameters. A short-sighted lender might follow suit and deny approval on the loan application without consulting even a second PMI company. This obviously could leave all the parties involved in an undesirable position.

The lender has an increasingly difficult task to be fair to the borrower while shopping for the most effective method to soften liability. Sometimes, it may appear that a lender has no justification for doing what he or she does – but if we look deeper, it is undoubtedly there. TOO MUCH INFO HERE. DELETE THIS PARAGRAPH AS IT DOES NOT HELP THE BORROWER.

What is 80-10-10 financing?

These days it can be difficult to save enough money to make a 20% cash down payment on your dream home, even if your income is relatively high. Using conventional financing, such buyers must purchase Private Mortgage Insurance (PMI) which increases the cost of home ownership and, ironically, makes it even more difficult to qualify for the mortgage. DELETE THIS SENTENCE However, if you're a dues-paying member of the cash-challenged class, don't despair. Given that your income is sufficiently high, it's possible to avoid getting stuck with PMI. That is why 80-10-10 financing was invented. It is called 80-10-10 because a savings and loan association, bank, or other institutional lender provides a traditional 80% first mortgage, you get a 10% second mortgage, and make a cash down payment equal to 10% of the home's purchase price. By using this method, you are no longer obligated to take out PMI on your property.

The same principle applies if you can only afford to make a 5% down payment. In this case 80-15-5 financing is also available. However, because a smaller cash down payment increases the lender's risk of default, you may be asked to pay higher loan fees and a higher mortgage interest rate for 80-15-5 than you pay for 80-10-10.

Cancellation of PMI

The Homeowners Protection Act of 1998 - which became effective in 1999 - establishes rules for automatic termination and borrower cancellation of PMI on home mortgages. These protections apply to certain home mortgages signed on or after July 29, 1999 for the purchase, initial construction, or refinance of a single-family home. These protections do not apply to government-insured FHA or VA loans or to loans with lender-paid PMI.



Private Mortgage Insurance continued

For home mortgages signed on or after July 29, 1999, your PMI must - with certain exceptions - be terminated automatically when you reach 22 percent equity in your home based on the original property value (provided your mortgage payments are current). Your PMI also can be canceled, when you request - with certain exceptions - when you reach 20 percent equity in your home based on the original property value, if your mortgage payments are current.

One exception is if your loan is "high-risk." Another is if you have not been current on your payments within the year prior to the time for termination or cancellation. A third is if you have other liens on your property. For these loans, your PMI may continue. Ask your lender or mortgage servicer (a company that collects your payments) for more information about these requirements.

If you signed your mortgage before July 29, 1999, you can ask to have the PMI canceled once you exceed 20 percent equity in your home. But federal law does not require your lender or mortgage servicer to cancel the insurance.

History of PMI

Private Mortgage Insurance originated in the 1950s with the first large carrier, Mortgage Guaranty Insurance Corporation (MGIC), referred to as "magic". For this reason, early PMI methods were deemed to "magically" assist in getting lender approval on an otherwise unacceptable loan package. Today, there are eight PMI insurance underwriting companies in the United States.



Private Mortgage Insurance continued

PMI Companies

Amerin Guaranty Corporation
303 East Wacker Drive, Suite 900
Chicago, IL 60601
Tel: 800-257-7643
Fax: 312-540-0564

PMI Mortgage Insurance Company
601 Montgomery Street
San Francisco, CA 94111
Tel: 800-288-1970
Fax: 415-291-6175

Commonwealth Mortgage Assurance Company
1601 Market Street
Philadelphia, PA 19103-2197
Tel: 800-523-1988
Fax: 215-496-0346

Republic Mortgage Insurance Co.
P.O. Box 2514
Winston-Salem, NC 27102-9954
Tel: 800-999-7642
Fax: 919-661-0049

G.E. Capital Mortgage Insurance Corporation
P.O. Box 177800
Raleigh, NC 27615
Tel: 800-334-9270
Fax: 919-846-4260



Private Mortgage Insurance continued

Triad Guaranty Insurance Corp.
P.O. Box 25623
Winston-Salem, NC 27114
Tel: 800-451-4872
Fax: 919-723-0343

Mortgage Guaranty Insurance Corporation
P.O. Box 488
Milwaukee, WI 53201
Tel: 800-558-9900
Fax: 414-347-6802

United Guaranty Corporation
P.O. Box 21567
Greensboro, NC 27420
Tel: 800-334-8966
Fax: 919-230-1946



Refinance

When should I refinance?

