THE ROAD HOME NEW JERSEY

Understanding the Homebuying Process:

A Guide for the First-Time Homebuyer

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NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY

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Legal Disclaimer

This brochure is intended to provide general information regarding the process of buying a home. It is not intended to provide buyers with legal advice, and buyers should consider retaining an attorney and/or title insurance company of their choosing who can represent them in the matter from offer through closing. Additionally, this brochure does not set forth all qualification criteria for any of the loans described herein; all interested persons must successfully meet qualification criteria and complete the application process to obtain such loans.

Before You Begin...

Consider this question: Is owning a home *right* for you?

There are many factors to consider when contemplating homeownership. While there are benefits and drawbacks to owning a home, you have to decide what is best for you. Homeowners experience the freedom of having a place of their own and the benefit of an investment where the equity potentially increases each year. Historically, homes have appreciated in value, making them worth more than when they were purchased. Additionally, there are significant tax benefits to owning a home and paying mortgage interest.

Homeownership also means you are responsible for all maintenance and repairs. In addition to paying the mortgage every month, there are other expenses to keep in mind: homeowner's insurance, property taxes, and condominium fees and utilities. In the event you wish to move, selling a home is more difficult and more time consuming than giving notice to a landlord.

Deciding where to live is one of the biggest decisions you will ever make. So, it is important to make sure that you equip yourself with the proper information to avoid the pitfalls and successfully navigate your way to your new home.

Ready?

Follow our step-by-step *Road to Homeownership* guide to begin your journey to owning your first home today!

A note from our Executive Director...

Dear Friends,

We hope that this guide proves to be an invaluable resource on your journey toward homeownership.

Wishing you all the best!

Anthony L. Marchetta
Executive Director
New Jersey Housing and
Mortgage Finance Agency

Step 1: What Can I Afford?

It's an exciting time, but before you head out in search of your new home, take some time to review your finances. Be sure to consider the expenses involved in owning a home when you outline your budget. Can you afford to buy a home? Let's find out.

Am I ready?

To help you get a better grasp of your financial situation, try these easy-to-use online tools:

- Mortgage Calculator - Located on the HMFA website's Homebuyer page: www.state.nj.us/dca/hmfa/homeownership/buyers/
- Affordability Calculator - Located on the Real Story NJ Real Estate website: www.realstorynj.com/buyers/affordability-calculator

The costs of homeownership

Owning a home is a big responsibility that comes with great rewards. Budgeting is important, so plan for sudden expenses that may arise in addition to your regular monthly expenses. Don't forget to include all costs in your monthly budget including:

- Property taxes and special assessments
- Home/hazard insurance
- Property maintenance
- Association and membership fees (for condominiums, townhomes and some developments)

Some of the fees mentioned above are part of your monthly mortgage payment while others are not – be sure to ask about how these fees are to be paid.

Housing Expenses	
Estimate your monthly mortgage	+$
Add in the monthly costs for:	
Mortgage Insurance (approximately 75¢ per $ 1,000)	+$
*Property Taxes	+$
Homeowner's Insurance	+$
Condominium Fees (Home Owner Association fees if applicable)	+$
TOTAL:	$
This represents your housing expense and, unless higher expenses are permitted, should not exceed 28% of your gross monthly household income before taxes. (Total monthly Housing Expenses ÷ by gross monthly income)	
Other monthly payments:	
Add your other monthly payments, such as car loans, child support, student loans, installment and credit card debts, etc.	+$
This total should not exceed 36% of your gross monthly income unless higher expenses are permitted. (Total monthly Housing Expenses + Total Other Expenses ÷ by gross monthly income)	$

* Call the town's tax assessor to determine the amount of taxes per $100 of assessed value.

Credit and credit histories

It's no secret. Your credit history is an important factor that affects your ability to obtain a mortgage for the purchase of your home. Lenders want to see how you borrowed and repaid money in the past. This is reflected in your FICO score. FICO scores range from 300 to 850, and lenders believe that borrowers with higher scores are more likely to repay their loan.

- Homebuyers should obtain a copy of their credit report by contacting www.annualcreditreport.com
- Learn more about Understanding Your Credit Report from the Home Loan Learning Center: www.homeloanlearningcenter.com/yourfinances/creditscore.htm
- For questions regarding your credit report, view the Credit Questions and Answers at www.annualcreditreport.com/cra/helpfaq

What Can I Afford?

- Check out the Home Loan Learning Center's Tips for Building or Repairing Your Credit at: http://homeloanlearningcenter.com/TipstoImproveYourCreditRating.htm

Downpayments

You will need to make an up-front investment in your new home in order to get a mortgage. The amount of the downpayment, or the initial payment made when buying a home, will also impact your ability to get a mortgage as well as the interest rate and terms of the mortgage loan. Buyers who contribute their own funds to the purchase of a home are considered a better overall credit risk.

If you're making a downpayment that is less than 20% of the home price, mortgage insurance will be required.

Questions about what you can afford?

If you have questions about the financial aspects of homeownership, call the HMFA's hotline at 1-800-NJ-HOUSE (1-800-654-6873)and be sure to read our FAQ's on page 20.

There are a number of counseling agencies statewide that can help you get your finances in order.

Road to Homeownership - Step 2

Finding An Affordable Property

Now that you know what you can afford, it's time to start looking at houses. You're probably asking yourself, where should I look, what can I expect to find? While no property will have everything you want, the home you purchase should meet as many of your needs and wants as possible. You might start out looking for a mini-mansion but end up finding that a mid-size ranch home is just right for you and your budget.

Where to begin

You've probably been making a mental wish list of expectations for your new home. Maybe you can't live without a walk-in closet, a living room with high ceilings or a functioning fireplace. Let's get all those details listed on paper and make sure that the priorities reflect you and your family. Consider the neighborhood, the home's exterior, interior layout, number of bedrooms and bathrooms as well as location and lifestyle, commuting distance and community, and reputation of the schools.

Take your list with you when you look at prospective homes and size up each house according to the items on your list. Can you envision entertaining family and friends during holidays in the dining room? Is there enough closet space to store your ever-growing shoe collection? The more the home matches up to items on your list, the happier you'll be when you're living in it.

What are my options?

First, you need to decide what type of home you want. Be mindful of your plans for the next five years. Do you plan on starting a family or would you be interested in renting out a space in your home? There are a number of housing types to choose from to suit your individual needs, including:

- Single-Family
  Single-family homes are the most common target property for prospective homeowners. There are two options: a newly constructed house or an older home in an already established neighborhood. Both new construction and older homes offer advantages to first-time buyers. Older homes may be roomier, more affordable, and siutated in a convenient or central location. A new home likely has a more efficient heating system, better insulation, and lower maintenance costs, since everything is brand new.
- Condominium
  A condominium is a single unit in a multi-unit property. Benefits of condo ownership include low maintenance and many of the freedoms of apartment living. Remember, though, that along with your private space, you will also share common areas with the owners of other condominiums in your property. As a condo owner, you may be asked or may wish to serve on the association board. This involves overseeing the collection of fees, upkeep of the grounds, maintaining cash reserves, and managing both emergency and scheduled repairs.
- Multifamily
  Purchasing a 2- to 4-unit property provides you with both an investment property and a personal residence. Along with the possible tax and income advantages of multifamily

Finding An Affordable Property

homes come the added responsibilities of a landlord, such as tenant search and selection, leases, security deposit procedures, evictions and emergency repairs.

