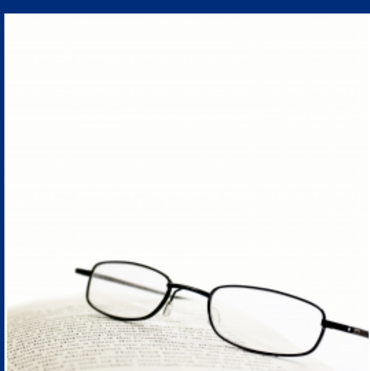
Free Report

HOME FINANCE JOURNAL

Top 10 Definitions YOU Must Know

What Is A Mortgage?



A mortgage is a pledge made by a property owner to a lender which offers the property as a guarantee for repayment.

When the loan is repaid, then the mortgage is cancelled and the property owner owns their property free and clear.

If the loan is not repaid, then the lender will take the mortgage to a court to foreclose - a legal process whereby they take the property instead of the repayment of the loan.

Sometimes people use the term mortgage to mean the “home loan” because mortgages are made to secure home loans. However, technically the loan is made by signing a note to the lender.

1. Mortgage

WHAT IS THE "APPRAISED VALUE"?

The "appraised value" will determine how large a loan can be made on the property.

Appraisers determine the value of the property by comparing your "subject" property with other similar properties in the marketplace.

They determine the likely value based on recent sales of similar properties.

The appraised value will determine how much larger a loan can be made on the property.

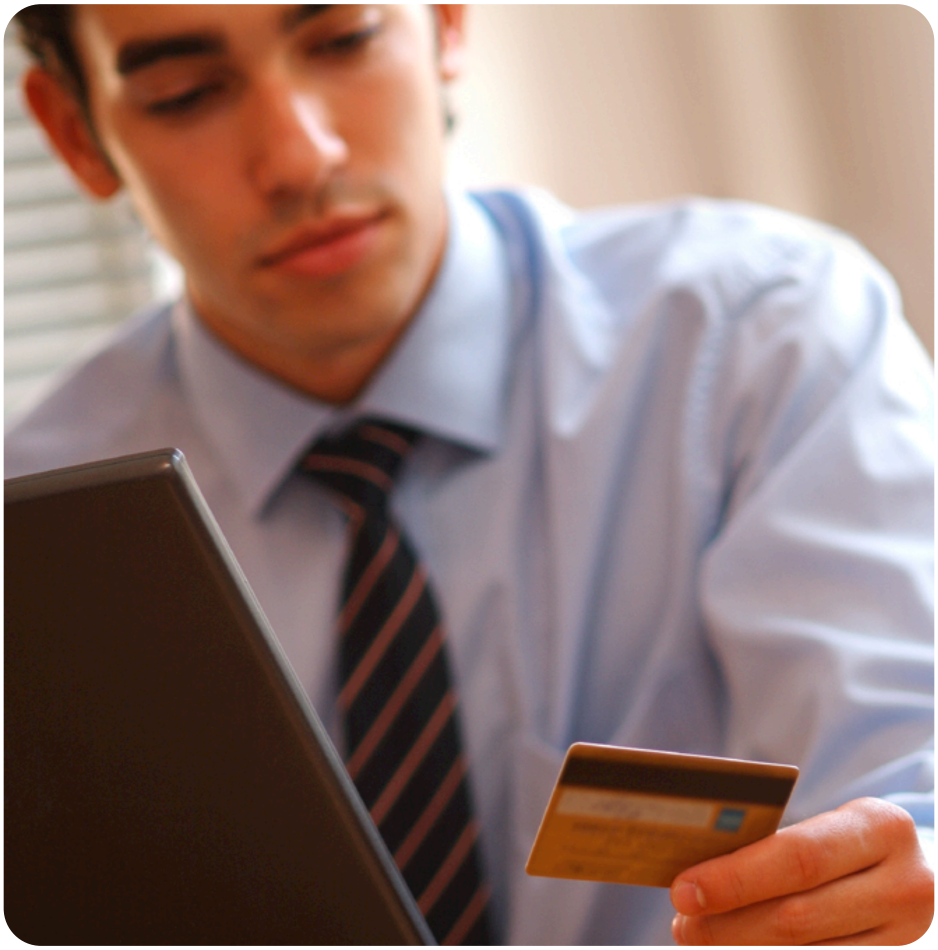
WHAT IS THE APR — Annual Percentage Rate?

3. Annual Percentage Rage

The APR is shown on your Truth-in-Lending disclosure. The APR is not to be confused with a mortgage's interest rate.

The APR is a rate that includes a loan's interest rate plus the added costs of obtaining the loan, such as points, origination fees, and mortgage insurance premiums.