It is often said that you should refinance when mortgage rates are 1.5% lower than the rate you currently have on your loan. Refinancing may be a viable option even if the interest rate difference is less than 1.5%. A modest reduction in the loan rate can still trim your monthly payment. For example, the monthly payment (excluding taxes & insurance) would be about \$770 on a \$100,000 loan at 8.5%. If the rate were lowered to 7.5%, the monthly payment would be about \$700, a savings of \$70. The significance of such savings in any scenario will depend on your income, budget, loan amount and the change in interest rate. Your trusted Lendingladies.com Loan Officer can help calculate the different scenarios.

Should I refinance if I plan on moving soon?

Most lenders will charge fees to refinance a loan. If you plan to stay in the property for less than a couple of years, your monthly savings may not get a chance to accumulate and recoup these costs. Let's say a lender charged \$1,000 to refinance your loan, but it resulted in a monthly savings of \$50. It would take 20 months (1,000 divided 50) to recoup the initial costs before you start to realize some savings. Some lenders will charge a slightly higher than average interest rate on refinance loans, but waive all costs associated with the loan. The attractiveness of these loans will depend on the interest rate you are being charged on your current loan. Speaking with your endingladies.com Loan Officer will help clarify this issue.

What are points?

Points are costs that need to be paid to a lender in order to receive mortgage financing under specified terms. A point is a percentage of the loan amount (one point = one percent of the loan). One point on a \$100,000 loan would be \$1,000. Discount points are fees that are used to lower the interest rate on a mortgage loan (you are discounting the interest rate by paying some of this interest up-front). Lenders may express other loan-related fees in terms of points. Some lenders may express their costs in terms of basis points (hundredths of a percent). 100 basis points = 1 point (or 1 percent of the loan amount).

Should I pay points to lower my interest rate?

If you plan on staying in the property for at least a few years, paying discount points to lower the loan's interest rate can be a good way to lower your required monthly loan payment (and possibly increase the loan amount that you can afford to borrow). If you only plan to stay in the property for a year or two, your monthly savings may not be enough to recoup the cost of the discount points that you paid up-front. Ask your Lendingladies.com Loan Officer how long it would take for your monthly savings to recoup the costs of the discount points.



Refinance continued

What does it mean to lock the interest rate?

Due to the nature of interest rate movements, mortgage rates can change dramatically from the day you apply for a mortgage loan to the day you close the transaction. If interest rates rise sharply during the application process, it could make a borrower's mortgage payment larger than he/she previously thought. To protect against this uncertainty, a lender can allow the borrower to 'lock-in' the loan's interest rate, guaranteeing the borrower the prevailing loan rate for a specified period of time (often 30-60 days). A lender may or may not charge a fee for this service.

At Lendingladies.com your Personal Loan Shopper will help you decide when it is the best time to lock your rate. You can also ask them to sign you up for free "Rate Alert" email updates that will inform you when interest rates are at your desired level.

Should I lock-in my loan rate?

No one knows for sure how interest rates will move at any given time, but your lender may be able to give you an estimate of where it thinks mortgage rates are headed. If interest rates are expected to be volatile in the near future, you may want to consider locking your interest rate if rising rates will no longer allow you to qualify for the loan. If your budget can handle a higher loan payment or if the lender's lock fee seems excessive for your means, you might want to consider allowing the interest rate to 'float' until the loan closing.

I've had credit problems in the past. Does this impact my chances of getting a home loan?

Obtaining a home loan is possible even with poor credit. If you have had credit problems in the past, a lender will consider it to be a risk to lend to you. To compensate for this added risk, the lender will charge you a higher interest rate and usually expect you to pay a higher down payment on your home purchase (typically 20-50% down).

I've only been late a couple of times on my credit card bills. Does this mean I will have to pay an extremely high interest rate?

Not necessarily. If you have been late less than three times in the past year, and the payments were no more than 30 days late, you probably have a pretty good chance at getting a home loan at a competitive interest rate. Lenders guidelines will vary, but most lenders will excuse a couple of minor 'late-pays' as long as the borrower can provide a reasonable explanation (i.e. job transition, illness). If the late-pays were 60+ days late and cannot be explained, you may have to settle for a higher interest rate.



Refinance continued

How can I find the best deal?

Remember that financing for a borrower can be structured in several different ways. You can pay higher fees and get a lower interest rate, or you may lock in at a slightly higher interest rate but pay lower fees. In order to make an 'apples to apples' comparison ask your Personal Loan Shopper what the interest rate is for a zero discount point loan (based on a 30 or 60 day lock period). Then ask what the charge is for an origination fee, as well as any other fees typically charged for a loan, (i.e. broker fee, processing fee, appraisal fee). The reputable Loan Professionals at Lendingladies.com will not hesitate in answering these questions for you.