- Fixer-Upper
  During your search for a home, you are sure to find many houses that can be described as fixer-uppers--generally older homes in need of updates and repair. These homes are often in older, more established neighborhoods, but have suffered from neglect over a long period of time. If you decide that a fixer-upper is for you, be prepared for the numerous costs involved in rehabilitation work. Once work begins, you may uncover additional issues. Rehabilitation costs can rise quickly and significantly, as can the time needed to get the house in good working order. If you decide on a fixer-upper, have a contractor or home inspector detail the extent of rehabilitation work, and estimate the costs. Do this before you make your offer on the home. The amount it will cost to repair the property will impact the price you pay for the house.

Location, location, location

You've heard it before. Your home's location is arguably the most important feature to consider. Are you comfortable living on or near a main street? Would you like to have a dog park in walking distance? Here are some things to consider when choosing a location:

- How far are you willing to commute to work?
- How accessible is the home to highways or public transportation?
- How close are shopping, churches, day care facilities and recreation areas?
- What is the quality of the public schools?

Prioritize the attributes that are most important to you. Ask yourself, would you trade a larger yard for highway access, public transportation for shopping and restaurants, a shorter commute for better public schools? With your list in hand, you'll be better equipped to find the town and the home that best suits your desired lifestyle.

Finding the right home

Conducting the search yourself is certainly manageable, but a fair bit of organization and professional insight could be very helpful. First identify towns that fit your needs, and then seek out homes in those towns within your price range. Schedule appointments with a REALTOR® or the home owner in the case of "for sale by owner" to view homes for sale, or find open houses you can attend.

There are a number of resources that will help you find the right house for you:

- Websites such as www.realtor.com, www.njmls.com and www.njhrc.gov
- Newspapers
- Searching for For Sale signs in target areas
- Bulletin boards at work, or in and around target communities
- Talking to friends, acquaintances, co-workers

You may also want to work with a REALTOR® who can provide expertise on market trends, property conditions, and many other aspects of buying your first home. To find a licensed REALTOR® in New Jersey, visit www.njar.com the official website of the New Jersey Association of REALTORS®.

Finding An Affordable Property

Open House advice

Attending an Open House is serious business. Remember that an Open House is a sales tool that homeowners use to market their homes. Make sure you refer to your list and keep an open mind. To help keep your focus, keep in mind the following:

- Bring a notepad and map so you can mark each home's location and note its special features.
- Pick up a listing sheet whenever one is available. After a day of open houses, you may find that a home has more or less appeal than you initially thought.
- Pace yourself. Visit too many homes without a break and you'll start missing details.
- If you are going to look at a lot of houses, take big breaks. See three homes in the morning, then stop and have lunch. See three more, then stop and do something else. See three more in the evening and call it a day.
- Bring a camera and snap pictures of the houses that appeal to you. Grab photocopied pictures if they are available.
- Make a rough sketch of the floor plans of the homes you are considering.
- Remember, there are no foolish questions. Ask away!

You want to know everything you can about each property, so be prepared to ask lots of questions. One question about pipes, heating or cooling systems, taxes, or recent repairs may lead to other questions. You may find areas of concern about a specific property that looked trouble-free. It's far better to know about a home's problems before you buy than it is to discover them once you own the property.

Road to Homeownership - Step 3

Homebuyer Counseling

If thinking about buying a home causes you to break into a cold sweat or twitch nervously - stop and take a deep breath. You might want to consider attending a homebuyer counseling course that will give you a step-by-step breakdown of what lies ahead, so that you know what to expect.

Do I need homebuyer counseling?

Most HMFA loans do not require counseling, but there are many benefits to going through a counseling course.

What are the benefits of homebuyer counseling?

The counseling course is basically a 101 class on buying your first home. It will teach you about the different aspects of homebuying including finding the right home, choosing a neighborhood, different mortgage types and terms, and real estate lingo.

Programs include discussions of:

- Applying for a mortgage
- Downpayment and closing cost requirements
- Credit
- Making an offer
- The home inspection
- Preparing for closing
- Special considerations for buying condos and multifamily properties
- Post-purchase issues
- Budgeting

Where can I locate a homebuying counseling course?

There are many counseling courses held across New Jersey that are offered for free or low cost. To find one near you, go to the U.S. Department of Housing and Urban Development Approved Housing Counseling Agencies website (http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm).

Road to Homeownership - Step 4

Available HMFA Lenders

Next step - choosing a lender. The HMFA works with a number of qualified lenders that participate in our Homebuyer programs. See the list linked below to choose the lender that's right for you!

HMFA Mortgages Approved Lender List - Updated Regularly!

http://www.state.nj.us/dca/hmfa/includes/lender.html

Road to Homeownership - Step 5

Making an Offer

After carefully searching, you finally found the right home and you're ready to make an offer.

An offer is a legally binding commitment stating that you will buy the home for a specific price provided that certain terms and conditions are met. Once the seller accepts your offer, it must be signed both by you and the seller.

Considerations for the offer

You may want to think about the following as you prepare your offer:

- What is the age and condition of the home?
- Are any repairs needed? What will they cost? Are the sellers willing to share any of the expense?
- How long has the property been on the market?
- How active is the market (i.e., buyer's or seller's market)?
- Are the sellers anxious to sell?
- Is the property in a particularly desirable location or school system?
- Does the home meet many, most, or all of the items on your wish list?

Preparing the offer

Pay close attention to all the details. Be sure that the offer clearly outlines all the terms and conditions of the sale, including:

- Your name and the seller's name
- The property's address
- Any special provisions regarding fixtures, appliances, etc.
- The purchase price being offered (including the deposit put down to bind the offer and the deposit to be paid upon the execution of the Purchase and Sale Agreement)
- Any additional riders and deadline dates
- Any contingencies to which the offer is subject (e.g., pest inspection, securing financing)

Timing and deadlines

Now it's time to get out your calendar. Take time to think about how long it will take you to negotiate the offer with the seller, get an inspection, and get approved for a mortgage. Consider meeting those deadlines when you set a closing date. Your deal could fall through if deadlines aren't met.

Negotiating the offer

After you make your offer, the seller may accept, reject or counter it with a different price. If the seller counter-offers, you can then accept, reject, or counter that. While the negotiation goes on, the house will stay on the market.

Check out this link at the Real Story NJ's website for more tips about the homebuying process: http://www.realstorynj.com/buyers/-home-buying-process.

Making an Offer

Do I need an attorney?

To protect your best interest, we recommend that you retain an attorney when purchasing your first home. The attorney will also:

- Help you prepare the offer
- Help negotiate the sale price and conditions of the sale
- Draft and/or revise the Purchase and Sale Agreement to protect you and your money
- Assist you with the mortgage process
- Prepare you for the final walk-through of the property
- Attend the closing and represent your interests
- Provide you with a three-day right of review of the Purchase and Sale Agreement

Purchase and Sale Agreement

It's not over yet! After negotiations are settled and your offer is accepted, a Purchase and Sale Agreement is written up by the broker. This document spells out the agreement in specific detail. Because it's a legally binding contract, have your attorney review it before you sign it.

