MOREIRA TEAM MORTGAGE'S

SIMPLE STEPS TO BUYING YOUR FIRST HOME

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When you feel those brand new house keys in your hand and hear that little soft jingle in your pocket after buying your home, you will feel like a brand new person with a renewed passion for life. There are few joys in life that come as close, and there are some very good reasons why you should feel so good. Buying a home gives you access to wealth by building equity when you make your mortgage payments, while having something tangible that you own to show for it, and is the gateway to a multitude of tax breaks.

The Best Thing Since Sliced Bread…Almost

As you make your monthly payment and begin living your new life, you slowly begin to accrue something called home equity – simply by making your payment. Equity is the difference between what you owe on your home and the market value. Building equity means that as you pay your mortgage, the principal amount (the total amount you borrowed) of the loan decreases and the home value could go up. Many people have been able to retire and live a comfortable life as millionaires because their home built up so much equity over the course of their lives. And as a result, they then sold their home, took the money and launched their own successful business. However, before you begin seeing dollar signs, I must also warn you that sometimes the home values decrease for any number of reasons. But don't worry about that too much because according to the National Association of Realtors, home prices have increased an average of 6.5% each year for the last fifteen years.

Goodbye Landlord…Hello Home!

I am convinced there is no better feeling in the world than telling your landlord that you are moving into your new house next month so he or she will not be able to fund their retirement plan with your hard-earned dollars. This feeling alone is truly priceless.

One of the many joys of homeownership is that each and every month you actually get to touch, feel, see and smell your home. This means that you can actually track where your money is going and it forces you to save money each month by paying your mortgage payment and building equity.
This is a forced savings plan which provides a roof over your head.

The first several months of waking up in your new home will flood your mind with a flurry of emotions. The thought most often shared by new homeowners is the overwhelming feeling of, "Is this is all mine?"

Knowing Your Cash Flow & Expenses Before Buying a Home

Figuring out how much you can afford can be really simple. However, if you do not have the right instructions to follow, then figuring out how much you can afford can be as complicated as debating who has the best tasting slice of pizza in town. In this chapter I'm going to review how you can calculate how much you can realistically afford, but more importantly, I will show you how to calculate how much a mortgage lender will approve you for in a three-step system consisting of:

1. Calculating how much you can comfortably afford each month, including ALL of your monthly debt payments.
2. Calculating your maximum monthly mortgage payment from a lender's perspective.
3. Coming up with a maximum purchase amount.

The first step in knowing how much you can afford is to know your current money flow for your household. So that requires you to take a snapshot using the good old handy-dandy expense budget. Now before you do this necessary step, I want you to know that you may very well be surprised by how much you are currently spending each month on nonessentials; but then again, that is why you are doing this now and not later.

There are two ways to use this housing budget and both ways are valid methods of figuring out your monthly cash flow. The first method is to examine your previous full month of income and expenses and use those to fill out the budget. This method is simple if you do most of your banking online and pay your bills with your debit card or electronically from your account.

The second method is to start from today and track your spending for a full thirty-day cycle. This method is most useful when you operate your household on a cash payment basis, or do not have a clue what each specific payment is on your bank statement, meaning you primarily pay everything with cash.

Housing Cash Flow Sheet	
Item	**Monthly Income**
Income *(after taxes are taken out)*	
Salary/wages/tips *(you)*	
Salary/wages/tips *(spouse)*	
Alimony	
Child support	
Pension or other retirement	
Rental income *(net)*	
Interest or dividends	
Other income _______________	
Other income _______________	
Total Income:	$ 0.00

Expenses	**Monthly Payments**
Charity	
Clothing	
Credit card payments	
Education	
Entertainment	
Food *(groceries and meals out)*	
Gifts	
Automobile payment(s)	
Utilities *(electric, gas, etc.)*	
Home telephone, cable, cellular	
Insurance – auto	
Insurance – disability *(if not with employer)*	
Insurance – life *(if not with employer)*	
Insurance – long-term care *(if not with employer)*	
Insurance – other	
Prescription medicine	
Contribution to savings – “rainy day fund”	
Misc. money spent	
Subscriptions/dues	
Transportation – gas, oil	
Transportation – maintenance	
Transportation – public, tolls, etc.	
Miscellaneous household expenses	
Other expenses _______________	
Total Monthly Expenses *(without rent payment)*	$ 0.00
Total Monthly Income	$ 0.00
Total Income minus Total Expenses	$ 0.00

Use the interactive form to help calculate your cash flow and get a better idea of how much you can afford to spend on your home.

Fill out all applicable fields and the values will be calculated autmmatically.

Once you finish your Housing Cash Flow Sheet, then you will know your maximum amount for your monthly mortgage payment. The number that you are left with at the bottom of your Housing Cash Flow Sheet is the MAXIMUM monthly payment you can afford each month. Completing this worksheet allows you to know the true amount you can afford each month regardless of how much a lender will approve you for a purchase price.

This step is very important because at the end of the day YOU are the one paying the mortgage payment. YOU are the one working the extra hours to pay bills. So YOU should be the only one to determine what YOU truly can afford. There is no reason why you should become the next CNN News special because you became one of the thousands of homeowners who fell into foreclosure six months after buying a new home.

How Much Can You Afford?

Russell and Liz have a combined total after-tax income of $4,400 per month and total expenses of $2,600. That leaves them with $1,800 per month after expenses and savings. Therefore they can afford to comfortably spend $1,800 on their total housing payment. That payment includes (P)rincipal, (I)nterest, (T)ax and (I)nsurance, also known as PITI. They were able to purchase a condo for $200,000 with five percent down and payments came in under $1,800 per month.

In Mortgageville, PITI stands for Principal, Interest, Taxes and Insurance, and is pronounced the same as pity. Here is what it technically means:

(P)rincipal – The amount you borrow and still owe after making monthly payments.

(I)nterest – The percentage you are paying the lender on the money you borrowed.

(T)axes – The property taxes on the house you buy as determined by the city, town or county.

(I)nsurance – The home insurance you pay each month.

When you add them all up, you come up with the acronym called PITI. There are two very strong words of caution for first time homebuyers when it to understanding how PITI affects you. The first is that PITI is always more than what you expect it to be when estimating your numbers alone at home in front of the computer. The only time these numbers are really clear are after you find a home and sign a purchase and sales contract. The second word of caution is for co-op or condo buyers. If that describes you, then you will have to add in additional association fees, and possibly an additional insurance payment to the equation as well.

When you are doing your calculation at home, you cannot possibly have an idea of what taxes and insurance might be. But don't feel too bad, because as soon as you find a home you will be able to calculate the final numbers. Mortgage lenders are also in the same boat as you when they are first approving you for a maximum purchase amount. They simply estimate what you will need based on their previous experiences.

Maxing Out – The Debt to Income Ceiling of 36/45

Lenders usually require that your PITI payment should not be more than 36% of your gross monthly income. That is called your front-end DTI ratio. Your overall debt payments each month should not be more than 45% of your overall monthly gross income, which is called your back-end debt ratio.

Now in regular everyday English that simply means you should have the majority of your income remaining after paying your bills and taxes. However, all you have to do is turn on the television to see that somewhere along the line lenders began to get this very simple concept confused.

Do the Math

We will look at a real life example to bring this concept to life.

> Your monthly income is $4,000
> Gross monthly income x .36 = $1,440
> Gross monthly income x .45 = $1,800

This simple equation means that your PITI payment cannot be more than $1,440 per month, and once you add in all of your other bills you cannot be paying out more than $1,800. Now keep in mind that lenders use these guidelines for an estimate of what they will and will not do, but over the years I have seen many hundreds of exceptions to this rule. So, if you should find yourself outside of these guidelines by a couple of percentage points, you just might still qualify for your dream purchase price. Just check with your mortgage professional.

When a lender is crunching the numbers to come up with your maximum purchase amount there are two quick and easy formulas that are used. The primary goal of both formulas is to figure out your debt to income ratio (DTI). Your debt to income means how much income you make each month compared to how much you spend each month on your bills.

The first thing DTI ratio lenders want to know is your front-end DTI ratio. The front-end DTI calculates your maximum monthly PITI payment without your other monthly bills being taken into account. The highest percentage lenders will usually allow for your PITI payment is 36%. This means that your PITI payment can only be 36% of your total income. For example, if you make $1,000 in income per month then your maximum PITI payment would be $360.
($1,000 x 36% = $360)

The second DTI ratio is known as your back-end debt ratio. Lenders use it to compute your maximum monthly debts payment, including your PITI payment and all other debts that are reporting on your credit reports. The highest percentage which lenders usually allow for your back-end DTI is 45%. Therefore if you make $1,000 per month, then the most lenders want to see used to pay bills, including your PITI payment, is $450.