VA Loans

What is a VA Loan?

The VA Loan began in 1944 through the original Servicemen's Readjustment Act, also known as the GI Bill of Rights. The GI Bill was signed into law by President Franklin D. Roosevelt and provided veterans with a federally guaranteed home with no down payment. This feature was designed to provide housing and assistance for veterans and their families, and the dream of home ownership became a reality for millions of veterans. VA guaranteed loans are made by private lenders, such as banks, savings & loans, or mortgage companies to eligible veterans for the purchase of a home, which must be for their own personal occupancy. The guaranty means the lender is protected against loss if you or a later owner fails to repay the loan. The guaranty replaces the protection the lender normally receives by requiring a down payment allowing you to obtain favorable financing terms.

Who is eligible for a VA Loan?

Wartime/Conflict Veterans

Wartime/Conflict Veterans who were not dishonorably discharged and served at least 90 days in any of the following:

- World War II - September 16, 1940 to July 25, 1947
- Korean Conflict - June 27, 1950 to January 31, 1955
- Vietnam Era - August 5, 1964 to May 7, 1975
- Persian Gulf War - Check with VA regional office for specific eligibility
- Afghanistan and Iraq - Check the VA's Web site for eligibility guidelines for current service in Afghanistan and Iraq

Peacetime Service

Peacetime Veterans who were not dishonorably discharged and served at 181 days of continuous active duty. If you were discharged earlier due to a service-connected disability, you should speak with the regional VA office to verify eligibility.

- July 26, 1947 to June 26, 1950
- February 1, 1955 to August 4, 1964
- May 8, 1975 to September 7, 1980 (enlisted) or to October 16, 1981 (officer)
- Enlisted veterans whose service began after September 7, 1980, or officers whose service began after October 16, 1981, must normally have served at least two years.

Reserves and National Guard

Members who have completed six years of service and have been honorably discharged (or are still serving) may be eligible for a VA loan. Contact your regional VA office for more details.

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VA Loans continued

Other Qualifying Service

Other types of service that may make you eligible for a VA loan:

- Certain US citizens who served in the armed forces of a government allied with the United States during World War II
- Surviving spouses of eligible persons who died as the result of service or service-connected injuries. The surviving spouse must not have remarried
- The spouse of any member of the Armed Forces serving on active duty who has been listed as a prisoner of war or missing in action for more than 90 days

What type of home can I buy with a VA loan?

A VA home loan must be used to finance your personal residence within the United States or its territories, but you have many choices regarding the type of home you purchase.

- Existing single family home
- Townhouse or condo in a VA-approved project
- New construction residence
- A manufactured home and/or lot
- Home refinances. Certain types of home improvements

How do I apply for a VA guaranteed loan?

You can apply for a VA loan with any mortgage lender that participates in the VA home loan program. At some point, you will need to get a Certificate of Eligibility from VA to prove to the lender that you are eligible for a VA loan. You can apply for a Certificate of Eligibility by submitting a completed VA Form 26-1880, Request For A Certificate of Eligibility For Home Loan Benefits, to one of the VA Eligibility Centers, along with proof of military service. In some cases it may be possible for VA to establish eligibility without your proof of service. However, to avoid any possible delays, it's best to provide such evidence.



VA Loans continued

I have already obtained one VA loan. Can I get another one?

Yes, your eligibility is reusable depending on the circumstances. Normally, if you have paid off your prior VA loan and disposed of the property, you can have your eligibility restored for additional use. Also, on a one-time only basis, you may have your eligibility restored if your prior VA loan has been paid in full but you still own the property. In either case, to obtain restoration of eligibility, the veteran must send VA a completed VA Form 26-1880 to one of the VA Eligibility Centers. To prevent delays in processing, it is also advisable to include evidence that the prior loan has been paid in full and, if applicable, the property disposed of. This evidence can be in the form of a paid-in-full statement from the former lender, or a copy of the HUD-1 settlement statement completed in connection with a sale of the property or refinance of the prior loan.

What are the benefits of obtaining a VA Loan?

- 100% financing, no down payment loans are common
- No Private Mortgage Insurance (PMI)
- No penalties if you prepay the loan
- Competitive interest rates
- Loan qualification is sometimes easier than if you were applying for a conventional loan
- Sellers can pay all closing costs

What are the drawbacks of obtaining a VA Loan?

• VA loans made prior to March 1, 1988, can be assumed with no qualifying of the new buyer. If a buyer of such a property defaults, the veteran homeowner may be liable for funds.

- Some sellers may be hesitant to work with someone who is acquiring a VA loan because of their past reputation of taking longer to process than conventional loans. While the time may still be a little longer, getting a VA loan is not the lengthy ordeal it once was.
- Sellers are often asked to pay a portion of closing costs, so they may not be eager to negotiate the sales price of the home.