Provisions and contingencies

Your first line of defense before you go into contract on your first home is to include provisions and contingencies in your offer. This ensures that you and your money are protected in the event that the loan is not approved and the deal is called off. It is very important that the Purchase and Sale Agreement include a mortgage contingency clause, which states that your buying the home is dependent on your ability to get a mortgage. Such a clause allows you to keep your deposit if your mortgage isn't approved.

Other contingencies to be added to the Purchase and Sale Agreement should be based on the home's condition, pest, radon, and lead paint inspections. The closing date and occupancy date should also be indicated. Learn more about provisions and contingencies at the following URL: http://homebuying.about.com/od/buyingahome/qt/011508_Contingt.htm.

The home inspection

You wouldn't buy a car without taking it for a test drive, the same goes for a home. Having a professional assess and inspect the home will help you know if you are getting what you're paying for.

Once you schedule an inspection, a home inspector will look carefully at the condition of the home, letting you know about any potential problems or necessary repairs. An inspection usually costs a few hundred dollars and is paid for by the buyer. You can learn more in Step 7: The Home Inspection on page 13.

Road to Homeownership - Step 6

Applying for a Mortgage

You're within one mile of the finish line to becoming a homeowner, and there's no stopping you now. Once your offer has been accepted and the Purchase and Sale Agreement is signed, you will need to apply and be approved for a mortgage. There are numerous finance options, so gathering the right information is key to making a good decision.

These tools will help. Print them out to use as handy reference guides:

- **HMFA's Mortgage Application Checklist** to gather and prepare all the documentation required to obtain a loan: http://www.state.nj.us/dca/hmfa/home/roadhomenj/images/pdf/mortgage_checklist.pdf - Turn to the next page to see what's included on this list!
- **Mortgage Application Process Flowchart** to follow the path your application will take: http://www.state.nj.us/dca/hmfa/home/roadhomenj/images/pdf/mortgage_flowchart.pdf

Obtaining a mortgage

This is uncharted territory for most people, since this is your fist time purchasing a home. You likely have many questions and luckily we can help. Take some time to read our **Benefits of an HMFA Mortgage** information on page 18, which outlines a variety of programs that may help you to get a loan.

To obtain an HMFA loan, you can contact a participating lender. Visit our list of approved lenders (http://www.state.nj.us/dca/hmfa/includes/lender.html) to find one nearest you.

Pre-qualification vs. pre-approval

Before you make an offer, you can pre-apply for a mortgage loan. You can visit a mortgage lender and supply your personal financial information. The lender will estimate the loan amount that you may qualify for based on your income and credit history.

While you're shopping around for a loan, you may hear the terms "pre-qualified" and/or "pre-approved." It is important to understand the difference between these terms. Pre-qualified means that you would qualify for a mortgage but it does not guarantee you a mortgage or a rate. Being pre-qualified is useful in the negotiating process because it will give the seller confidence that you'll be able to get a mortgage once the time comes. Pre-approved, on the other hand, guarantees you a mortgage at a specified rate.

It's important to note that obtaining a pre-qualification or pre-approval from a lender does not obligate you to get a loan from that lender.

Where to apply

Be a smart shopper and prepare yourself to make a wise decision about your mortgage. After you get pre-qualified or pre-approved, you can still continue to shop around for better rates and terms. You may have to make a lot of phone calls and do lots of research, but it's worth it and could save you a significant amount of money in the long run. You should choose a lender that you trust and a loan that will stay in your budget for many years. Consider exploring options from:

- Mortgage companies
- Savings and loan institutions
- Federal credit unions
- Other financial institutions

Applying for a Mortgage

What do I need to bring with me during the application process?

To expedite the processing of a mortgage application, borrowers should provide the following:

- Accepted Offer to Purchase Real Estate and a Purchase and Sale Agreement, both signed by all parties. Copies of canceled checks (front and back) used for the downpayment listed on the Purchase and Sale agreement will be required prior to closing.
- Names and addresses of all employers for the previous two years.
- Annual Gross Salary (overtime and bonuses listed separately), copies of W-2 forms from previous two years, and most recent pay stubs (at least one month).
- If self-employed, copies of your federal income tax returns with all schedules for the previous two years. If employed by your own corporation or partnership, copies of its returns for the previous two years, and a year-to-date profit and loss statement prepared by your accountant (sole proprietorships included).
- If relying on Social Security, disability or pension income, bring a copy of the three most recent stubs or three bank statements if directly deposited, as well as the Award Certificate from the issuing agent.
- Copy of front and back of Resident Alien Registration Card, if applicable.
- Names and addresses of banks, credit unions, and depositors in which you have deposit accounts. List account numbers and balances in each account. Include copies of the last three monthly statements for each account.
- List of all stocks, bonds, certificates of deposit and other securities, showing current market value. Include copies of last three monthly and/or quarterly statements, account numbers, etc.
- Complete list of all outstanding installment debt, including auto loans, student loans, and personal loans. Supply creditor name, address, account number, current balance and monthly payment.
- Complete list of all outstanding credit card debt including account numbers, balances and minimum payments.
- Verification of monthly rental payment. Copies of canceled checks (front and back) from previous 12 months.
- If receiving or obligated to pay alimony, child support and/or separate maintenance, provide a copy of your divorce decree and/or court order. Include canceled checks from previous 12 months to verify the receipt or payment of these funds.

Are there any additional fees?

Generally, when you apply for a mortgage, you will be charged a non-refundable application fee to cover the costs of the home appraisal, credit report and the lender's underwriting costs. The application process may take anywhere from one to six weeks depending on the availability of your underwriting documents. Within three business days of submitting your loan application, your lender is required by law to provide you with a good faith estimate of the closing costs you will pay. Once the lender has issued a loan commitment, a closing date can be set.

The loan terms

Because each lender will have different terms to its mortgage, you can compare some key points to understand which deal is the best for you.

Compare:

- Interest rate
- Whether the rate is fixed or adjustable
- Whether the rate can be locked in when you apply for the mortgage. For how long?
- At what cost?
- Closing costs
- Other fees charged by the lender. Do all lenders charge these fees?

Road to Homeownership - Step 7

The Home Inspection

Getting your future home approved by an inspector is a vital step in the buying process. You'll be responsible for finding a licensed inspector and paying him, but learning the findings will make you feel more comfortable buying the home.

Do I need a home inspection?

A home inspection is like getting a physical from a doctor – it will teach you about the home's potential problems so that you can make an informed decision about whether you want to continue with the purchase. The inspector will examine the structure and systems of the home (such as the heating, plumbing, and electrical). He or she will let you know if there are existing or potential problems and may recommend ways to address them.

If you're planning on selling your home, consider a home inspection as well. It will give you an opportunity to make repairs and ensure that a buyer's inspector finds your property in good condition for a sale.

What is involved in a home inspection?

An inspector will do a visual check of the home's:

- Heating system
- Central air conditioning system (temperature permitting)
- Plumbing
- Electrical systems
- Roof, attic, and visible insulation
- Walls
- Ceilings
- Floors
- Windows and doors
- Foundation, basement, and the visible structures of the home
- Environmental concerns (removal of oil tank, etc.)