Comparing Your Housing Cash Flow To A Lenders Ratios

Over the years there have been many time when I have seen mortgage lenders approve buyers for larger mortgages than they can actually afford. And no, I'm not talking about the "liar loans" which allowed loan officers to lie about a buyer's income. I'm talking about legitimate applications when mortgage lenders review your previous years W2's, current paystubs and current credit report, and STILL overestimate how much you can afford. This happens because a mortgage lender does not know your actual household expenses like you do. That is why it is important to complete your Household Cash Flow Sheet BEFORE you get preapproved or prequalified for a mortgage. You will know pretty much down to the dollar how much you can actually afford each month, regardless of a mortgage lender's approval.

As you are reviewing the lenders ratios be sure to keep in mind that at the end of the day you will be the one making the mortgage payment. Therefore, you will need to be the final authority on how much of a mortgage you will personally sign off on.

Choosing a Mortgage Professional

After many years of counseling homebuyers through some very rough waters with other mortgage professionals, I'm convinced there is only one smart way to find a mortgage professional:

Select a local lender. No big box banks, dot com's or giant internet call centers from East Cucamonga.

My reasoning is simple. You should not be talking to a mystery voice on the phone during the most exciting yet stressful financial decision of your life. You need someone you can see face to face when things get rough. Someone you can locate easily whenever you have a question.

More importantly, you need someone you can trust.

Other ways that are acceptable to locating and working with a mortgage professional are:

1. A referral from a friend, family member or co-worker that has worked with the mortgage professional is a plus.
2. Ask for a specific person to work with.
3. A lender with positive online customer reviews and an A+ rating from the Better Business Bureau.
4. Lastly, a direct lender who also has the ability to offer brokered loans.

Once you find your local mortgage professional, give them the basic information that is needed to run an accurate mortgage pre-approval. They will then give you a good faith estimate for you to review.

On the other side, what you should NOT do is:

- **Call around for rate quotes** - There are some loan officers who will give you a low-ball rate that they cannot possibly follow through on. This is just a deceptive ploy to get your business.
- **Compare annual percentage rates** - Many lenders use several different factors to come up with APR. Very rarely do two banks use the same formula.
- **Compare ads** - The ads are to get you into the office to sign up. Mortgage companies put the most attractive information that applies for less than 1% of the population to bait and switch you.

The reason why you should not use any of these methods is because they leave too much wiggle room for unscrupulous loan officers to trick you into giving your information, which leads us right into…

7 Reasons Why You Should Work With Your Local Mortgage Professional Or Risk Disaster

1. You can meet face to face to interview your local mortgage professional.
2. Your local mortgage professional can attend the closing and help with any errors that show up last minute.
3. Your local mortgage professional will be familiar with local real estate market trends.
4. Your local mortgage professional will have relationships with the attorney and title company actually performing your closing.
5. Your local mortgage professional will know the standard local fees that are charged.
6. Your local mortgage professional is more likely to have a visible and easily reachable team to help out during the process.
7. You can talk to the local mortgage professional face to face if there is a problem.

The next step to take once you find a good mortgage professional is to interview him or her using questions like:

- Are you a mortgage broker, banker or direct lender?
- Are you salaried or commission based?
- Are you licensed by the state and have any complaints ever been filed against you?
- Is the interest rate you quoted me fixed or adjustable?
- Are you locking in the interest rate and if so then for how long?
- What is the fee for doing the mortgage?
- What additional fees will be added to the mortgage?
- What will be the total principal amount of the loan?
- How much will my monthly payments be?
- What is the length of the loan?
- Will my loan be sold?
- Will I have a prepayment penalty?
- If I pay for the appraisal will you immediately give me a copy of it when you receive it?
- If I pay for the credit report will you immediately tell me my score?
- Who do I contact to get a copy of the closing documents 24 hours before closing?
- How long will it take to get me an approval?
- Can you send me a good faith estimate showing all fees?

Applying For Your Mortgage

When you are meeting with your mortgage professional, you should come prepared. I have seen it take weeks for some buyers to get their paperwork together for an appointment and I have seen other people do it in minutes. Generally speaking, here is the information you want to bring to your appointment:

- W2's from the last two tax years
- Last two years of complete tax returns
- Two most recent paystubs
- Previous two months of bank statements
- Rent payment receipts for the last 12 months
- Proof that you have the 3 – 5% of purchase price for the down payment
- Basic forms that verify your identity, mortgage loan application and employment history

Once your mortgage professional has this information in hand, you will receive your pre-approval letter and a Good Faith Estimate. The Good Faith Estimate is a form that gives you all of fees and information about your mortgage. Keep in mind that it is an estimate, but it should be within 10% of the final numbers for your mortgage.

You Need To Know The Score!

Your credit scores are the most important factor that lenders use to determine your ability to qualify for a mortgage and your down payment money.

In fact, in this challenging economy you probably won't qualify for the mortgage program in the first place unless your credit scores and history are up to par. It is an unfortunate reality that many people do not truly understand what their credit scores reflect and how their credit scores can affect their ability to get the best down payment programs.

Here I will break down the fastest and easiest way for you to manage your credit. I explain exactly what you need to know about your credit scores in order to purchase your first home using the available down payment money. After reading this chapter you will have the exact step-by-step blueprint to increase your credit scores at will, or just better understand your current scores.

Credit Score Basics

Credit scores are three digit numbers ranging from a poor score of 400 to an excellent score of 850. These "scores" are the result of many factors that ultimately "tell a story" about how well you pay back money that you have borrowed.

Mortgage lenders use credit scores to determine your ability to repay your loans. They gather your credit scores from three major credit bureaus that monitor over 40 different components to come up with a number for your credit scores. The three major credit bureaus are:

- Equifax FICO – BEACON score®
- Transunion FICO – EMPIRICA®
- Experian FICO – Experian/Fair Isaac Risk Model®

In addition, a company called Fair, Isaac and Company (FICO®) acts as a mediator between the three major credit bureaus and your mortgage lenders, which is why you will see the credit scores referred to as FICO® scores. It is important to know that the three credit bureaus are separate from FICO®, whose job is to make sure the scores from all three credit bureaus use a standard procedure to be calculated.

In the best-case scenario your middle FICO® credit score usually has to be above 620 in order to approve you for a mortgage. However, in order to get the very best interest rates, you will want to have credit scores above 720.

Now mortgage lenders rely on these companies to determine what type of mortgage they can offer you because it gives them a pretty accurate picture of your trustworthiness. For example, if you have a credit score of 720+, you can get a mortgage with an interest rate that is below the average rate for a normal homebuyer without paying any extra fees. One such example of fees you may be able to avoid when your scores are above average is loan discount points.

Paying a point means that if you are borrowing $200,000, then one point would be $2,000 (200,000 x .01). Therefore, loan discount points are dollars that are added to your financed amount or paid out of pocket to get the interest rate of your mortgage reduced.

Having a high credit score also means you will most likely be getting a par rate, which is simply the lowest interest rate you qualify for without paying additional money to get it lower. If your credit score is 620 or a bit higher, you may be able to qualify for a mortgage, but expect to pay discount points. This is how the mortgage companies protect themselves from bad credit risks.

Credit Score Guide

Here is a credit score guide to give you an idea of what to expect from a lender depending on your credit scores:

720-Higher	**A**	You get the best interest rates for conventional, jumbo, FHA, VA or USDA home financing, access to all down payment programs and expect to pay minimum costs for your mortgage.
640-719	**B**	You qualify for conventional, jumbo and FHA, VA or USDA financing, but you are viewed as a slight credit risk. You should expect to pay a higher interest rate and slightly higher fees when getting a mortgage.
620-639	**C**	You are right on the bubble, and getting a mortgage approval will likely require a manual review by an underwriter. You may not qualify for conventional or jumbo, but FHA, VA and USDA are still an option for you. You should expect to pay higher interest rates and higher loan fees.
575-619	**D**	Most lenders will deny your loan even if you are putting close to 20% down. You should also expect to pay a significantly higher interest rate and loan fees if a lender happens to get you financing, but it is unlikely.
400-574	**F**	If you are here then it is time to go back to the drawing board and regroup. You definitely need to get some help with increasing your scores before proceeding with purchasing a home.

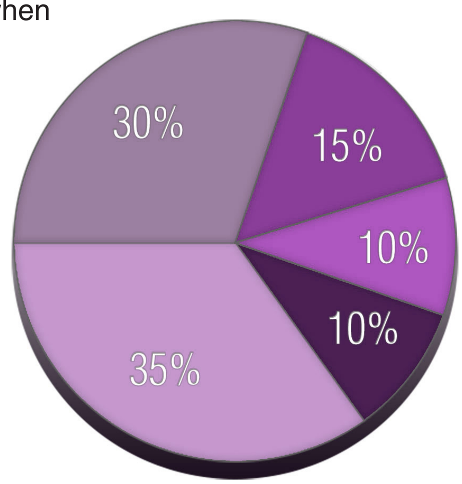
How Your Credit Scores Are Calculated

The three major credit bureaus, Experian, Equifax and Transunion, look at all of the credit that you as an individual have listed on your credit reports, which can go as far back as ten to twelve years. They look at your loans, credit cards, bills, bankruptcies, foreclosures and judgments, tax liens and credit inquiries, or requests that have been made in the last six months. What they are looking for is your payment history – do you always pay on time, are you always late, how many delinquent payments you've had, etc. They will also look to see if you have enough of a credit record to even generate a score.