Glossary of Terms

1003 Uniform Residential Loan Application.

A & D LOAN Acquisition and development loan- a loan for the purchase of raw land for the purpose development.

Abstract Title A written history of the ownership of a parcel of land.

Acceleration Clause Allows the lender to speed up the rate at which your loan comes due or even to demand immediate payment of the entire outstanding balance of the loan should your default on you loan.

Acknowledgment A declaration by a notary, certifying, by way of personal knowledge or written identification, the identity of the signer.

Adjustable Rate Mortgage Is a mortgage in which the interest rate is adjusted periodically based on a pre-selected index. Also sometimes known as the renegotiable rate mortgage, the variable rate mortgage or the Canadian rollover mortgage. (ARM)

Adjustment Interval On an adjustable rate mortgage, the time between changes in the interest rate and/or monthly payment, typically one, three or five years, depending on the index.

Affidavit A sworn statement in writing.

ALTA American Land Title Association An organization of title companies specializing in Real Property Law which has standardized forms and coverage on a national basis. This is standardized coverage.

Amortized / Amortization Amortization refers to the principal portion of the loan payment and is the loan payment by equal periodic payments calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance. A fully amortized loan will be completely paid off at the end of the loan term.

Annual Percentage Rate An interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account points and other credit costs. The APR allows homebuyers to compare different types of mortgages based on the annual cost for each loan. (APR)



Glossary of Terms continued

Appraisal An estimate of the value of real property, made by a qualified professional called an "appraiser." An appraisal will be needed to determine the value of your property.

APR Annual Percentage Rate A form of disclosure on the truth and lending form that explains the interest rate after factoring in the cost of obtaining the loan. It is a measure of the cost of credit, expressed as a yearly rate.

ARM Adjustable Rate Mortgage A mortgage loan where the interest rate is not fixed for the entire term of the loan, but changes during the life of the loan in line with movements in an index rate.

Assumption The agreement between buyer and seller where the buyer takes over the payments on an existing mortgage from the seller. This must be approved by the lender and be allowed by the note, which was originally signed by the seller.

Back End This refers to the debt-to-income ratio calculated using principal, interest, taxes, insurance and consumer credit obligations divided by gross monthly income. It is expressed as a percentage.

Balloon Usually a short-term fixed-rate loan which involves small payments for a certain period of time and one large payment for the remaining amount of the principal at a time specified in the contract.

Beneficiary The entity funding the loan. This is the entity to which the loan is owed.

BK / Bankruptcy A reorganization or discharge of debts. Could also be referred to as Chapter 7, 11 or 13.

Broker An individual in the business of assisting in arranging funding or negotiating contracts for a client but who does not loan the money himself. Brokers usually charge a fee or receive a commission for their services.

Buy Down When the lender and/or the home builder subsidizes the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they will increase when the subsidy expires.



Glossary of Terms continued

Cap The highest rate that an adjustable rate mortgage may reach. It can be expressed as the actual rate or as the amount of change allowed above the start rate. For example, a 7.99 % start rate with a 6% rate change cap would have a maximum interest rate cap of 13.99%.

Cash Out Any funds disbursed directly to the borrower.

Certificate of Occupancy A certificate issued by local city government to a builder, stating that the building is in proper condition to be occupied.

Certified Copy A true copy, attested to be true by the officer holding the original. It should have a stamp and signature stating that it is a true copy.

Clear-to-close Loan is ready to be closed with no additional conditions.

Closing The meeting between the buyer, seller and lender or their agents where the property and funds legally change hands. Also called settlement.

Closing Costs Usually include an origination fee, discount points, appraisal fee, title search and insurance, survey, taxes, deed recording fee, credit report charge and other costs assessed at settlement. The costs of closing usually are about 3 percent to 6 percent of the total mortgage amount. Or any costs being charged to facilitate granting of the credit request.

Commitment An agreement, often in writing, between a lender and a borrower to loan money at a future date subject to the completion of paperwork or compliance with stated conditions.

Community Property Property owned in common by a husband and wife, which was not acquired as separate property. A classification of property peculiar to certain states. In community property states, assets may be owned in part by a spouse even if their name does not appear on the title.

Comp. / Comparable A property with the same basic characteristics as the property you are attempting to find the value of (usually a real estate appraisal.) It should have been sold recently and be as similar as possible.

Condominium A property owned as a group, with rights to occupy specific units of the structure. An overseeing board, often referred to as a Homeowners Association, governs the property.

Construction Loan A short term interim loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as the work progresses.