Your home inspector will inspect the fundamental and essential home systems, including plumbing.

The inspector should give you a written report immediately after the inspection. If the inspector finds many problems and gives the home failing grades, you may withdraw from the agreement provided that was in the contingency clause in your offer.

You can also have the home inspected for termites, radon, lead paint, and asbestos, which is not covered in a basic inspection.

Where can I find a home inspector?

New Jersey has laws to qualify home inspectors and regulate the inspection process. To locate an inspector near you, visit:

- The New Jersey Association of Licensed Professional Home Inspectors: www.njalphi.com
- The American Society of Home Inspectors: www.ashi.org

Road to Homeownership - Step 8

Prior to Closing...

Prior to closing on your new home, you and your lender need to complete a few final tasks.

Title Search

Before the lender gives you a mortgage, a title search must be done to verify that the seller truly owns the property and that there are no liens (claims) on the property. If there are any claims, the seller is required to pay them prior to the closing.

Title Insurance

The lender will require title insurance to protect its investment in case a question about the validity of the title arises after closing. Additional title insurance to protect your investment is also available. Generally, the buyer pays for title insurance.

Homeowner's Insurance

You will need to obtain homeowner's insurance prior to closing. A paid receipt and declaration of issuance must be presented at closing.

Survey

Most transactions will require providing the lender with a certified property survey. The survey is a technical drawing of the property and its structures. A survey can take a few weeks and should be ordered well in advance of the closing date. The buyer is usually responsible for ordering and paying for the survey.

Flood Search

The lender will order a flood search on the property you are buying. The flood search determines whether the property is located in a designated flood zone. Federal flood insurance is available to those residing in flood zones and may be a condition of the mortgage commitment.

Septic Certification

If the property you are purchasing contains a septic tank, a system certification by an engineer or septic expert may be required.

Well Testing

The state requires that drinking water wells be tested for contaminants. If the property's served by a well, you will be given test results. You should consider test findings carefully and contact the county health offices if you have any questions.

Termite Inspection

In certain areas, a termite inspection must be completed prior to the closing. The seller generally pays for the property to be inspected for termite damage and infestation by a termite inspection firm. A certificate of inspection should be delivered to your lender before the closing.

Road to Homeownership - Step 9

The Closing Process

Excited about finally moving into your new home? There's just one more step left – the closing. Ownership is transferred to you from the seller and money is exchanged. It's stressful but your real estate agent and attorney will be there to guide you through the process.

How do I prepare?

You should walk through the home within 24 hours of the closing to make sure it looks as you expected and is in move-in condition. This final inspection gives you the opportunity to see that the seller has moved out and completed all repairs agreed to in the sales contract. Make sure all appliances and systems are working and that any items the seller agreed to leave behind are in the house. If you discover something after the closing, you have no way out, so be sure to walk slowly and look carefully.

What do I bring to the closing?

The mortgage lender's attorney will let you know exactly what documents you should bring. Typically, you need a form of photo or state-issued ID, a cashier's check to cover the closing costs (the attorney will let you know the correct amount), and a homeowners insurance policy.

What happens during closing?

The closing usually takes place at the attorney or mortgage lender's office. You will be asked to sign a lot of documents, so make sure you read each one closely.

For more information, visit the Home Loan Learning Center's Closing Guide (http://homeloanlearningcenter.com/Howdoyou/Step6Closing.htm) to learn more.

Closing costs

There are some costs that will need to be paid at the closing. Your attorney will go over your HUD-1 Statement with you, which itemizes all the costs. Some standard costs include:

- Downpayment
- Attorney fees
- Title search (a check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding)
- Title insurance (to protect the lender and/or the buyer against loss arising from disputes over ownership of a property)
- Municipal lien search (to determine that there are no outstanding legal claims against the property that must be paid when the property is sold)
- Appraisal
- Credit report and a certified plot plan
- A full-year insurance binder
- Recording fees and transfer charges
- Prepaid interest due on the mortgage for the month in which you are closing the loan

The Closing Process

What documents are signed at closing?

Visit the Home Loan Learning Center's closing guide at: http://homeloanlearningcenter.com/Howdoyou/Step6Closing.htm to find out which standard forms are signed at closing. Remember to talk to your attorney about what the forms entail and be sure to question anything that is not clear.

Payments

The closing agent will provide the buyer (you) and the seller with a list of all the costs that must be paid at this time. You make these payments and sign for your mortgage. By signing the mortgage, you agree that if you do not make payments, the lender is entitled to sell your property and apply the proceeds to your unpaid debt. You will also sign a mortgage note agreeing to pay back the loan.

Title

The owner will give you title to the house in the form of a deed. The title and mortgage will be recorded in the County Clerk's Office.

Congratulations! You just purchased your first home. You are now officially homeowners. We hope that our step-by-step guide proved to be a helpful resource along the way.

Tools & Resources

Mortgage Calculator: Estimate the total cost of your mortgage and monthly payments.
www.state.nj.us/dca/hmfa/includes/calculator.html

Affordability Calculator: Determine how much house you can afford.
www.realstorynj.com/buyers/affordability-calculator

HMFA Approved Lender List: www.state.nj.us/dca/hmfa/includes/lender.html

HMFA Purchase Price and Income Limits: www.state.nj.us/dca/hmfa/homeownership/buyers/first/

Site Evaluator: This new tool can be used to determine if a project is located in a Smart Growth Area and its eligibility for various HMFA financing programs.
www.state.nj.us/dca/hmfa/homeownership/buyers/site/

Live Where You Work Program Information:
www.state.nj.us/dca/hmfa/homeownership/buyers/live/

AnnualCreditReport.com: www.annualcreditreport.com/cra/index.jsp

Understanding Your Credit Report:
www.homeloanlearningcenter.com/yourfinances/creditscore.htm

Credit Questions and Answers: www.annualcreditreport.com/cra/helpfaq

Building or Repairing Your Credit:
http://homeloanlearningcenter.com/TipstoImproveYourCreditRating.htm

Mortgage Application Checklist: Prepare to apply for a mortgage having the following documents and information ready with this handy printable PDF.
www.state.nj.us/dca/hmfa/home/roadhomenj/images/pdf/mortgage_checklist.pdf

Mortgage Application Process Flowchart:
www.state.nj.us/dca/hmfa/home/roadhomenj/images/pdf/mortgage_flowchart.pdf

HUD.gov: U.S. Department of Housing and Urban Development
http://portal.hud.gov/hudportal/HUD

Realtor.com: Official Site of the National Association of REALTORS®: www.realtor.com

NJMLS.com: New Jersey Multiple Listing Service: www.njmls.com

NJAR.com: New Jersey Association of REALTORS®: www.njar.com

Realstorynj.com: New Jersey Association of REALTORS® Homebuyer Education Campaign
www.realstorynj.com

NJHRC.gov: The New Jersey Housing Resource Center: www.njhrc.gov

ASHI.org: American Society of Home Inspectors: www.ashi.org

NAHI.org: National Association of Home Inspectors - New Jersey: www.nahi.org

NJALPHI.com: New Jersey Association of Licensed Professional Home Inspectors
www.njalphi.com

VA.gov: U.S. Department of Veterans Affairs: www.va.gov

Rurdev.usda.gov: U.S. Department of Agrculture Rural Development Single Family Housing Loans and Grants: www.rurdev.usda.gov/hsf_sfh.html

HMFA Mortgage Programs

Benefits of an HMFA Mortgage

The New Jersey Housing and Mortgage Finance Agency (HMFA) provides a variety of programs to assist prospective homebuyers. Here are just a few benefits of an HMFA mortgage.

