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Contact us today for more information!

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*Restrictions apply. Not available on LTVs above 80%. Home equity loans and lines of credit are available through our affiliate Wells Fargo Equity Direct, a division of Wells Fargo Bank, N.A., Member FDIC and Equal Housing Lender. Home equity lines of credit are not offered on property located in the state of Texas.

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Edina Realty Mortgage

Your Guide to Investment Properties and Vacation Homes

Adding a Second Home to Your Investment Portfolio

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Adding a Home To Your Investment Portfolio

Investors Are Becoming Landlords

Stocks go up. Stocks go down. Economies ebb and flow. The value of real estate rises and falls. No single investment can promise uninterrupted profit. That's why savvy investors diversify their holdings.

Since real estate — like the stock market — tends to ride out its up and downs well, providing good long-term results, record numbers of people have been buying second properties as investments. According to a March 2005 report by the National Association of Realtors® (NAR), vacation homes and investment property account for more than one third of all home sales. Forecasters expect Americans to purchase 3.6 million second homes over the next 10 years. That's about 1,000 a day!

The NAR also reported that investment property sales rose from 20% of all second homes purchased in 1999 to 46% of all second homes purchased in 2004. Is it the right time for you to follow this growing and potentially rewarding trend? This guide will help you make the decision. It provides an overview of what to look for in an investment property, the benefits and potential problems of being a landlord, and the choices for financing your investment.

What Is an Investment Property?

Primarily, an investment property is one purchased strictly for the purpose of generating income. It's neither your current primary residence nor a vacation home used only by your family. An investment property is usually purchased with the intention of either renting it out or renovating it to resell at a profit. There are also some variations on that theme. For instance, when a family relocates or decides to downsize, a primary residence can become an investment property if it doesn't need to be sold. Another investor may buy a multifamily property, choosing to live in one part while renting out the other. Other owners may choose to use their investment properties once in a while, or part of the year for vacation purposes. Here are some of the benefits:

- **Double the Profit Potential:** An investment property offers two opportunities for financial gain: rent that can provide ongoing income, and appreciation that can result in a sizable profit when the property is sold. There may also be tax advantages available, depending on your financial profile. (Your tax professional can advise you about that.) And it seems that investment properties are a smart place to put your money, outperforming even the stock market. NAR's data shows that vacation homes have appreciated 12.8% and investment homes have appreciated 25.4% since 2001.
- **Little or No Money Down:** Unlike the stock market, you can enter the world of property investment with a relatively small amount of out-of-pocket money. Among your financing options, you'll find loans requiring little or no money down. There are even options that let you use the equity from your current home to purchase your investment property. That leaves your liquid cash assets available for other investment opportunities.

Things to Consider Before Investing

Does an Investment Property Fit Your Financial Plan?

Investing in real estate can be a powerful wealth-building tool. It can also be a burden that drains away assets and monopolizes your time and effort. It's critical to be in control of your finances, have an overall plan, and believe that an investment property is the right strategy for you. Talk to a real estate attorney and accountant about your particular situation and goals. Cultivate your relationships with these advisors. They'll serve you well throughout your investing career. Here are some questions to ask yourself to help you start clarifying your goals:

- What other investments do I currently have or hope to acquire in the future?
- What's the status of my retirement savings?
- Will liquidity be an issue for me?
- Will I be able to handle long-term ownership even with an unpredictable cash flow?
- Do I expect my investment property to provide me with income when I retire?
- Do I expect the property to provide immediate income or long-term appreciation?

Do You Want To Be A Landlord?