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Glossary of Terms continued

Consumer Credit Credit owed by the individual, not secured by real estate.

Conventional Loan A mortgage not insured by FHA or guarantee by the VA or Farmers Home Administration (FMHA).

Conversion Clause A provision in some ARMS, (Adjustable Rate Mortgage) that allows you to change the ARM to a fixed-rate loan at some point during the loan term.

Credit Ratio The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her net effective income (FHA/VA loans) or gross monthly income (Conventional loans).

Credit Report History of buyers past credit performance.

Credit Score The score given to an individual to determine the credit worthiness. These scores come from TRW, Equifax and Trans Union.

D.R. / Debt Ratio The customer's monthly obligations divided by their monthly gross income. See also Back End.

Deed Legal document which conveys the title to a property.

Deed of Trust A document used which pledges real property to secure a debt. In some cases a deed of trust can replace a mortgage.

Default Failure to meet legal obligations in a contract, specifically, failure to make the monthly payments on a mortgage.

Deferred Interest See Negative Amortization

Delinquency Failure to make payments on time. This can lead to foreclosure.

Department of Veterans Affairs An independent agency of the federal government which guarantees long-term, low- or no-down payment mortgages to eligible veterans. (VA)

Derog Letter A letter written by the borrower giving an explanation for any derogatory credit.

Derog This is short for derogatory and refers to negative credit items.



Glossary of Terms continued

Discharge Following a completed bankruptcy proceeding, discharged debts are no longer owed or collectable. We will require copies of the discharge papers on any prior bankruptcy filings.

Discount Points Prepaid interest assessed at closing by the lender. Each point is equal to 1 percent of the loan amount (e.g. two points on a \$100,000 mortgage would cost \$2,000).

Dismissal If a bankruptcy is dropped without being completed, a Bankruptcy Dismissal document will be needed to proceed with the loan. Either the court or the debtor can prompt the dismissal.

Down Payment Money paid to make up the difference between the purchase price and mortgage amount. Down payments usually are 10 percent to 20 percent of the sales price on Conventional loans, and no money down up to 5 percent on FHA and VA loans.

Due-On-Sale Clause A provision in a mortgage or deed of trust that allows the lender to demand immediate payment of the balance of the mortgage if the mortgage holder sells the home.

Earnest Money Money given by a buyer to a seller as part of the purchase price to bind a transaction or assure payment.

Easements An interest in property, owned by another that entitles the holder to a specific limited use or privilege, such as the right to cross or to build adjoining structures on the property.

Encroachment A fixture of a piece of property which intrudes on another's property.

Equal Credit Opportunity Act Is 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. (ECOA)

Equity The difference between the fair market value and current indebtedness, also referred to as the owner's interest.

Escrow Instructions Instructions to the escrow agent giving the parameters and contingencies involved in the transaction and agreed upon by both parties.

Escrow Waiver The Request for a borrower to pay their own taxes and insurance. Escrow wavers are rarely granted with less than a 25% equity position (<75 LTV).



Glossary of Terms continued

Escrow Refers to a neutral third party who carries out the instructions of both the buyer and seller to handle all the paperwork of settlement or "closing." Escrow may also refer to an account held by the lender into which the homebuyer pays money for tax or insurance payments.

Fannie Mae See Federal National Mortgage Association.

Farmers Home Administration Provides financing to farmers and other qualified borrowers who are unable to obtain loans elsewhere. (FMHA)

Federal Home Loan Mortgage Corporation Also called Freddie Mac, is a quasi-governmental agency that purchases conventional mortgages from insured depository institutions and HUD-approved mortgage bankers. (FHLMC)

Federal Housing Administration A division of the Department of Housing and Urban Development. Its main activity is the insuring of residential mortgage loans made by private lenders. FHA also sets standard for underwriting mortgages. (FHA)

Federal National Mortgage Association Also known as Fannie Mae. A tax-paying corporation created by Congress that purchases and sells conventional residential mortgages as well as those insured by FHA or guaranteed by VA. This institution, which provides funds for one in seven mortgages, makes mortgage money more available and more affordable. (FNMA)

Fee Simple The most common form of ownership where the vestee owns both the land and the structures.

FHA See FEDERAL HOUSING ADMINISTRATION

FHA Loan A loan insured by the Federal Housing Administration open to all qualified home purchasers. While there are limits to the size of FHA loans, they are generous enough to handle moderate-priced homes almost anywhere in the country.