- Competitive, 30-year fixed interest rates.
- Downpayments of as little as 3.5%.
- Downpayment and closing cost assistance available with conventional, FHA, VA, or USDA loan types.
- Seller's concessions of up to 3% permitted.
- Certain closing costs can be gifted by family members, non-profit organizations or government agencies.
- Unlike most lenders who sell their loans to other parties, HMFA retains the servicing for the life of the loan.
- If you're building a home, HMFA offers a longer rate lock for no extra fee.
- Choose from our extensive list of lenders.
- HMFA cares about you, the homebuyer, and has your best interests in mind.

What sort of mortgage programs does HMFA offer?

HMFA offers three different programs for the first time homebuyer. They are the First-Time Homebuyer Mortgage Program, Smart Start, and Live Where You Work (LWYW). Each program will be explained below.

First-Time Homebuyer Mortgage Program

Becoming a First-Time Homebuyer in New Jersey is made easier and more affordable when you use one of HMFA's mortgage programs. Once you determine how much house you can afford to buy, HMFA lenders can help you determine which program is the most advantageous for you.

HMFA has helped thousands of New Jersey residents become homeowners. You can become a homeowner, too, by following our roadmap to homeownership.

Who Qualifies:

- First-Time Homebuyers who meet income eligibility requirements
- Eligible homebuyers who purchase a home in an identified Urban Target Area

FIRST-TIME HOMEBUYER PROGRAM

How it Works:

- Low-cost, fixed rate mortgages are available through large network of lenders.
- View HMFA's list of approved lenders: www.state.nj.us/dca/hmfa/includes/lender.html
- Low downpayment.
- HMFA offers assistance with downpayment and/or closing costs through the Smart Start program.
- Area income and purchase price limitations apply. Visit this link to learn about area income limitations: www.state.nj.us/dca/hmfa/homeownership/buyers/first/

Benefits of an HMFA Mortgage

Smart Start

Offers downpayment and/or closing cost assistance for eligible homebuyer consumers purchasing in a designated Smart Growth Area in New Jersey in the form of a second mortgage.

Who Qualifies:

- Homebuyers who are BOTH participants in HMFA's first mortgage homebuyer program who are purchasing in a Smart Growth Area. To determine whether your property qualifies for the Smart Growth program, check out our Site Evaluator tool at the link below.

How It Works:

- The program helps these families by offering a second mortgage for downpayment and/or closing costs up to 4% of the first mortgage.
- For example, a borrower with a $200,000 first mortgage can receive a second mortgage of up to $8,000.
- To determine whether your property qualifies for the Smart Growth program, check out our Site Evaluator tool (www.state.nj.us/dca/hmfa/homeownership/buyers/site/).

Live Where You Work (LWYW)

If you're planning to buy a home in the town where you're employed, Live Where You Work (LWYW) may be the right program for you. LWYW provides low-interest mortgage loans to homebuyers purchasing homes in the municipalities in which they work.

This means saving money on gas, tolls, and mass transit – giving you, the buyer, more purchasing power. What's more, the extra time you'll have to spend on your personal interests and with your family is priceless.

The goal of LWYW is to build stronger communities by promoting homeownership and encouraging people to live closer to their jobs. By working closer to home, we reduce the dependence on (and expense of!) cars, and increase the use of alternate transportation such as walking, biking and public transit.

Who Qualifies:

- Eligible First-Time and Urban Target Area homebuyers who want to purchase a home the same town in which they are employed.

How It Works:

- LWYW is a program that provides a forgivable downpayment and closing cost assistance partnered with low-interest fixed rate mortgage loans and greater buying power because of expanded income ratios.
- Eligible properties include one-family units, including condominiums, (new and existing), and existing 2- to 4-family unit properties that are more than 5 years old. Properties must be located in state designated Smart Growth locations.
- For detailed program specifics, please visit the Live Where You Work Program page (http://www.state.nj.us/dca/hmfa/homeownership/buyers/live/).

Road to Homeownership

Frequently Asked Questions

These questions and answers are intended to provide general information and are not the final word on program requirements. For more information, be sure to review the description of the program you are interested in, call a participating lender, or call our toll free hotline: 1-800-NJ-HOUSE (1-800-654-6873).

Am I a First-Time Homebuyer?

A First-Time Homebuyer is someone who has not owned a home for the past three years. If the house you are buying is in one of the designated Urban Target Area neighborhoods (use the Site Evaluator tool [www.state.nj.us/dca/hmfa/homeownership/buyers/site/] to determine if your property is within an Urban Target Area) you do not have to be a first-time buyer, however, you cannot own any other houses.

Are there income and purchase price restrictions for First-Time and Urban Target Area Homebuyers?

Yes, the federal tax laws require that maximum household income and purchase prices be set for each county.

Do I have to be a New Jersey resident to apply for a loan?

No, but the property you are buying must be in New Jersey and you must occupy it as your principal residence.

Do I have to be a citizen of the U.S. to apply?

No, but you must be a permanent legal resident.

What is the New Jersey Housing and Mortgage Finance Agency?

The New Jersey Housing and Mortgage Finance Agency (HMFA) is a statutorily authorized entity of the State of New Jersey. The Agency is empowered to raise money by issuing tax-exempt bonds. Since the Agency's borrowing costs are low, it can pass the savings along in the form of low-interest rate mortgage loans to qualified home buyers. The Agency also is empowered to finance multifamily rental housing and is the allocating agency for the federal Low Income Housing Tax Credit program. For more information, be sure to visit the HMFA's website at: www.njhousing.gov

What programs does HMFA have that are different from what I would get from a bank or mortgage company?

HMFA offeres a variety of low market interest rate loans to First-Time Homebuyers. In addition, these loans are available to people who have not owned a home as their principal residence for the past three years as well as to buyers who are purchasing housing in an Urban Target Area.

What are the benefits of using HMFA programs?

Savings! A low interest rate means lower monthly mortgage payments. Because this saves you money on your mortgage payment, it may also provide you with an opportunity to qualify for a higher priced home.

Frequently Asked Questions

How do I qualify for HMFA programs?

To be eligible, you must be a First-Time Homebuyer or not have owned a principal residence within the past three years. You must meet HMFA income guidelines, and the home must fall within HMFA's sale price limits, which vary from county to county. You must be able to qualify for a loan and have the ability to make a downpayment if one is required.

Where do I apply for an HMFA loan?

All of HMFA's programs are available statewide through a network of participating lenders. Loan applications are made through our participating private lenders (www.state.nj.us/dca/hmfa/includes/lender.html) to find a lender near you.

What are the requirements for the Police and Fire Mortgage Program?

Borrowers must be active members of the Police and Fire Retirement System Mortgage Program with at least one year of creditable service. There are no income or purchase price limits, but there is a maximum mortgage loan amount.

What if I have bad credit or no credit?