Keep in mind that the three bureaus score using different methods of calculating this number, which is why your credit can be perfect with two of the bureaus and not so perfect with the third.

Here are the important features that the credit bureaus take into consideration when calculating your credit score:

35% - payment history
30% - amounts owed
15% - length of credit history
10% - new credit
10% - type of credit use



Based on these percentages, you can see how important it is to have the exact information on how you score in each area prior to purchasing your home.

However, there are **three common myths** that I want to dispel about how credit bureaus calculate your scores:

1. Each credit bureau will have a different credit score because they each put a different importance on individual factors.
2. Married couples do not share the same credit scores. Each individual is treated differently based on his or her own contributing factors
3. Mortgage lenders do not average all of your scores together, and they use the middle score to qualify you for a mortgage and down payment program.

The Credit Patrol

Over the years I have heard many people say to me, “I just pay everything with cash and so I do not need credit.” I wish that were true, but unless you have millions and millions of dollars in cash, it is not. I always make sure that I tell them that their credit scores reflect how well they pay back money they have borrowed, but if they do not borrow any money, companies don’t have any way of knowing how well they pay their debts back. So it is very important that you monitor, nurture and grow your credit scores… very much like a gardener nurtures a bed of roses.

Your credit score allows mortgage companies and other loan companies to determine whether or not you are a risk or a good investment. They analyze your credit history to see if you meet the minimum acceptable guidelines the lender has in place that they grant loans by. If your score meets the requirements then an underwriter, whose job it is to manually look over your mortgage application and all of the documentation you provide to the lender, will review it and determine what kind of interest rate you now qualify for.

If You Do Nothing, Here is How Long Your Bad Credit Hangs Around	
General Credit Information	Seven years
Collection	Seven years from date of last activity
Bankruptcy	Seven to ten years
Foreclosure	Up to twelve years from the date filed
Garnishment	Twelve years from the date of entry or seven years from the date satisfied
Judgment	Twelve years from the date of entry or seven years from the date satisfied
Tax Lien	Twelve years from the date of entry or seven years from the date satisfied
Dismissed garnishments, judgements and tax liens	Not reportable.
***There are no legal requirements for credit bureaus to keep this information for so many years, but they do it because they want to!	

Costs to Consider When Calculating What You Can Afford

If there was ever one area that needed to be drilled into a perspective homeowners head, it's this: When purchasing a home, it is important to remember to count the total cost of homeownership.

Let me repeat that: **When purchasing a home, it is important to remember to count the total cost of homeownership.**

Why? Because without the total cost you will find yourself with plenty of house, and little to no money to purchase necessities like furniture and appliances, or even the maintenance on your home. By knowing and planning for the true cost of homeownership you can sidestep some of the usual landmines most folks face. There are three basic groups of additional costs you should be prepared for, and they are:

- The down payment
- Out of pocket upfront costs to close on the home
- Regular expenses to stay in your home

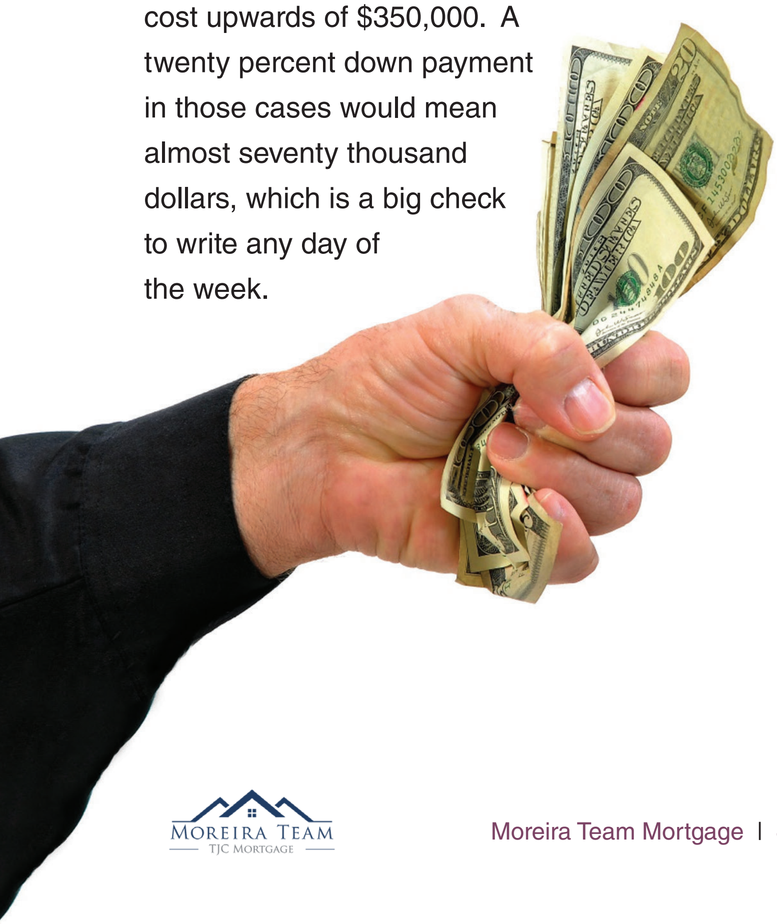
Down Payment

As of the time of this writing the average homebuyer in America is required to put down at least three and a half to five percent. However, if you are coming up a little short in this department then you will be happy to know there are some great 'no down payment' programs available for some homebuyers, which can eliminate the need for a down payment.

As recently as three years ago, many homebuyers balked at the advice that they should save up and put down ten, fifteen or twenty percent, like back in the good old days. However, in the wake of the mortgage and banking industry collapse, there has been a revival of the age-old tradition of putting down a large deposit. As with many old folk tales, there is a softball size grain of truth in the wisdom. There have always been benefits to putting down a sizeable down payment when buying. When you contribute a down payment of twenty percent or more towards your home purchase you get certain benefits, such as:

- Lower mortgage payments because you borrowed less money for the mortgage.
- Lower interest rate because of less risk to lenders because you have skin in the game.
- Paying less interest because you borrowed less money.
- No Private Mortgage Insurance (PMI) – PMI is for mortgages over eighty percent of the value of the home at the time of purchase.

So you may want to think twice about trying to finance as much of your purchase price as possible, because you can get a better deal when you use more of your own money.
However there are some times when using up your cash for a down payment is not the best choice, no matter how good the mortgage rate will be. I'm talking about the times when leaving a huge down payment will leave you with little to no emergency funds, force you to walk to work, and eat peanut butter and jelly sandwiches for a year. There are also other cases in which it does not make sense to put up to twenty percent down. A twenty percent down payment can be a prince's ransom when you are buying in certain cities across the U.S. where homes can easily cost upwards of $350,000. A twenty percent down payment in those cases would mean almost seventy thousand dollars, which is a big check to write any day of the week.



Out of Pocket Costs

The next arena of costs related to buying a home range from a couple hundred dollars to the thousands of dollars. The good news is that most of these costs can be financed within the loan itself, but there are others you will have to pay upfront, and they are:

- **Appraisal & Home Inspection Fees** – The appraiser and home inspector have to be paid at the time their services are issued, and these costs could add up to be over six hundred dollars.

- **Closing Costs, including Points** – This is the biggest cost factor in the entire process because this could easily run five to ten thousand dollars. However, these are usually financed within the loan, so don't get stressed out. In addition, there are times when you may have to bring money to closing to pay these costs.

- **Moving Costs** – Unfortunately no one is going to box up your apartment, rent that U-haul and gas it up for you. This one is on you.

- **Utility and Service Costs** – You might be able to simply get your service transferred to the new place, but invariably there are always some companies who require deposits.

- **Repair or Improvement Costs** – Unless you buy a brand new construction home, you will have to fix or change some things as soon as you move in. You need to have an emergency or reserve fund for when this happens.

Ongoing Costs

When it comes to ongoing costs of owning a home it is important to keep in mind that much like your car, a home also needs many forms of regular maintenance. Just to give you an idea of what to expect, the major ones are roof inspections every several years, updated electrical or mechanical systems, and landscaping, to name a few. Some of the other ongoing costs include:

- Yard maintenance
- Updating housing systems as needed (electrical, mechanical, plumbing)
- Replacing indoor fixtures and appliances
- Improvements or overall changes to your home
- Real estate taxes
- Homeowners insurance

Getting All The Facts Before Slapping Down Your Hard-Earned Cash!