Once you've determined that an investment home fits your financial goals, it's time to decide whether or not you're willing to deal with the responsibilities of being a landlord. There may be 3 a.m. phone calls to answer, late rents to collect, unsatisfactory tenants to evict, repairs and maintenance to attend to, paperwork to be updated, income and/or deductions to be claimed, taxes to be paid, and various new laws to obey. It's a major commitment, but keep in mind that you can always hire professionals to take care of many day-to-day responsibilities. There'll be more about property managers later in this guide. Whether you decide to be a hands-on or a hands-off landlord, be sure you understand that this is a business venture and that you need to be well informed at every stage. A good way to gain an insider's perspective is by joining local real estate associations, which have regular meetings featuring advice from attorneys, accountants, repair specialists and other related experts. You should also consider joining a local apartment or landlord association. In addition to keeping updated on landlord/tenant matters, you can speak to other investment property owners and get copies of your state's lease/rental agreements and other papers. Real estate trade journals and management magazines can also be a great resource for you.

Location, Location, Location

An investment property offers a unique option: you can buy one virtually anywhere. If you're comfortable being an absentee landlord, you can actually own a home thousands of miles away and have a team of specialists manage your property. But most investors opt to be more involved than that, buying properties closer to home. An NAR study of investment home purchases shows the median distance to be 99 miles from the owner's primary residence, with 37% located less than 25 miles away. Another advantage to buying close to home: it may be easier to make sound investments, because you're familiar with neighborhoods, comparable values, and advantageous purchasing opportunities.

The "Typical" Rental Property

There's no such thing! Investors have profited with everything from seaside cottages to high-rise buildings. Single-family homes, multiple-unit dwellings, condos, and apartment buildings may all be investment properties. Most are smaller than the owner's primary property and are usually easier to maintain. The median estimated value of an investment property was \$148,000 in 2005.

Setting Parameters

Should you invest in a penthouse or in a studio? A three-story colonial or a two-bedroom ranch? The first time out, it's probably best to invest in something on the small side. Unless you're buying a move-in condition property and have a reliable tenant waiting in the wings, there'll probably be a period of time before your investment starts generating income. During that period, you'll have to make loan payments on the investment property from your regular income. Since smaller payments are easier to manage in such situations, most new investors prefer to start with a small property.

Next decision: locale. City or country? Nearby or away from it all? Residential or resort? Real estate investors suggest, if you're considering buying a property in an area far from home, that you may want to take advantage of promotional two or three day mini-vacation packages offered by timeshare developers. There's usually minimal or no cost and, after you take the required timeshare tour, there's still plenty of time to look around the community and check out home prices.

Beginning Your Search

The Preapproval Process

A written preapproval makes you a priority in the eyes of real estate agents and sellers. That means you can expect preferential treatment and attention because there's no concern that your financing will fall apart. Preapproval has other benefits as well:

- You know exactly how much you can afford to spend on your investment property
- You won't waste time looking at properties that are out of your price range
- There's no nerve-racking waiting to see if you'll qualify to purchase the property you want
- A preapproved buyer is a sure thing, so sellers will usually accept your offer first even if others offer a slightly higher price
- Once you select an investment property, your loan approval process will be expedited and simple

Shop Like an Investor

You're buying a property for one reason: to make money. Keep that goal in mind and give yourself every advantage. Establish your price range, target the areas where you'd like to buy, and begin your search with a real estate agent. You should also take these helpful guidelines into account:

- Avoid areas where prices are at peak. Instead try to find a property in an up-and-coming area where prices are more likely to climb
- Choose a desirable location that has activities nearby (recreation, culture, nightlife, shopping). Consider why you might like to live there yourself in terms of rental and resale prospects
- Consider whether the property is in an area that will draw tenants. Is it near local businesses or universities that attract a renter population to the area?
- Think about the local schools. Proximity to good schools is an important feature for tenants with children. It can also contribute to your home's value
- Look for simple, low-maintenance homes with mass-market appeal
- Concentrate on purchase price, rental income, and potential profit. You won't be living in the home, so it's not necessary for you to love the layout or the carpet color
- Renovate quickly and simply. Get the property ready to market as soon as possible. Consider using professionals to speed up the process
- Look into distressed properties that have been returned to lenders (banks and mortgage companies) after foreclosures

Considering Condos

Condos are some of the fastest-growing investment vehicles on the market today and the easiest to get into. The financing of these properties can be arranged so that the rental income covers the monthly loan payments and maintenance fees. In a condo, you own an undivided interest in the actual physical structure plus you own the space within your unit. In a co-op, on the other hand, you own stock in the corporation that owns the apartment building. Both condos and co-ops are governed by a board that's elected by the owners. As an investor, you'll benefit from the regular maintenance that keeps your property running smoothly.