Every borrower's credit history (http://www.homeloanlearningcenter.com/yourfinances/creditscore.htm) has to be individually considered. It is not a good idea to make assumptions about whether one's credit is good or bad. You can have a lender to evaluate your credit history and pre-qualify you for a loan or advise you about what you need to do to prepare to become "mortgage ready." Credit counseling agencies are an excellent resource if your credit needs to be repaired.

How much can I borrow based on my salary?

The amount varies based on the interest rate, length of the mortgage term, taxes and insurance costs, condo fees, and other factors. There is a mortgage calculator on the HMFA's website that can give you an estimated amount. Access the calculator here: www.state.nj.us/dca/hmfa/includes/calculator.html

What type of home can I purchase using HMFA programs?

Single-family residences, one- to four-family homes, town homes, cooperative units, and condominiums to be occupied by the buyer all can be financed under HMFA's programs. Homes must be in the State of New Jersey.

How long will it take after I have applied?

Your mortgage lender will begin the work of verifying the information you have provided them. This process can take from one to several weeks, depending on a variety of factors. Within three days of your application, your lender will provide you an estimate of your closing costs. You will also get a statement about your estimated monthly payment, the cost of your finance charges and other facts about your mortgage.

Please contact an HMFA representative directly at 1-800-NJ-HOUSE for more information.

Road to Homeownership

Glossary of Terms

The Homebuying Process can introduce a wealth of new vocabulary and unfamiliar terms. Here's a handy glossary of terms to review so that you can be more familiar with the language being used throughout the process. Remember: an educated homebuyer is a *successful* homebuyer!

A

Acceptance

An offeree's consent to enter into a contract and be bound by the terms of the offer.

Adjustable Rate Mortgage (ARM)

A mortgage loan that stipulates the interest rate will be adjusted (See: Index) at a future date, usually 1, 3 or 5 years. The initial rate is usually lower than the prevailing market rate for fixed loans, but the borrower assumes the risk of a higher rate when the adjustment is made.

Affordability analysis

A detailed analysis of your ability to afford the purchase of a home. An affordability analysis takes into consideration your income, liabilities, and available funds, along with the type of mortgage you plan to use and the closing costs that you might expect to pay.

Amenity

A feature of real property that enhances its attractiveness and increases the occupant's or user's satisfaction, although the feature is not essential to the property's use. Natural amenities include a pleasant or desirable location near water, scenic views of the surrounding area, etc. Human-made amenities include swimming pools, tennis courts, community buildings, and other recreational facilities.

Amortization

The gradual repayment of a mortgage loan by installments.

Amortization schedule

A timetable for payment of a mortgage loan. An amortization schedule shows the amount of each payment applied to interest and principal and shows the remaining balance after each payment is made.

Amortization term

The amount of time required to amortize the mortgage loan. The amortization term is expressed as a number of months. For example, for a 30-year fixed-rate mortgage, the amortization term is 360 months.

Annual mortgagor statement

A report sent to the mortgagor each year. The report shows how much was paid in taxes and interest during the year, as well as the remaining mortgage loan balance at the end of the year.

Annual percentage rate (APR)

The cost of a mortgage stated as a yearly rate; includes such items as interest, mortgage insurance, and loan origination fee (points).

Application

A form used to apply for a mortgage loan and to record pertinent information concerning a prospective mortgagor and the proposed security.

Appraisal

A written analysis of the estimated value of a property prepared by a qualified appraiser.

Appraised value

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of comparable sales and other factors.

Glossary of Terms

Appraiser

A state licensed person qualified by education, training, and experience to estimate the value of real property and personal property.

C

Certificate of eligibility

A document issued by the federal government certifying a veteran's eligibility for a Department of Veterans Affairs (VA) mortgage.

Certificate of reasonable value (CRV)

A document issued by the Department of Veterans Affairs (VA) that establishes the maximum value and loan amount for a VA mortgage.

Certificate of title

A statement provided by an abstract company, title company, or attorney stating that the title to real estate is legally held by the current owner.

Chain of title

The history of all of the documents that transfer title to a parcel of real property, starting with the earliest existing document and ending with the most recent.

Clear title

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

Closing

A meeting at which a sale of a property is finalized by the buyer signing the mortgage documents and paying closing costs. Also called "settlement."

Closing costs

Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Closing costs normally include an origination fee, an attorney's fee, taxes, an amount placed in escrow, and charges for obtaining title insurance and a survey. Closing costs will vary according to the area of the country; lenders or realtors often provide estimates of closing costs to prospective home buyers.

Closing statement

See HUD-1 statement.

Cloud on title

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

Coinsurance

A sharing of insurance risk between the insurer and the insured. Coinsurance depends on the relationship between the amount of the policy and a specified percentage of the actual value of the property insured at the time of the loss.

Coinsurance clause

A provision in a hazard insurance policy that states the amount of coverage that must be maintained - as a percentage of the total value of the property - for the insured to collect the full amount of a loss.

Collateral

An asset (such as a car or a home) that guarantees the repayment of a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan contract.

Glossary of Terms

Collection

The efforts used to bring a delinquent mortgage current and to file the necessary notices to proceed with foreclosure when necessary.

Co-signor

A person who signs a promissory note along with the borrower. A co-signor's signature guarantees that the loan will be repaid, because the borrower and the co-signor are equally responsible for the repayment.

Commission

The fee charged by a broker or agent for negotiating a real estate or loan transaction. A commission is generally a percentage of the price of the property or loan.

Commitment letter

A formal offer by a lender stating the terms under which it agrees to lend money to a home buyer. Also known as a "loan commitment."

Common area assessments

Levies against individual unit owners in a condominium or planned unit development (PUD) project for additional capital to defray homeowners' association costs and expenses and to repair, replace, maintain, improve, or operate the common areas of the project.

Common areas

Those portions of a building, land, and amenities owned (or managed) by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

Community property

In some western and southwestern states, a form of ownership under which property acquired during a marriage is presumed to be owned jointly unless acquired as separate property of either spouse.

Comparables

An abbreviation for "comparable properties"; used for comparative purposes in the appraisal process. Comparables are properties like the property under consideration; they have reasonably the same size, location, and amenities and have recently been sold. Comparables help the appraiser determine the approximate fair market value of the subject property.

Condemnation

The determination that a building is not fit for use or is dangerous and must be destroyed; the taking of private property for a public purpose through an exercise of the right of eminent domain.

Condominium

A real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas.

Construction loan

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

Consumer reporting agency (or bureau)

An organization that prepares reports that are used by lenders to determine a potential borrower's credit history. The agency obtains data for these reports from a credit repository, as well as from other sources.

Glossary of Terms

Contingency

A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency

that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

Contract

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

Conventional mortgage

A mortgage that is not insured or guaranteed by the federal government.

Cooperative (co-op)

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

Cooperative corporation

A business trust entity that holds title to a cooperative project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements.

Covenant

A clause in a mortgage that obligates or restricts the borrower and that, if violated, can result in foreclosure.

Credit

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

Credit history

A record of an individual's open and fully repaid debts. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely manner.

Credit life insurance

A type of insurance often bought by mortgagors because it will pay off the mortgage debt if the mortgagor dies while the policy is in force.

Creditor

A person to whom money is owed.