Mortgage lenders do not require you to get a home inspection before they lend you money. Lenders make their decision based on the appraisal, which gives them the value of the home. However, I have seen times when the appraiser noted things on his report that needed to be fixed and upgraded, and as a consequence the lender then asked for the home to be inspected. However, as a rule of thumb, if you are buying a home, you will want to know as much as humanly possible about your prospective investment.

Now I don't mean to throw another wrench in the pile, but there are many reasons why you should get a home inspection, and each one of them are valid. Home inspections not only verify major things such as making sure that the roof does not have leaks or rotted wood, but home inspections also verify that the home systems are working properly and verifies if the foundation your prospective home is built on is stable or crumbling.

In other words, a home inspection is simply when a licensed home inspector does a visual and functional test and observation of all the parts of the house from top to bottom, including all the systems of the house. A home inspection tells you if everything in the house is working as it should be.

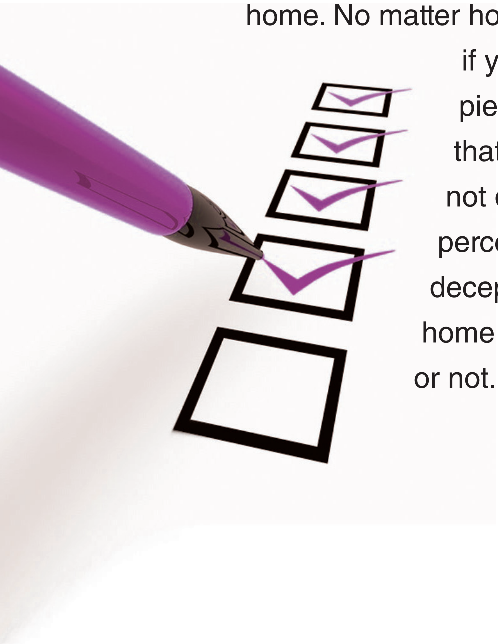
A traditional home inspection will give you the details about the heating and cooling systems, electrical and plumbing systems, floors, walls, the roof, ceilings, doors and windows, the home's foundation and the structural parts of the house, including the basement.

Why You Absolutely, Positively Need a Home Inspection When Buying Your First Home!

It is just good ole' fashion common sense! If you are buying a home, wouldn't you want to know if everything is working as it should? What good does it do you to negotiate a great deal on the purchase price, but after moving into your new home you realize that the sellers were willing to go as low as they did because of all the problems the house has? A home inspection can also give you the leverage for negotiating for costly repairs to be corrected before agreeing on a final purchase price.

Even if you have bought ten houses and have a ton of real life experience and knowledge, you still need a home inspector. The only exception is if you are a licensed home inspector and have all of the tools and training, then you get a pass on this one. There are crucial pieces of knowledge and know-how that only an experienced home inspector will be able to pick up on.

A home inspector not only knows how and why things works, but he or she will know why things do not work and what has to be done to fix it. The other important point is that as a buyer it is hard and difficult to stay level-headed and detached from the emotional part of buying a home. No matter how much you try, if you find out a vital piece of information that the home seller did not disclose it is usually perceived as being deceptive, regardless if the home sellers knew about it or not.



It is not possible for a home to fail a home inspection. A home inspector just tells you what is right and what is wrong and what needs repairs based on the home as it is today. It is not like with the appraisal where you actually need it to come in for a certain value in order to get the mortgage. It is also not a code inspection to make sure the house is up to code according to town laws. All the home inspection does is to provide detailed information about the physical condition and systems of the house.

How To Hire a Home Inspector

The home inspection will most likely be done by your real estate agent or mortgage professional. However, many homebuyers have more input into hiring a home inspector than with an appraiser. Even with that being said, the real estate agent and mortgage professional will usually coordinate the hiring of a home inspector for your prospective home.

If you do find yourself being the one responsible for finding, interviewing and ultimately hiring your home inspector, then you will want to make sure you follow the same three-step formula you used for finding a mortgage professional.

The True Cost of a Home Inspection

The cost of a home inspection for an average single family home will be different, depending on the types of tests you want performed. As a good rule of thumb, you should be prepared to spend anywhere from three to five hundred dollars to get all of the testing done.

Yes, that is a lot of money; however, do you know how much it costs to replace a septic system? Or how much it costs to upgrade an electrical system? At the end of the day you need to know any and every possible thing that can go right or wrong with the home BEFORE you buy the home. Being able to sleep at night knowing that you have made a good decision is worth many more times the cost of a home inspection. Trust me, because I know from personal experience. The other factor which makes the cost well worth the investment, is that a home inspection with a single family home in average condition only takes about three to four hours, and sometimes can take up to half the day. Now let's do the math: Three to six hours to save tens of thousands of dollars and years of aggravation. Where do I sign-up? Also, if the house is smaller or is brand new, then the inspection usually is done in a shorter time frame than if it is an older home with many different electrical and plumbing systems. It may also take longer if you are asking the home inspector questions about each step of the process while he's in the home. Which I recommend, by the way!

The most important point to remember is that you are not paying the inspector by the hours, but you are paying him for a complete and comprehensive report about the condition of a prospective home. You are paying him for his experience, education, knowledge about homes and his overall competence. It is also of the utmost importance that you go with the home inspector and listen, ask questions and take notes.

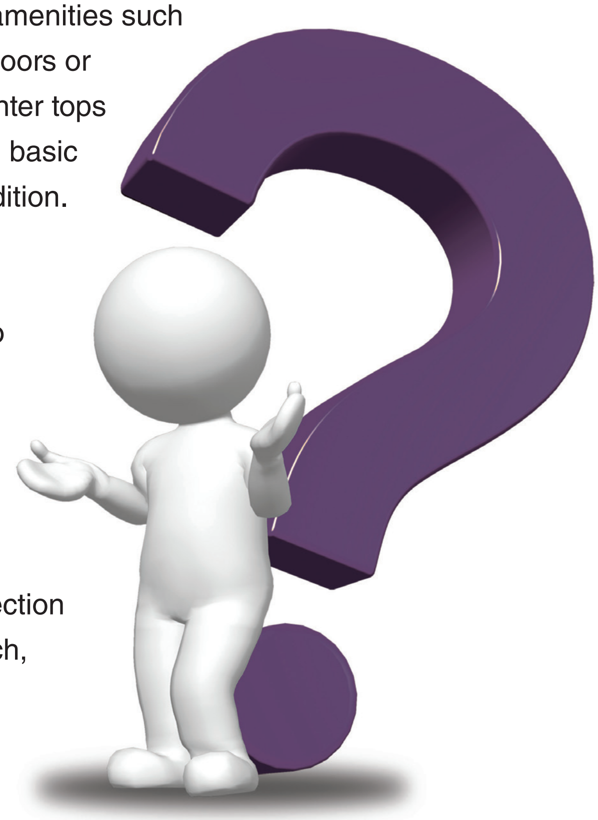
The Truth About Appraisals

Believe it or not, there was a time when folks just drove by a house, looked at the outside and then scanned through a database of what houses sold recently to determine the value of a home. However, things have changed. The new rules state that every type of mortgage in this new real estate market requires an appraisal. The fact of the matter is that you will not get approved for a home mortgage without it.

As a first-time homebuyer, the appraisal value is very important to you. A good appraisal could mean the difference between pocketing tens of thousands of dollars or walking away with next to nothing.

An appraisal is an estimate of the home value you are considering purchasing. The appraisal value is an opinion of value by a licensed appraiser who walks around the inside and outside of the home, inspects and verifies the square footage, overall condition of the home and makes sure everything looks like it is in working condition, or at least could be at some point in the near future. An appraiser also takes into consideration what other similar homes have sold for in recent months when calculating the value. After doing the visual inspection and the research on the history of the home the appraiser then takes a couple of days to put together a detailed and comprehensive report of his findings and will compare the appraised home to the sale prices of similar types of houses in the neighborhood. All of the work that the appraiser is doing comes down to one thing: determining the value of the home that is being appraised, called the subject property.

By the way, there is no limit to the amount of comparisons that can be made to other homes in order to really get the best snapshot of the home value. The most popular home comparisons are square footage, inside and outside condition of the home, amenities such as marble floors or granite counter tops and just the basic overall condition.



It is also important to note that based on what the appraiser finds in his visual inspection and research, a home's value can be increased or decreased because of what other properties are selling for in the same area. However, as a general rule of thumb, a single family home with 3 bedrooms and two bathrooms will, in most cases, appraise for a slightly higher value than a home within the same neighborhood with the same general interior and exterior and only 2 bedrooms and one bathroom. Another example would be if a home has a front and backyard that looks like a jungle; it will generally appraise for a lower value than the same house next door, simply because of the lack of landscaping.