FHA Mortgage Insurance Requires a small fee (up to 3 percent of the loan amount) paid at closing or a portion of this fee added to each monthly payment of an FHA loan to insure the loan with FHA. On a 9.5 percent \$75,000 30-year fixed-rate FHA loan, this fee would amount to either \$2,250 at closing or an extra \$31 a month for the life of the loan. In addition, FHA mortgage insurance requires an annual fee of 0.5 percent of the current loan amount, the more years the fee must be paid.

FHLMC (FREDDIE-MAC) Federal Home Loan Mortgage Corporation.



Glossary of Terms continued

Fixed-Rate Mortgage A mortgage on which the interest rate is set for the term of the loan.

Flood Insurance A mandatory insurance for some homeowners whose property is built in a designated flood zone.

FNMA - (FANNIE-MAE) Federal National Mortgage Association.

Foreclosure A legal procedure in which property securing debt is sold by the lender to pay a defaulting borrower's debt.

Free and Clear This means the property is completely paid for and has no liens attached.

Functional Obsolescence A detraction from the property value due to the design or material being less functional than the norm.

GFE Good Faith Estimate of Buyers Loan Charges.

Ginnie Mae See Government National Mortgage Association.

Government National Mortgage Association (GNMA) Also known as Ginnie Mae, provides sources of funds for residential mortgages, insured or guaranteed by FHA or VA.

Graduated Payment Mortgage (GPM) A type of flexible-payment mortgage where the payments increase for a specified period of time and then level off. This type of mortgage has negative amortization built into it.

Grant Deed A Grant Deed is the most common form of title transfer deed. A Grant Deed contains warranties against prior conveyances or encumbrances.

Gross Monthly Income The total amount the borrower earns per month, before any expenses are deducted.

Guarantee A promise by one party to pay a debt or perform an obligation contracted by another if the original party fails to pay or perform according to a contract.

Hazard Insurance A form of insurance in which the insurance company protects the insured from specified losses, such as fire, windstorm and the like, it would not cover earthquake, riot, or flood damage.



Glossary of Terms continued

Homestead The dwelling (house and contiguous land) of the head of the family. Some states grant statutory exemptions, protecting homestead property (usually to a set maximum amount) against the rights of the creditors. Property tax exemptions are also available in some states.

Housing Expenses-to-Income Ratio The ratio, expressed as a percentage, which results when a borrower's housing expenses are divided by his/her net effective income (FHA/VA loans) or gross monthly income (Conventional loans).

Impound That portion of a borrower's monthly payments held by the lender or servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Also known as reserves.

Index A published interest rate against which lenders measure the difference between the current interest rate on an adjustable rate mortgage and that earned by other investments (such as one-, three-, and five-year U.S. Treasury Security yields, the monthly average interest rate on loans closed by savings and loan institutions, and the monthly average Costs-of-Funds incurred by savings and loans), which is then used to adjust the interest rate on an adjustable mortgage up or down.

Interest Bearing A form of interest calculation where the loan is charged at a daily or monthly rate (1/365 or 1/12 of the annual interest rate) on the current outstanding balance.

Investor Money source for a lender.

Joint Tenants A form of holding title where the owners have 100% rights of survivorship unless redirected by a will.

Jumbo Loan A loan which is larger (more than \$300,700) than the limits set by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate.

Land Contract An agreement between the seller and the buyer where the title is withheld until a time where the required payments have been completed.

Leasehold Estate A kind of real estate ownership where the lessor does not hold title to the property but has use of the property subject to the terms of the lease.



Glossary of Terms continued

Legal Description A method of geographically locating a piece or parcel of land, which is acceptable in a court of law.

LIBOR London InterBank Offered Rate. LIBOR is the base interest rate paid on deposits between banks in the Eurodollar market.

Lien A claim upon a piece of property for the payment or satisfaction of a debt or obligation.

Loan Committee Generally the Underwriting process.

Loan Risk The rate category assigned to the loan, which estimates the probable risk of delinquency and loss in the future.

Loan-To-Value Ratio The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage. (LTV)

Margin The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Market Value The highest price that a buyer would pay and the lowest price a seller would accept on a property. Market value may be different from the price a property could actually be sold for at a given time.

Mortgage Escrow Accounts The account set by the Lender to pay Taxes and Insurance on behalf of the Borrower.

Mortgage Insurance Money paid to insure the mortgage when the down payment is less than 20 percent. See Private Mortgage Insurance or FHA Mortgage Insurance.

Mortgagee The lender.

Mortgagor The borrower or homeowner.

Negative Amortization Amortization means that monthly payments are large enough to pay the interest and reduce the principal on a mortgage. Negative amortization occurs when the monthly payments do not cover all of the interest cost. The interest cost that isn't covered is added to the unpaid principal balance. This means that even after making many payments, a borrower may owe more than was owed at the beginning of the loan.