Credit report

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

Credit repository (Bureau)

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

Credit Score

A computer determined number (score) that reflects an evaluation of positive and negative credit information about an individual. Many lenders use this number when determining whether to extend credit. The score is available from the credit bureaus, usually for a fee. Credit Scores are sometimes referred to as "FICO" scores after the Fair Isaacs Company that developed the credit scoring model.

D

Debt

An amount owed to another.

Deed

The legal document conveying title to a property.

Glossary of Terms

Deed-in-lieu

A deed given by a mortgagor to the mortgagee to satisfy a debt and avoid foreclosure. Also called a "voluntary conveyance."

Deed of trust

The document used in some states instead of a mortgage; title is conveyed to a trustee.

Default

Failure to make mortgage payments on a timely basis or to comply with other requirements of a mortgage.

Delinquency

Failure to make mortgage payments when mortgage payments are due.

Deposit

A sum of money given to bind the sale of real estate, or a sum of money given to ensure payment or an advance of funds in the processing of a loan.

Depreciation

A decline in the value of property; the opposite of appreciation.

Downpayment

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

Due-on-sale provision

A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that servesas security for the mortgage.

E

Earnest money deposit

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

Easement

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

Effective age

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

Effective gross income

Normal annual income including overtime that is regular or guaranteed. The income may be from more than one source. Salary is generally the principal source, but other income may qualify if it is significant and stable.

Eminent domain

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

Employer-assisted housing

A housing initiative that offers several different ways for employers to work with local lenders to develop plans to assist their employees in purchasing homes.

Encroachment

An improvement that intrudes illegally on another's property.

Encumbrance

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

Equal Credit Opportunity Act (ECOA)

A federal law that requires lenders and other creditors to make credit equally available

Glossary of Terms

without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Equity

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

Escrow

An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate.

Escrow account

The account in which a mortgage servicer holds the borrower's escrow payments prior to paying property expenses.

Escrow collections

Funds collected by the servicer and set aside in an escrow account to pay the borrower's property taxes, mortgage insurance, and hazard insurance.

Escrow disbursements

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

Escrow payment

The portion of a mortgagor's monthly payment that is held by the servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Known as "impounds" or "reserves" in some states.

Estate

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

Eviction / Ejectment

The lawful expulsion of an occupant from real property.

Exclusive listing

A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time, but reserving the owner's right to sell the property alone without the payment of a commission.

Executor

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

F

Fair Credit Reporting Act

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

Fair market value

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

Federal Housing Administration (FHA)

An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage

Glossary of Terms

loans made by private lenders. The FHA sets standards for construction and underwriting, but does not lend money or plan or construct housing.

FHA mortgage

A mortgage that is insured by the Federal Housing Administration (FHA). Also known as a government mortgage.

Firm commitment

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

First mortgage

A mortgage that is the primary lien against a property.

Fixed installment

The monthly payment due on a mortgage loan. The fixed installment includes payment of both principal and interest.

Fixed-rate mortgage (FRM)

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

Fixture

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

Flood insurance

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

Foreclosure

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

Forfeiture

The loss of money, property, rights, or privileges due to a breach of legal obligation.

G

Government mortgage

A mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the USDA Rural Development Service.

Guarantee mortgage

A mortgage that is guaranteed by a third party.

Guaranteed loan

Also known as a government mortgage.

H

Hazard insurance

Insurance coverage that compensates for physical damage to a property from fire, wind, vandalism, or other hazards.

Home equity line of credit

A mortgage loan, which is usually in a subordinate position, that allows the borrower to obtain multiple advances of the loan proceeds at his or her own discretion, up to an amount that represents a specified percentage of the borrower's equity in a property.

Home inspection

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

Glossary of Terms

Homeowners' association

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

Homeowner's insurance

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

Homeowner's warranty (HOW)

A type of insurance that covers repairs to specified parts of a house for a specific period of time. It is provided by the builder or property seller as a condition of the sale.

Housing expense ratio

The percentage of gross monthly income that goes toward paying housing expenses.

HUD median income

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

HUD-1 statement

A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. Each item on the statement is represented by a separate number within a standardized numbering system. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. The blank form for the statement is published by the Department of Housing and Urban Development (HUD). The HUD-1 statement is also known as the "closing statement" or "settlement sheet (or RESPA)."

I

Income property

Real estate developed or improved to produce income.

Index

A number used to compute the interest rate for an adjustable-rate mortgage (ARM). The index is generally a published number or percentage, such as the average interest rate or yield on Treasury bills. A margin is added to the index to determine the interest rate that will be charged on the ARM. This interest rate is subject to any caps that are associated with the mortgage.

In-file credit report

An objective account, normally computer-generated, of credit and legal information obtained from a credit repository.

Inflation

An increase in the amount of money or credit available in relation to the amount of goods or services available, which causes an increase in the general price level of goods and services. Over time, inflation reduces the purchasing power of a dollar, making it worth less.

Initial interest rate

The original interest rate of the mortgage at the time of closing. This rate changes for an adjustable-rate mortgage (ARM). Sometimes known as "start rate" or "teaser."

Installment

The regular periodic payment that a borrower agrees to make to a lender.

Installment loan

Borrowed money that is repaid in equal payments, known as installments. A car loan is often paid for as an installment loan.

Glossary of Terms

Insurable title

A property title that a title insurance company agrees to insure against defects and disputes.

Insurance

A contract that provides compensation for specific losses in exchange for a periodic payment. An individual contract is known as an insurance policy, and the periodic payment is known as an insurance premium.

Insurance binder

A document that states that insurance is temporarily in effect. Because the coverage will expire by a specified date, a permanent policy must be obtained before the expiration date.

Insured mortgage

A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (PMI). If the borrower defaults on the loan, the insurer must pay the lender the lesser of the loss incurred or the insured amount.

Interest

The fee charged for borrowing money.

Interest only mortgage

A mortgage loan that stipulates that only the monthly interest portion of the loan will be paid until a future date, usually in 1, 3 or 5 years. Borrowers must be aware that when the full payment of principal and interest starts the monthly payment will be substantially higher.

Interest rate

The rate of interest in effect for the monthly payment due.

Interest rate buydown plan

An arrangement wherein the property seller (or any other party) deposits money to an account so that it can be released each month to reduce the mortgagor's monthly payments during the early years of a mortgage. During the specified period, the mortgagor's effective interest rate is "bought down" below the actual interest rate.

J

Joint tenancy

A form of co-ownership that gives each tenant equal interest and equal rights in the property, including the right of survivorship.

Judgment

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

Judgment lien

A lien on the property of a debtor resulting from the decree of a court.

Judicial foreclosure

A type of foreclosure proceeding used in some states (including New Jersey) that is handled as a civil lawsuit and conducted entirely under the auspices of a court.

L

Late charge

The penalty a borrower must pay when a payment is made a stated number of days (usually 15) after the due date.

Lease-purchase mortgage

A contractual agreement between a tenant and an owner where the owner agrees to credit a portion of the monthly rent toward a downpayment and convey title to the

Glossary of Terms

property to the tenant after a specified period of time for an agreed upon sale price.

Legal description

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

Liabilities

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

Liability insurance

Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party.

Lien

A legal claim against a property that must be paid off when the property is sold.