Appraisals Give You Additional Protection

The main reason you want a licensed and experienced appraiser is to keep everybody inside the boxing ring and fighting fair. This includes the lender who does not want to loan out more money than a home could be sold for in a fair market. This also includes the buyer like YOU who does not want to get raked over the coals by some greedy seller, bank or auctioneer. The appraisal is like the last line of defense for you as a buyer if your real estate agent is not successful in pulling in the reins on a home that is selling for too much.

Your appraisal must be done by a licensed appraiser who can readily produce proof of having a state issued license to determine home values. So your friend who has bought and sold a lot of houses does not qualify, unless he or she has an appraisals license. The other side of the coin is the appraiser has to be approved to do appraisals for the specific lender that is providing your mortgage.

Your mortgage lender will coordinate the hiring of an appraiser for your prospective home. Unless you only want to know the value to satisfy your curiosity, there is very few times that a first-time homebuyer will seek out and hire an appraiser. The reason why homebuyers do not hire appraisers directly is because the mortgage lender determines if the appraiser is approved to perform the appraisal. Would you want to spend $400 or more for an appraisal only to learn that your mortgage lender will not accept the appraisal?

Even though you will not normally be required to be involved with hiring your appraiser you will still want to be involved in this step of the process. It is a good idea to meet your appraiser if it is possible, because after all, you are the one paying them. But you will not be at the house when the appraiser does his inspection and walk through. Chances are that you will know the day, but not the exact time the appraiser will be at the seller's home.

The appraiser then gathers the property value information from several sources such as tax records located at the court house in the town the home is located, the multiple listing services (MLS) and flood zone data from the Federal Emergency Management Association (FEMA). This is where the exact details about the home come into play such as the size, condition, location and every possible specific piece of data that you could imagine.

There is also an X-factor involved in the appraisal process that many first-time homebuyers are unaware of. It is the appraiser's past experience from the value of the subject property or other homes in the neighborhood.

You Pay For The Appraisal…But Who is The Boss?

This one is a hot issue for homebuyers as well as homeowners looking to refinance. The technical answer is that lenders employ the appraisers to give them an idea of the value of the home involved in the transaction. The real life answer is appraisers work for you. After all, you are the one cutting the check to them. The cause for problems is the fact that appraisers always tell you to call your mortgage lender when you request a copy of the appraisal.

As a homebuyer you have the right to receive a copy of the appraisal, but the lenders control what you can do with it. The only two times this rule is different is when you are a home owner and you hire a real estate appraiser without a lender being involved. Secondly, if you hire an appraiser without going through a lender, the lender will not accept this appraisal as certified value.

Trust me when I tell you that this can become a big hairy tarantula if you ever wanted to switch lenders in the middle of a purchase transaction, because the lender would require that you pay for another appraisal.

The Top 10 Excuses You May Be Tempted to Use To Procrastinate From Buying Your Home

Now, since I call planet Earth my home, I know sometimes in life we all get a little discouraged or overwhelmed with large financial decisions. So, in an attempt to help you out, I will provide answers to some of the major excuses you might begin to tell yourself to stop from buying a home and the few times you might absolutely be right in doing so.

Excuse #1: "I Don't Have Enough Money For The Down Payment."

When I hear this excuse I automatically know it usually means the house the buyer really wants, requires more of a down payment than they currently have. It is also important to keep an open mind and seriously consider downsizing to the amount of down payment you can afford.

Excuse # 2: "I do not know what to buy…I'm so confused!"

This is a common concern for many prospective homebuyers, so let me give you several ways to get clarity quickly. The first tip is to follow your gut and listen to your instincts. If you are constantly drawn to condo's because of little to no maintenance, then think of the reasons why you feel this way and go with it. You should be looking for a condo. Do not try to convince yourself to buy a raised ranch with a huge backyard, which requires ongoing maintenance.

The next tip is to keep an open mind while visiting a variety of properties. This will allow you to narrow down what you do not like and will give you the confidence to recognize what you do like instead of second guessing yourself. I don't mean to get philosophical on you, but follow these two steps and you will begin to see a clear path where there was only confusion before.

Excuse # 3: "I am Afraid To Buy Because The Economy Is Bad."

While it is true that the economy is not bustling with activity, thousands of people just like you are preparing to make their best move. After all, these are the very same circumstances which cause "buyers markets." A buyers market simply means that there are more houses for sale on the market than there are available buyers who can purchase them. As a result, home sellers are more willing to be flexible with price, terms and extras in order to get their homes sold.

Your number one goal in a bad economy is to buy smart, insure yourself, your home and your income and make sure you have substantial savings in the bank before AND after you purchase your home. Buying your home this way will help ease any fear you have of the market doing a nose dive once you move into your new home.

Excuse #4: ***"I Can't Afford A House…"***
When you say you cannot afford a house, what you really should be saying is that "I cannot afford a house that costs $400,000, but I can afford a house that costs $225,000." You can use this fill in the blank formula whenever this mood overcomes you. It quickly snaps you back into the reality that it is about the size of the mortgage you can afford.

When it comes to affording a house you should always remember it is as easy as adjusting the mortgage amount, and maybe taking a little longer to save for a down payment.

Excuse #5: ***"I Actually Enjoy Renting..."***
You might be one of the few people walking around town that actually enjoys making your landlord wealthy while you sweat and toil for every penny. However, if you are like the rest of us, then you enjoy the luxury of keeping more money in your own pocket and the freedom of not stressing about where you live. Those luxuries and freedoms are virtually nonexistent when you are renting. By renting, you will always be paying someone else for the right to have the illusion of living a life of luxury and freedom, but at the end of the day you know deep down in your heart your landlord is the one who's really calling the shots.

Excuse #6: ***"…But, What If I Lose My Job?"***
Unless you are planning on buying your house for cash, then you must join the millions of hardworking Americans who manage to keep a job and pay their bills. We both know that you will always have to maintain some form of income to support yourself and your family, regardless if you buy a house or not. So why not have something to show for all those years of working your butt off? Additionally, you should really take some time to learn about disability, unemployment and mortgage insurance coverage in case of financial disasters.

Excuse #7: ***"But I Don't Know Anything About Home Maintenance Or Home Repairs."***
Well, join the club! There are millions of folks who flock to Home Depots across the nation each weekend to take classes on plumbing, painting and gardening. Additionally, some of the most popular television shows are based on fixing up, repairing and improving your home. Get ready to become an expert user of TiVo for more than recording reruns of old CSI episodes. Buying a home is more like a journey than a destination. You will have plenty of time and practice to become the handyman or handywoman you've always wanted to be.

Excuse #8: ***"It is Way Too Much Responsibility."***
Remember when you first learned to ride a bike without training wheels? The first time you do anything you will be threatened with fears of feeling overwhelmed, but do not give in to those fears. The financial obligations of making your monthly payment are the same as when you are renting. You 'pay or you do not get to stay,' regardless if you are renting or owning. The difference is in the painting, mowing and managing the repair guys when you need work done.

Excuse #9: ***"I'll Wait Until I am Married…"***
There is no good reason why you should wait for Mr. or Mrs. Right to come along before you begin getting all the great benefits of homeownership. Get started today. My advice is that you should be looking for a smaller home and consequently a smaller mortgage if you are going at it alone. Yes, I know there is a chance of meeting Mr. or Mrs. Perfect five minutes before your closing, but if he or she really is "the one" for you then he or she will recognize your potential by watching you handle the responsibility of homeownership. Trust me when I tell you that owning a home is a feather in your cap to a prospective spouse.

Excuse #10: ***"This Pep Talk Is Great…But I am Still Scared"***
Let me be the first to tell you this in case you have not heard it before. It is very likely YOU WILL BE SCARED THE ENTIRE TIME! There…it is out of the way. I am not going to try and do a Jedi-mind trick on you and tell you that you should not be afraid. It would not matter anyway because you would still be scared. The fact of the matter is that EVERYONE is shaking in their boots when buying their first home, but you can minimize that fear when you have the knowledge, tools, and resources all at your fingertips.

Home Loan Helpful Resources

In this chapter you will find a glossary of important mortgage terms. To make finding what you're looking for a little easier just choose the first letter of the word and you will be directed to the page it is lcated on.

A	B	C	D
E	F	G	H
I	J	K	L
M	N	O	P
Q	R	S	T
U	V	W	X
Y	Z		

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Adjustable Rate Mortgage (ARM):
Mortgage loans under which the interest rate is periodically adjusted to more closely coincide are agreed to at the inception of the loan.

Alternative Documentation:
The use of pay stubs, W-2 forms, and bank statements in lieu of Verifications of Employment (VOE) and Verifications of Deposit (VOD) to qualify a borrower for a mortgage.

Amortization:
The systematic and continuous payment of an obligation through installments until the debt has been paid in full.

Annual Percentage Rate (APR):
A term used in the Truth-in-Lending Act to present the percentage relationship of the total finance charge to the amount of the loan. The APR reflects the cost of the mortgage loan as a yearly rate. It could be higher than the interest rate stated on the Note because it includes, in addition to the interest rate, loan discount points, miscellaneous fees and mortgage insurance.