Net Effective Income The borrower's gross income minus federal income tax.



Glossary of Terms continued

Non-Assumption Clause Statements in the mortgage contract forbidding the assumption of the mortgage without the prior approval of the lender.

Non-Owner Occupied A property not used as a residence by the owner of the property.

Notary Public A person, designated by the state, which can certify the identity of a person when signing various documents.

Note Short for promissory note. This document gives the parameters of the loan and legally obligates the borrower to pay back the debt.

Obligations Any debt, or recurring payment the borrower is obligated to pay, including mortgage payments.

Origination Fee The fee charged by a lender to prepare loan documents, make credit checks, inspect and sometimes appraise a property; usually computed as a percentage of face value of the loan.

Owner Occupied Designation given to property used as the owner's residence.

Owners Policy A policy of the title insurance which protects the buyer against problems with the title.

P & I Principal and Interest. This refers to the principal and interest portions of the monthly mortgage payment.

P & L / Profit and Loss A statement of a businesses gross income, cost of goods, operating costs and net profit or loss.

P.I.T.I. Principal, interest, taxes and insurance. The complete monthly cost associated with financing a property.

P.U.D. Planned Unit Development. Property owned as a group, where individuals own the specific piece of land and structure they occupy, but also have a divided interest in a common area. A board, often referred to as a Homeowners Association, will govern the development.

Piggy Back Loan Financing obtained, subordinate to the first mortgage, to facilitate closing the first mortgage. Also known as a Secondary Financing.

PMI Private Mortgage Insurance A way for lenders and the buyers to insure their exposure on the loan to no less than 20% equity in a property.



Glossary of Terms continued

Points A point is equal to one percent of the principal amount of a mortgage, see also Discount Points.

Power of Attorney An authority by which one person enables another to act on his or her behalf. Power of attorney can be limited to specific areas or be general in some cases.

PRE-Approval The Buyer has actually begun the application process and an underwriter has approved their income, funds and credit. Beware of any conditions on the approval.

Prelim. / Preliminary Title Report The title report generated at the beginning of the application process. It tells the mortgage company what liens are on the property and gives advice as to what will need to be done to gain clear title prior to recording the trust deed.

Prepaid Interest Charge The portion of interest, collected at loan closing, which covers the time period between funding and the beginning of the first 30-day period covered by the first payment. For example, if the loan closed on 2/15, the first payment due on 4/1 would pay interest from 3/1 to 4/1. The prepaid interest would cover the period from 2/15 to 2/28.

Prepays Expenses necessary to create an escrow account or to adjust the seller's existing escrow account. Can include taxes, hazard insurance, private mortgage insurance and special assessments.

Prepayment Penalty Money charged for an early repayment of debt. Prepayment penalties are allowed in some form (but not necessarily imposed) in 36 states and the District of Columbia.

Prepayment A privilege in a mortgage permitting the borrower to make payments in advance of their due date.

PRE-Qualified Buyer has discussed their financial situation with a loan expert. No attempt has been made to verify the validity of any of the borrower's information. PRE-Qualification is only an indication of what the buyer should qualify for.

Principal The amount of debt, not counting interest, left on a loan.



Glossary of Terms continued

Private Mortgage Insurance In the event that you do not have a 20 percent down payments, lenders will allow a smaller down payment-as low as 5 percent in some cases. With the smaller down payments loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance will require an initial premium payment of 1.0 percent to 5.0 percent of your mortgage amount and may require an additional monthly fee depending on your loan's structure. On a \$75,000 house with a 10 percent down payment, this would mean either an initial premium payment of \$2,025 to \$3,375, or an initial premium of \$675 to \$1,130 combined with a monthly payment of \$25 to \$30. (PMI)

Purchase Agreement The agreement made between the buyer and seller of a property, containing the purchase price and contingencies of the sale.

Quit Claim A deed operating as a release; intended to pass any title, interest or claim, which the grantor may have in the property, but not containing any warranty of a valid interest or title in the grantor.

Rate Float Assuming market risk on an interest rate in the hopes that it will go lower prior to closing.

Rate Lock Choosing to have no change to a rate for a specific length of time.

Ratios How a buyers housing expense and debt picture relates to their income.

Real Estate Settlement Procedures Act (RESPA) RESPA is a federal law that allows consumers to review information on known or estimated settlement costs once after application and once prior to or at settlement. The law requires lenders to furnish information after application only.

Realtor A real estate broker or an associate holding active membership in a local real state board affiliated with the National Association of Realtors.

Rescission The cancellation of a contract. With respect to mortgage refinancing, the law that gives the homeowner three days to cancel a contract in some cases once it is signed if the transaction uses equity in the home as security.