Line of credit

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

Liquid asset

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

Loan

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

Loan commitment

See commitment letter.

Loan origination

The process by which a mortgage lender brings into existence a mortgage secured by real property.

Loan-to-value (LTV) percentage

The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a $100,000 home with an $80,000 mortgage has a LTV percentage of 80 percent.

Lock-in

A written agreement in which the lender guarantees a specified interest rate if a mortgage goes to closing within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

Lock-in period

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

M

Margin

For an adjustable-rate mortgage (ARM), the amount that is added to the index to establish the interest rate on each adjustment date, subject to any limitations on the interest rate change.

Master association

A homeowners' association in a large condominium or planned unit development (PUD) project that is made up of representatives from associations covering specific areas within the project. In effect, it is a "second-level" association that handles matters affecting the entire development, while the "first-level" associations handle matters affecting their particular portions of the project.

Maturity

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

Glossary of Terms

Merged credit report

A credit report that contains information from three credit repositories. When the report is created, the information is compared for duplicate entries. Any duplicates are combined to provide a summary of your credit.

Modification

The act of changing any terms of the mortgage.

Monthly fixed installment

That portion of the total monthly payment that is applied toward principal and interest. When a mortgage negatively amortizes, the monthly fixed installment does not include any amount for principal reduction.

Monthly payment mortgage

A mortgage that requires payments to reduce the debt once a month.

Mortgage

A legal document that pledges a property to the lender as security for payment of a debt.

Mortgage banker

A company that originates mortgages usually for resale in the secondary mortgage market.

Mortgage broker

An individual or company that brings borrowers and lenders together for the purpose of loan origination. Mortgage brokers typically require a fee or a commission for their services.

Mortgagee

The lender in a mortgage agreement.

Mortgage insurance

A contract that insures the lender against loss caused by a mortgagor's default on a government mortgage or conventional mortgage. Mortgage insurance can be issued by a private company or by a government agency such as the Federal Housing Administration (FHA). Depending on the type of mortgage insurance, the insurance may cover a percentage of or virtually all of the mortgage loan. See private mortgage insurance (PMI).

Mortgage insurance premium (MIP)

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

Mortgage life insurance

A type of term life insurance often bought by mortgagors. The amount of coverage decreases as the principal balance declines. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds.

Mortgagor

The borrower in a mortgage agreement.

Multifamily mortgage

A residential mortgage on a dwelling that is designed to house more than four families, such as a high-rise apartment complex.

N

Negative amortization

A gradual increase in mortgage debt that occurs when the monthly payment is not large enough to cover the entire principal and interest due. The amount of the shortfall is added to the remaining balance to create "negative" amortization.

Glossary of Terms

Net worth

The value of all of a person's assets, including cash, minus all liabilities.

No cash-out refinance

A refinance transaction in which the new mortgage amount is limited to the sum of the remaining balance of the existing first mortgage, closing costs (including prepaid items), points, the amount required to satisfy any mortgage liens that are more than one year old (if the borrower chooses to satisfy them), and other funds for the borrower's use (as long as the amount does not exceed 1 percent of the principal amount of the new mortgage).

Nonliquid asset

An asset that cannot easily be converted into cash.

Note

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

Note rate

The interest rate stated on a mortgage note.

Notice of default

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

O

Original principal balance

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

Origination fee

A fee paid to a lender for processing a loan application. The origination fee is stated in the form of points. One point is 1 percent of the mortgage amount.

Owner financing

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

P

Partial payment

A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan.

Payment change date

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

Personal property

Any property that is not real property.

PITI reserves

A cash amount that a borrower must have on hand after making a downpayment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

Planned Unit Development (PUD)

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

Glossary of Terms

Point

A one-time charge by the lender for originating a loan or to reduce the interest rate. A point is 1 percent of the amount of the mortgage.

Power of attorney

A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

Prearranged refinancing agreement

A formal or informal arrangement between a lender and a borrower wherein the lender agrees to offer special terms (such as a reduction in the costs) for a future refinancing of a mortgage being originated as an inducement for the borrower to enter into the original mortgage transaction.

Preforeclosure sale

A procedure in which the investor allows a mortgagor to avoid foreclosure by selling the property for less than the amount that is owed to the investor.

Prepayment

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

Pre-qualification

The process of determining how much money a prospective home buyer will be eligible to borrow before he or she applies for a loan.

Prime rate

The interest rate that banks charge to their preferred customers. Changes in the prime rate influence changes in other rates, including mortgage interest rates.

Principal

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

Principal balance

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

Principal, interest, taxes, and insurance (PITI)

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

Private mortgage insurance (PMI)

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

Promissory note

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

Public auction

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

Glossary of Terms

Purchase and sale agreement

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

Purchase money transaction

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

Q

Qualifying ratios

Calculations that are used in determining whether a borrower can qualify for a mortgage. They usually consist of two separate calculations: a housing expense as a percent of income ratio and total debt obligations as a percent of income ratio.

Quitclaim deed

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

R

Rate lock

A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate for a specified period of time. See lock-in.

Real estate agent

A person licensed to negotiate and transact the sale of real estate on behalf of the property owner. or home buyer.

Real Estate Settlement Procedures Act (RESPA)

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

Real property

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

Realtor®

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

Recorder

The County Clerk who keeps records of transactions that affect real property in the county of purchase, including deeds and mortgages.

Recording

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

Rehabilitation mortgage

A mortgage created to cover the costs of repairing, improving, and sometimes acquiring an existing property.

Remaining balance

The amount of principal that has not yet been repaid.

Remaining term

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

Glossary of Terms

Repayment plan

An arrangement made to repay delinquent installments or advances. Lenders' formal repayment plans are called "relief provisions."

Right of first refusal

A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

Right of survivorship

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

S

Second mortgage

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

Secondary mortgage market

The buying and selling of existing mortgages.

Secured loan

A loan that is backed by collateral.

Security

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

Servicer

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

Servicing

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

Settlement

See closing.

Settlement sheet

See HUD-1 statement.

Special deposit account

An account that is established for rehabilitation mortgages to hold the funds needed for the rehabilitation work so they can be disbursed from time to time as particular portions of the work are completed.

Standard payment calculation

The method used to determine the monthly payment required to repay the remaining balance of a mortgage in substantially equal installments over the remaining term of the mortgage at the current interest rate.

Subdivision

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

Subordinate financing

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

Survey

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

Sweat equity

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

Glossary of Terms

T

Tenancy by the entirety

A type of joint tenancy of property that provides right of survivorship and is available only to a husband and wife.

Tenancy in common

A type of joint tenancy in a property without right of survivorship. Contrast with tenancy by the entirety and with joint tenancy.

Title

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

Title company

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

Title insurance

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

Title search

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

Total expense ratio

Total obligations as a percentage of gross monthly income. The total expense ratio includes monthly housing expenses plus other monthly debts.

Transfer tax

State tax payable when title passes from one owner to another.

Truth-in-Lending

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

Trustee

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

U

Underwriting

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

Unsecured loan

A loan that is not backed by collateral.

V

VA mortgage

A mortgage that is guaranteed by the Department of Veterans Affairs (VA). Also known as a government mortgage.

Vested

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

Department of Veterans Affairs (VA)

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

Contact the HMFA

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