Appraisal:
A report made by a qualified person setting forth an opinion or estimate of property value. (Appraisal also refers to the process through which a conclusion on property value is derived.)

Appraisal Amount or Appraised Value:
The fair market value of a home determined by an independent appraisal. The appraisal uses local real estate market sales activity as a major basis for valuation.

Appreciation:
An increase in the value of a property due to market conditions or other causes. The opposite is depreciation.

Balloon Mortgage:
A fixed-rate mortgage for a set number of years and then must be paid off in full in a single "balloon" payment. Balloon loans are popular with borrowers expecting to sell or refinance their property within a definite period of time.

Bankruptcy:
Legal relief from the payment of all debts after the surrender of all assets to a court-appointed trustee. Assets are distributed to creditors as full satisfaction of debts, with certain priorities and exemptions. A person, firm or corporation may declare bankruptcy under one of several chapters of the U. S. Bankruptcy Code: Chapter 7 covers liquidation of the debtor's assets; Chapter 11 covers reorganization of bankrupt businesses; Chapter 13 covers payment of debts by individuals through a bankruptcy plan.

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Cap:
The limit placed on adjustments that can be made to the interest rate or payments such as the annual cap on an adjustable rate loan (ARM) or the cap on a rate over the life of the loan.

Cash-out Refinance:
To refinance the mortgage on a property for more than the principal owed. This allows the borrower to get cash from the equity in their home. Loan products may vary on how much can be borrowed on a cash-out refinance.

Certified Mortgage Specialist (CMS):
The Certified Mortgage Specialist is the professional sales associate who communicates the needs of the agent and borrower to the operation team.

Client Coordinator (CC):
The Client Coordinator sets the tone throughout the application process and ensures that each customer is kept informed of all needs and status through clear and concise communication.

Closer:
The person who coordinates the closing time with the Client Coordinator and reviews and prepares the necessary closing documents.

Closing:
Also known as settlement, the finalization of the process of purchasing or refinancing real estate. The closing includes the delivery of a Deed, the signing of Notes and the disbursement of funds

Closing Costs:
Costs that are due at closing, in addition to the purchase price of the property. These costs normally include, but are not limited to, origination fee, discount points, attorney's fees, costs for title insurance, surveys, recording documents, and prepayment of real estate taxes and insurance premiums held by the lender. Sometimes the seller will help the borrower pay some of these costs.

Closing Statement:
An accounting of the debits and credits incurred at closing. All FHA, VA and Conventional financing loans use a Uniform Closing or Settlement Statement commonly referred to as the HUD-1.

Co-Borrower:
A party who signs the mortgage note along with the primary borrower, and who also shares title to the subject real estate.

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Collateral:
Property pledged as security for a debt. For example, real estate that secures a mortgage. Collateral can be repossessed if the loan is not repaid.

Combined Loan To Value (CLTV):
The mathematical relationship between the total of all loan amounts (first mortgage plus subordinate liens) and the value of the subject property.

Community Reinvestment Act (CRA):
This act requires financial institutions to meet the credit needs of their community, including low and moderate-income sections of the local community. It also requires banks to make reports concerning their investment in the areas where they do business.

Condominium:
A form of property ownership in which the homeowner holds title to an individual dwelling unit, an undivided interest in common areas of a multi-unit project, and sometimes the exclusive use of certain limited common areas. All condominiums must meet certain investor requirements.

Conforming Loan:
A loan with a mortgage amount that does not exceed that which is eligible for purchase by FNMA or FHLMC. All loans are considered as conforming or non-conforming, also known as jumbo.

Conventional Loan:
A mortgage loan not insured or guaranteed by the federal government.

Conversion Option:
Options to convert an adjustable rate mortgage or balloon loan to a fixed rate mortgage under specified conditions.

Co-Signer:
A party who signs the mortgage note along with the borrower, but who does not own or have any interest in the title to the property.

Creditor:
A person to whom debt is owed by another person who is the "debtor."

Credit Rating:
A rating given a person or company to establish credit-worthiness based upon present financial condition, experience and past credit history.

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Credit Report:
A document completed by a credit-reporting agency providing information about the buyer's credit cards, previous mortgage history, bank loans and public records dealing with financial matters.

Deal Structure:
An Underwriters review of certain aspects of a loan application that do not meet standard guidelines.

Debt to Income Ratio:
Compares the amount of monthly income to the amount the borrower will owe each month in house payment (PITI) plus other debts. The other debts may include but not limited to car payment, credit cards, alimony, child support, and personal loans. This ratio is commonly used to see if the borrower has the capacity to repay the debt.

Deed of Trust:
A legal document that conveys title to real estate to a disinterested third party (trustee) who holds the title until the owner of the property has repaid the debt. In states where it is used, a Deed of Trust accomplishes essentially the same purpose as a Mortgage.

Default:
Failure to comply with the terms of any agreement. In real estate, this is generally used in connection with a mortgage obligation to refer to the failure to comply with the terms of the Promissory Note. Most often this default is a failure to make payments; however, there are other means by which a borrower may default, such as the failure to pay real estate taxes. Depreciation: A decline in the value of property. This is the opposite of appreciation.

Discount Points:
A percentage of the loan amount which is charged or credited by the lender upon making a mortgage loan. Loans that are made at the present market rate, with no points, are considered to be made at "par." Because of the lender's ability to charge or credit points on an individual loan, the lender is able to tailor a loan program and interest rate to fit the needs of each individual borrower. Discount points can be negotiated in the Purchase Contract to be paid by either the seller or the borrower.

Each point equals 1% of the mortgage loan. For example, a charge of 1 point on a $50,000 loan would result in a charge of $500; 1/2 point would be $250 ($50,000 x .50%).

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Down Payment:
The part of the purchase price which the buyer pays in cash and does not finance with a mortgage.

Earnest Money:
Deposit made by a purchaser of real estate as evidence of good faith.

Equal Credit Opportunity Act (ECOA):
Also known as Regulation B. A federal law that prohibits a lender from discriminating in mortgage lending on the basis of race, color, religion, national origin, sex, marital status, age, income derived from public assistance programs, or previous exercise of Consumer Credit Protection Act rights.

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

Escrow Account:
An account held by the lending institution to which the borrower pays monthly installments for property taxes, insurance, and special assessments, and from which the lender disburses these sums as they become due.

Fair Credit Reporting Act:
Regulated the collection and distribution of information by the consumer credit reporting industry. It also affects how financial institutions collect and convey credit information about loan applicants or borrowers.

Fair Housing Act:
Prohibits the denial or variance of the terms of real estate related transactions based on race, color, religion, sex, national origin, disability, or familiar status of the credit applicant. Real estate related transactions include a mortgage, home improvement, or other loans secured by a dwelling.

Federal Home Loan Mortgage Corporation (FHLMC):
Also known as Freddie Mac. A publicly owned corporation created by Congress to support the secondary mortgage market. It purchases and sells conventional residential mortgages as well as residential mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA).

Federal National Mortgage Association (FNMA):
Also known as Fannie Mae. A privately owned corporation to support the secondary mortgage

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market, it adds liquidity to the mortgage market by investing in home loans through the country.

FICO Score:
A credit score given to a person that establishes creditworthiness based on present financial condition, experience and past credit history.

Finance Charge:
The cost of credit as a dollar amount (i.e. total amount of interest and specific other loan charges to be paid over the term of the loan and other loan charges to be paid by the borrower at closing). Loan charges include origination fees, discount points, mortgage insurance, and other applicable charges. If the seller pays any of these charges, they cannot be included in the finance charge.

Financial Statement:
A summary of facts showing an individual's or company's financial condition. For individuals, it states their assets and liabilities as of a given date. For a company it should include a Profit and Loss Statement (P&L) for a certain period of time and balance sheet, stating assets and liabilities as of a given date.

First Mortgage:
A real estate loan that creates a primary lien against real property.

First Rate Adjustment - First rate adjustment after:
In association with an Adjustable Rate Mortgage loan, this is the number of months after which the loan has closed when the first interest rate adjustment will occur.

First Rate Adjustment - Maximum rate decrease:
In association with an Adjustable Rate Mortgage loan, this is the most the interest rate can decrease during the first adjustment period.

First Rate Adjustment - Maximum rate increase:
In association with an Adjustable Rate Mortgage loan, this is the most the interest rate can increase during the first adjustment period.

Fixed Rate Mortgage:
The type of loan where the interest rate will not change for the entire term of the loan.

Floating:
The term used when a purchaser elects not to lock-in an interest rate at the time of application.

Flood Insurance:
Insurance that compensates for direct physical damages by or from flood to the insured property subject to the terms, provisions, conditions and

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losses not covered by the policy. It is required for mortgages on properties located in federally designated flood areas.

Good Faith Estimate (GFE):
An estimate of settlement charges paid by the borrower at closing. The Real Estate Settlement Procedures Act (RESPA) requires a Good Faith Estimate of settlement charges be provided to the borrower.