The APR is usually slightly higher than the interest rate on the loan. If there were no costs involved in obtaining a loan other than the interest rate, the APR would then equal the interest rate.



WHAT IS A CREDIT REPORT?

A credit report is a summary of all your financial dealings rendered by one or more of the three national credit reporting agencies.

Whenever you take out a loan, pay your bills late or make late payments on credit cards, then your creditors report your activity to credit bureaus.

4. Credit Report

When you apply for a home loan, then your lender will contact them to get a comprehensive report on how well you pay your bills.

Credit reports may also contain other important financial information like employment history, bankruptcies or information from financial institutions

WHAT IS A FICO SCORE?

5. FICO Score or Credit Score

A FICO score is a numerical value that relates how well you manage your finances. It is sometimes called a credit score.

FICO is based on statistical formulas that are derived by studying millions of credit histories over many years by the Fair-Issac Company. It includes how well you pay your loans and credit cards, how much debt you owe, how much credit you use, and the length of your credit history as well as some other factors.

Your FICO score represents your ability to repay your loans based on your credit history and your use of credit. It will normally range between 300 on the low side to 800 on the high side. Your FICO score will be used by lenders to determine whether they will make a loan to you. It may also determine how much they will lend you and at what interest rate.

WHAT ARE FHA LOANS?

FHA loans are loans that are made in conformance with guidelines set by the Federal Housing Administration.

Historically, they allow for slightly more liberal underwriting guidelines and lower down payments.

6. FHA Loans

The FHA guarantees that if the loan is not repaid, then the FHA will pay the lender a certain amount of the loan to help them cover their loss.

The minimum down payment for an FHA loan is 3.5%.

WHAT IS A VA LOAN?

A VA loan is a loan that is guaranteed by the Veteran's Administration.

Veterans who have served the country honorably are usually eligible for VA loans.

The VA loan program is designed to help veterans purchase a home when they might not have been able to save for the down payment.

7. VA Loans

One of the unique features of the VA loan is that it requires no down payment (0)% by the veteran.

WHAT IS A CONVENTIONAL LOAN?

A conventional loan is a home loan that is made by a bank or private lending institution.

Conventional loans require a minimum 3% down payment.

Conventional loans will also require borrowers to buy private mortgage insurance. "PMI" provides additional guarantees to the lender that the loan will be repaid. Without "PMI", down payments of 20% or more would be required by lenders.

8. Conventional Loans

WHY DO I NEED MORTGAGE INSURANCE?

9. Mortgage Insurance

When you purchase a home, most lenders require that you make a substantial down payment, usually 20% of the purchase price. The lender knows that the more you put into a down payment, the more likely you are to repay the loan. If you don't have the money for the down payment, then you can buy insurance instead. With mortgage insurance, you can make as little as a 3% down payment. The amount of the mortgage insurance premium varies based on several factors: 1) amount of down payment; 2) your credit score; 3) the type of loan requested (i.e., fixed, adjustable rate or balloon); 4) term of loan (i.e., 30, 25, 20, 15 or 10)

Mortgage insurance premiums may be tax deductible, but you should consult your tax advisor.

There are several different ways to pay for your mortgage insurance including: 1) monthly premium added to your mortgage payment; 2) up front lump sum payment; 3) Lender Paid Mortgage Insurance

Mortgage Insurance is sometimes viewed negatively because of the recent problems with the economy, but it does serve a very valuable purpose by enabling home financing with significantly less down payment and or equity. It has been used successfully over many years before the current housing crisis, and your broker can help you understand how using mortgage insurance can help you to qualify for your home loan.

When you use credit to buy things, the companies report how well you pay your bills to the credit bureaus. There are three main credit bureaus in the United States: Equifax, TransUnion, and Experian.

When you apply for a home loan, the broker or lender will check with the credit bureaus to get your credit history in a "merged" credit report and a credit score. This report is based on data from all three bureaus. The credit score is a number that represents how well you manage your credit. It is a based on a complex formula that is computed differently for different types of loans.

The credit score for a home loan is based on the following factors: 1) Past payment history; 2) Amount of credit outstanding; 3) Amount of available credit; 4) Number of recent inquiries into one's credit file; 5) Public Record Information (liens, judgments, bankruptcy, foreclosure, etc. 6) Type of credit utilized (installment or revolving; and 7) Length of credit history.

10. My Credit Score

When the lender underwrites your home loan application, your approval and the amount of the loan will be based in part on your credit score. When you work with a broker, the broker will review your credit report to make sure that the information that is reported is accurate. If it is not, can contact the credit bureau to have it corrected. Your broker will help you understand how this will affect your loan approval.

WHAT IS MY CREDIT SCORE?