Recon / Reconveyance A release of lien filed with the county recorder by the trustee.

Recording Fees Money paid to the lender for recording a home sale with the local authorities, thereby making it part of the public records.

REFI Slang for refinance, or a new mortgage on a property that does not change ownership.



Glossary of Terms continued

Request for Reconveyance Verification given by the beneficiary to the trustee that the conditions of the lien have been fulfilled and request that the lien be canceled.

Reverse Annuity Mortgage (RAM) A form of mortgage in which the lender makes periodic payments to the borrower using the borrower's equity in the home as security.

S.I. / Statement of Information The form the customer fills out for the title company giving further identification of the customer. This allows the title company to eliminate debts and liens owed by people with similar names.

Second Mortgage A mortgage which is entered after the primary loan. Called a second due to it being the second lien position to the first mortgage. See also Secondary Financing.

Secondary Financing Financing obtained, subordinate to the first mortgage, to facilitate closing the first mortgage. Also known as a "piggyback" loan.

Servicing All the steps and operations a lender perform to keep a loan in good standing, such as collection of payments, payment of taxes, insurance, property inspections and the like.

Settlement Costs See Closing Costs.

Settlement See Closing.

Shared Appreciation Mortgage (SAM) A mortgage in which a borrower receives a below-market interest rate in return for which a lender (or another investor such as a family member or other partner) receives a portion of the future appreciation in the value of the property. May also apply to mortgages where the borrower shares the monthly principal and interest payments with another party in exchange for a part of the appreciation.

Submission This refers to a complete loan application package submitted for approval to the underwriting department.

Subordination Agreement The agreement detailing the contingencies of subordination, filed with the county recorder. If a lien holder agrees to accept a lien position after that of a later recorded lien.

Substitution of Trustee A document, filed by the beneficiary, which changes the trustee on a particular trust deed.

Surety Bond A bond which ensures against harm to a party (usually the lender or owner) by a lien still attached to the property. This is usually used when the original deed was lost or the beneficiary cannot be located.

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Glossary of Terms continued

Survey A measurement of land prepared by a registered land surveyor showing the location of the land with reference to known points, its dimensions, and the location and dimensions of any building.

Suspended The underwriter cannot yet approve or deny the loan. More information is required.

Tenants in Common A percentage interest in a property by two or more individuals without rights of survivorship.

Term Mortgage See Balloon Payment Mortgage.

Title Insurance The insurance policy insuring the lender and/or the buyer that the liens are as stated in the title report. Any claim arising from a lien other than that disclosed is payable by the title insurance company.

Title Search An examination of municipal records to determine the legal ownership of property. Usually is performed by a title company.

Title A document that gives evidence of an individual's ownership of property.

Trust Deed The Trust Deed attaches the note as a lien on the property. This is the document which conveys the ability to collect from the proceeds of the property.

Truth-in-Lending A federal law requiring disclosure of the Annual Percentage Rate to homebuyers shortly after they apply for the loan. Also known as a TIL

Two-Step Mortgage A mortgage in which the borrower receives a below-market interest rate for a specified number of years (most often seven or 10 years), and then receives a new interest rate adjusted (within certain limits) to market conditions at that time. The lender sometimes has the option to call the loan, due within 30 days notice at the end of seven or 10 years. Also called "Super Seven" or "Premier" mortgage.

Underwriting The decision whether to make a loan to a potential homebuyers based on credit, employment, assets, and other factors and the matching of this risk to an appropriate rate and term or loan amount.

VA VETERANS ADMINISTRATION

VA Loan A long-term, low-or no-down payment loan guaranteed by the Department of Veterans Affairs. Restricted to individuals qualified by military service or other entitlements.

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Glossary of Terms continued

VA Mortgage Funding Fee A premium of up to 2 percent (depending on the size of the down payment) paid on a VA-backed loan. On a \$75,000 30-year fixed-rate mortgage with no down payment, this would amount to \$1,406 either paid at closing or added to the amount financed.

Variable Rate Mortgage (VRM) See Adjustable Rate Mortgage.

Verification of Deposit (VOD) A document signed by the borrower's financial institution verifying the status and balance of his/her financial accounts.

Verification of Employment (VOE) A document signed by the borrower's employer verifying his/her position and salary.

Wraparound Results when an existing assumable loan is combined with a new loan, resulting in an interest rate somewhere between the old rate and the current market rate. The payments are made to a second lender or the previous homeowner, who then forwards the payments to the first lender after taking the additional amount off the top.

Zoning The division of a city or county by legislative regulations into areas (zones) specifying the uses allowable for the real property in these areas.