Gift Letter:
A letter or affidavit that indicates that part of a borrower's down payment is supplied by relatives or friends in the form of a gift and that the gift does not have to be repaid.

Gross Income:
A person's income before deduction for income taxation.

Hazard Insurance:
Insurance against losses caused by perils which are commonly covered in policies described as a "Homeowner Policy."

Home Maintenance:
Costs associated with maintaining a home. This may include, but not limited to general repairs, replacement or repair of furnace, air conditioning, roof, plumbing and electrical systems.

Home Mortgage Disclosure Act (HMDA):
Also known as Regulation C. The purpose of HMDA is to provide disclosure of mortgage lending application activity (home purchase or improvement) to regulators and the public. Information is collected on each application, and is recorded on a log that is compiled to produce a report on application activity by geographic designation (census tract).

Homeowners Association (HOA):
A non-profit corporation or association that manages common areas and services of a Condominium or Planned Unit Development (PUD).

Homeowners Insurance:
Insurance that covers damage to the insured's residence and liability claims made against the insured subject to the policy terms, conditions, provisions, losses not insured provision and exclusions.

Housing Expense Ratio:
Ratio used to determine the borrowers capacity to repay a home loan. The ratio compares monthly income to the house payment (Principal, Interest, Taxes and Insurance).

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Index:
In connection with ARM loans, the external measurement used by a Lender to determine future changes which are to occur to an adjustable loan program. These will typically be published rates that are independent of the Lender's control, such as a Treasury Bill.

Initial Interest Rate:
The beginning interest rate at the start of an adjustable rate mortgage (ARM). It may be lower than the fully indexed rate or "going market rate" and it will remain constant until it is adjusted up or down on the adjustment date.

Interest:
The amount paid by a borrower to a lender for the use of the lender's money for a certain period of time. The amount paid by a bank on some deposit accounts.

Interest Income:
The potential income from funds which would have been used for the down payment, closing costs, and any difference (increase) between monthly rental payment and monthly mortgage payment.

Interest Rate:
The percentage of an amount of money that is paid for its use for a specific time; usually expressed as an annual percentage.

Judgment:
Decree of a court declaring that one individual is indebted to another and fixing the amount of such indebtedness.

Jumbo Loan:
A loan above the limit set by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Also referred to as a non-conforming loan.

Late Charge:
An additional charge a borrower is required to pay as a penalty for failure to pay a regular mortgage loan installment when due; a penalty for a delinquent payment.

Lien:
A legal claim against a property that must be paid off when the property is sold. A lien is created when you borrow money and use your home as collateral for the loan.

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Life of Loan - Maximum rate decrease:
In association with an Adjustable Rate Mortgage loan, this is the most the interest can decrease over the life of the mortgage loan.

Life of Loan - Maximum rate increase:
In association with an Adjustable Rate Mortgage loan, this is the most the interest can increase over the life of the mortgage loan.

Loan Application:
A source of information on which the lender bases a decision to make or not make a loan; defines the terms of the loan contract, gives the names of the borrower(s), place of employment, salary, bank accounts, credit references, real estate owned, and describes the property to be mortgaged.

Loan Balance:
The amount of remaining unpaid principal balance owed by the borrower.

Loan Term:
Number of years a loan is amortized. Mortgage loan terms are generally 15, 20, or 30 years.

Loan-to-Value (LTV):
The ratio of the total amount borrowed on a mortgage against a property, compared to the appraised value of the property. A LTV ratio of 90 means that the borrower is borrowing 90% of the value of the property and paying 10% as a down payment. For purchases, the value of the property is the lesser of the purchase price or the appraised value. For refinances the value is determined by an appraisal.

Loan-to-Value Ratio:
The ratio, expressed as a percentage, of the amount of the loan (numerator) to the value or selling price of real property (denominator). For example, if you have an $80,000 1st mortgage on a home with an appraised value of $100,000, the LTV is 80% ($80,000 / $100,000 = 80%). Lock-In: A written agreement between the lender and borrower for a specified period of time in which the lender will hold a specific interest rate, origination and/or discount point(s).

Margin:
Under the terms of an adjustable rate mortgage (ARM), the margin is a set adjustment to the index. The particular loan product determines the amount of the margin.

Median Income:
The middle income level. Half of the incomes would be higher than the median income and half of the incomes would be below the median income. This is not to be confused with an average income.

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Mortgage:
The written instrument used to pledge a title to real estate as security for repayment of a Promissory Note.

Mortgage Insurance:
Insurance written in connection with a mortgage loan that indemnifies the lender in the event of borrower default. In connection with conventional loan transactions, this insurance is commonly referred to as Private Mortgage Insurance (PMI).

Mortgage Note:
A written promise to pay a sum of money at a stated interest rate during a specified term. It is typically secured by a mortgage.

Mortgage Servicing:
Controlling the necessary duties of a mortgagee, such as collecting payments, releasing the lien upon payment in full, foreclosing if in default, and making sure the taxes are paid, insurance is in force, etc. The lender or a company acting for the lender, for a servicing fee, may do servicing. (Also called Loan Servicing.)

Mortgagee:
The institution, group, or individual that lends money on the security of pledged real estate; the association, the lender.

Mortgagee Clause:
This is the clause that is typically used for hazard insurance and flood insurance. For loans originated by the State Farm Bank it will read: State Farm Bank, F.S.B., Its Successor and/or Assigns, P.O. Box 2583, Ft. Wayne, IN 46801-2583.

Mortgagor:
The owner of real estate who pledges his property as security for the repayment of a debt; the borrower.

Net Income:
The difference between effective gross income and expense including taxes and insurance. The term is qualified as net income before depreciation and debt.

Non-Conforming:
A loan with a mortgage amount that exceeds that which is eligible for purchase by FNMA or FHLMC. All other loans above this amount are considered to be non-conforming or jumbo loans.

Non-Owner-Occupied Property:
Property purchased by a borrower not for a primary residence but as an investment with the intent of generating rental income, tax benefits, and profitable resale.

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Note:
A written promise by one party to pay a specific sum of money to a second party under conditions agreed upon mutually. Also called a "promissory note."

Note Rate:
The interest rate on the mortgage loan.

Origination Fee:
A fee paid to a lender for processing a loan application; it is stated as a percentage of the mortgage amount.

Origination Process:
Process in which a lender solicits business, gathers required information and commits to loan money, for the purchase of real estate.

Owner-Occupied Property:
The borrower or a member of the immediate family lives in the property as a primary residence.

PITI:
Term commonly used to refer to a mortgage loan payment. Acronym stands for Principal, Interest, Taxes, and Insurance.

PITI Ratio:
Compares the amount of the monthly income to the amount the borrower will owe each month in principal, interest, real estate tax and insurance on a mortgage. Lenders use it in deciding whether to give the borrower a loan. Also called "income-to-debt" ratio.

Planned Unit Development (PUD):
A housing project that may consist of any combination of homes (one-family to four-family), condominiums, and various other styles. In a PUD, often the individual unit and the land upon which it sits are owned by the unit/homeowner; however, the homeowner's association owns common facilities.

Pre-Approval:
A process in which a customer provides appropriate information on income, debts and assets that will be used to make a credit only loan decision. The customer typically has not identified a property to be purchased, however, a specific sales price and loan amount are used to make a loan decision. (The sales price and loan amount are based on customer assumptions)

Pre-Qualification:
A process designed to assist a customer in determining a maximum sales price, loan amount

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and PITI payment they are qualified for. A pre-qualification is not considered a loan approval. A customer would provide basic information (income, debts, assets) to be used to determine the maximum sales price, etc.

Prepaid Expenses or Prepaids:
The term used to describe the funds the Lender requires to be deposited to establish the escrow account for taxes and insurance at the time of closing (also refers to Prepaid Interest).
Prepaid Interest: Interest that the borrower pays the lender before it becomes due.

Prepayment:
A loan repayment made in advance of its contractual due date.

Prepayment Penalty:
A penalty under a Note, Mortgage or Deed of Trust imposed when the loan is paid before its maturity date.

Principal and Interest:
Two components of a monthly mortgage payment. Principal refers to the portion of the monthly payment that reduces the remaining balance for the mortgage. Interest is the fee charged for borrowing money.

Principal Balance:
The outstanding balance of a mortgage, not counting interest.

Principal, Interest, Real Estate Tax, Insurance Payment:
The total mortgage payment which includes principal, interest, taxes and insurance.
Private Mortgage Insurance (PMI): Insurance against a loss by a lender in the event of default by a borrower (mortgagor). A private insurance company issues this insurance. The premium is paid by the borrower and is included in the mortgage payment.

Processing:
Gathering the loan application and all required supporting documents (including the property appraisal, credit report, credit history, and income and expenses) so that a lender can consider the borrower for a loan.

Promissory Note:
A document in which the borrower promises to pay a stated amount on a specific date. The note normally states the name of the lender, the terms of payment and any interest rate.

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Property Taxes:
Taxes assessed on real estate. Property taxes are based on valuations by local and or state governments.

Purchase Agreement:
A written agreement between a buyer and seller of real property that states the price and terms of the sale.

Purchase Price:
The total amount paid for a home.

Qualifying Income Ratios:
Income analysis used by lenders in deciding whether to offer the borrower a loan. One type of analysis compares only the amount of the proposed monthly mortgage payment to the monthly income. Another compares the amount of the total monthly payments (for example car, credit card and proposed mortgage payments) to the monthly income.

Rate Index:
An index used to adjust the interest rate of an adjustable mortgage loan.

Real Estate Appreciation Rate:
Percentage increase in the value of real estate, expressed at an annual rate.

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

Realtor:
A person licensed to negotiate and transact the sale of real estate on behalf of the property owner. A real estate broker or associate must hold active membership in a real estate board affiliated with the National Association of Realtors.

Recording Fee:
The amount paid to the recorder's office in order to make a document a matter of public record.

Regulation Z:
Federal Reserve regulation issued under the Truth-in-Lending Act, which, among other things, requires a credit purchaser to be advised in writing of all costs connected with the credit portion of the loan.

Rental Payment:
A payment made to use another's property. The amount of the rent is determined in a contract and is typically paid monthly.

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Renters Insurance:
Insurance against perils which are commonly covered in policies described as a "Renters Policy".

Repayment:
The payment of a mortgage loan over a period of time established when the loan is originated.

Rescind:
To avoid or cancel in such a way as to treat the contract or other object of the rescission as if it never existed.

Sales Contract:
A written agreement between parties stating all terms and conditions of a sale.

Savings Rate:
The interest rate a person expects to earn on a savings account or investment account.

Secondary Market:
An informal market where existing mortgages are bought and sold. It is the traditional aftermarket for mortgage loans that brings together lenders that sell mortgages with lenders, investors and agencies that buy mortgages.

Seller Contribution:
The seller may be paying some or all of the borrower's cost. The amount of the contribution has limitations.

Selling Costs:
The costs incurred in selling a home. This could include Realtor expenses and other miscellaneous expenses such as painting or minor repairs to prepare the home for sale.

Servicing:
All the management and operational procedures that the mortgage company handles for the life of the loan, up through foreclosure if necessary, including: collecting the mortgage payments, ensuring that the taxes and insurance charges are paid promptly, and sending an annual report on the mortgage and escrow accounts.

Servicing Released:
A stipulation in the agreement for the sale of mortgages in which the Lender is not responsible for servicing the loan.

Servicing Retained:
A loan sale in which the original lender's servicing department continues to service the loan after the sale to a secondary institution or investor.

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Settlement Statement:
Also referred to as a HUD-1 Settlement Statement. The complete breakdown of costs involved in the real estate transaction for both the seller and buyer.

Single-Family Attached Home:
A single-family dwelling that is attached to other single-family dwellings.

Single-Family Detached Home:
A freestanding dwelling for a single family.

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 improvements.

Subordinate Financing:
An additional lien against the real estate securing the borrowers first mortgage. This lien takes second priority to the first mortgage.

Subsequent Rate Adjustment - Maximum rate decrease:
In association with an Adjustable Rate Mortgage loan, this is the most the interest rate can decrease when it is scheduled for reevaluation and possible adjustment.

Subsequent Rate Adjustment - Maximum rate increase:
In association with an Adjustable Rate Mortgage loan, this is the most the interest rate can increase when it is scheduled for reevaluation and possible adjustment.

Subsequent Rate Adjustment - Next ARM Adjustment Date:
In association with an Adjustable Rate Mortgage loan, this is the date scheduled for the next reevaluation and possible adjustment.

Subsequent Rate Adjustment - Rate Change Frequency:
In association with an Adjustable Rate Mortgage loan, this is the frequency in which possible adjustments may be made to the interest rate amount for Adjustable Rate Mortgages after the initial adjustment.

Tax Rates:
Tax levied by the federal government and some states based on a person's income. Federal income tax rates vary depending on a person's adjusted gross income.

Tax Savings:
The amount saved on taxes by itemizing deductions on income tax returns.

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Title:
The evidence to the right to or ownership in property. In the case of real estate, the documentary evidence of ownership is the title deed, which specifies in whom the legal state is vested and the history of ownership and transfers. Title may be acquired through purchase, inheritance, devise, gift or through the foreclosure of a mortgage.

Title Insurance Policy:
A contract by which the insurer, usually a title company, indicates who has legal title and agrees to pay the insured a specific amount of any loss caused by clouds, claims or defects of title to real estate, which the insured has an interest as owner, mortgagee or otherwise.

(a) Owner's Title Policy:

Usually issued to the landowner himself. The owner's title insurance policy is bought and paid for only once and then continues in force without any further payment. Owner's Title Insurance policies are not assignable.

(b) Mortgagee's Title Policy:

Issued to the mortgagee and terminates when the mortgage debt is paid. In the event of foreclosure, or if the mortgagee acquires title from the mortgagor in lieu of foreclosure, the policy continues in force, giving continued protection against any defects of title which existed at, or prior to, the date of the policy.

Treasury Bills:
Interest bearing U.S. Government obligations sold at a weekly sale. The change in interest rates paid on these obligations is frequently used as the Rate Index for Adjustable Mortgage Loans.

Truth in Lending (TIL):
The name given to the federal statutes and regulations (Regulation Z) which are designed primarily to insure that prospective Borrowers of credit received credit and cost information before concluding a loan transaction.

Underwriting (Mortgage Loans):
The process of evaluating a loan application to determine the risk involved for the lender. It involves an analysis of the borrower's creditworthiness and the quality of the property itself.

Verification of Deposit (VOD):
Form used in mortgage lending to verify the deposits or assets of a prospective borrower when monthly statements are unavailable or unusable.

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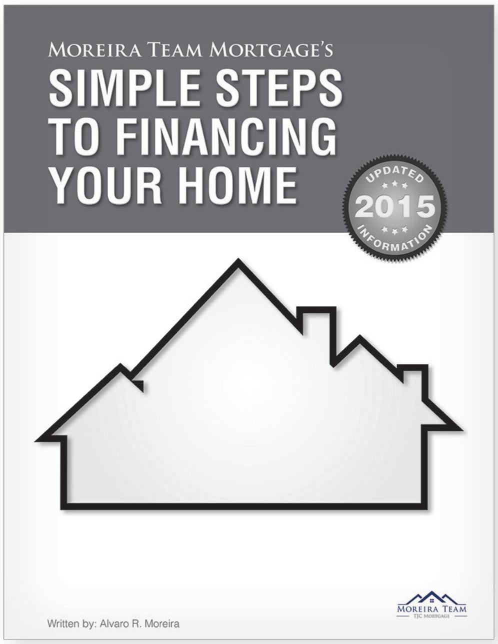
Verification of Employment (VOE):
Form used in mortgage lending to verify the employment and income of a prospective borrower when pay stubs and W2 forms are unavailable or unusable.

Verification of Rent:
Form used in mortgage lending to verify monthly rents paid and late payments, if any.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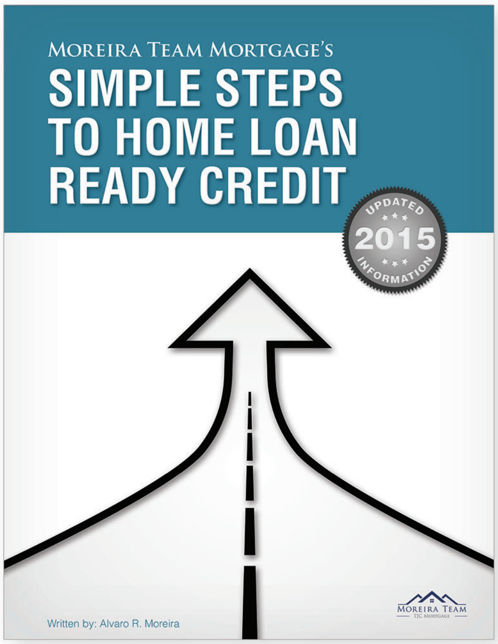
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SIMPLE STEPS TO HOME LOAN READY CREDIT
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Moreira Team

Who We Are

The Moreira Team is one of the fastest growing mortgage lenders. We make the mortgage loan process easy by offering you three ways to apply for your loan: online, over the phone, or at one of our convenient locations.

We employ mortgage professionals operating in a team environment to make sure you get the right loan at the right price…and our Mortgage Pro's are compensated based on their ability to get you to an error-free closing faster than anyone else!

Our fully-integrated, streamlined process lets you start and finish the application process in any way that you choose, while giving you the comfort and convenience of knowing that an experienced loan consultant is right there with you throughout the entire process.

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