But you'll need to do your homework to ensure that it's a solid investment:

- Check the economic health of the homeowners association by obtaining a copy of recent annual reports
- Review maintenance records for the building or complex to ensure upkeep has been regularly performed. Engineer's reports may also be available for recently converted facilities
- Verify that renting your unit is allowed under the homeowners association rules
- Check the vacancy rates in the complex to help judge renter interest in the community. Other legal constraints may affect the length of each tenant's residency and whether pets are allowed. Know what your limitations are before you buy

An Expert Home Team Makes a Big Difference

Building Your Team

Working with a team of experts can smooth your way to the right investment home, especially if you're considering a long-distance purchase. You started by talking to your tax advisor and attorney about the feasibility of making this purchase and about potential tax advantages. Now it's time to contact some other professionals:

Real Estate Agents

A solid relationship here can make all the difference, especially if you're considering locales that are farther than a car ride away. An agent becomes your eyes, ears, and voice as they preview properties and locate homes that meet your criteria — perhaps working online to send you listings. A good real estate agent can:

- Establish what you want in an investment property
- Search the Multiple Listing Service (MLS) and other resources for properties that match your needs
- Tell you about appropriate properties
- Provide valuable information on communities, comparable values of neighboring homes, tax rates, rental amounts, and building code regulations
- Arrange for digital photos or virtual tours to be sent via the Internet
- Help you formulate an offer on the property you wish to purchase
- Act as an intermediary between you and the seller, smoothing the negotiating process

Investment Property Financing Experts

Whether you're all set to buy or just trying to figure out what you can afford, you need solid financing information and guidance — and we can help. We are investment financing experts and can customize a mortgage to your unique needs, drawing from a wide variety of products. In addition to all of the conventional options, we may have special programs that overcome obstacles such as credit issues, hard-to-document income, and lack of savings.

Follow Up Teamwork with Homework

Do Some Research

The success of your investment property hinges on your ability to rent it. So once you and your team have found a property that meets your essential requirements, you'll need to make sure that the property also has enough profit potential to justify your investment.

- **Learn About Landlord and Tenant Laws:** You'll need to talk with your legal representative regarding federal, state, and local laws and ordinances that may apply to the rental of property. For example, the Federal Fair Housing Act — originally passed in 1968 and amended in 1988 — bans discrimination in the finance, rental, or sale of residential property based on race, color, religion, sex, national origin, disability, or familial status. In addition, each state has its own list of rights and responsibilities for you and your renters. These may prohibit discrimination factors such as age, marital status, the presence of children, receipt of welfare aid payments, physical or mental handicaps, and more. In addition to consulting your legal representative, you can probably download information and forms online or call your state's office of landlord/tenant affairs or attorney general. Finally, contact your jurisdiction to see if there are local limits to the amount you can charge for rent. While rent-control statutes are uncommon they do exist in a number of states.
- **Is It Legal to Rent?** Zoning restrictions, neighborhood associations, or condo associations may make it illegal to rent a home or to convert a property into units for rental. Make sure your investment plans are within the law.
- **Consider Appreciation:** Ask your real estate agent how much homes in your neighborhood have appreciated in recent years. If they've been growing at a good rate, perhaps 5% or more, the home may still be an excellent investment vehicle even if you just break even on the rent.

How Much Should Your Property's Rent Be?

Begin online at the U.S. Department of Housing and Urban Development Web site. You'll find Fair Market Rental Rate statistics that break down average rentals for metropolitan areas across the United States. These stats are formulated according to the number of bedrooms, so you may have to adjust your rental price up or down. Then go to the "For Rent" section of your local newspapers, tracking rents on comparable properties for a few weeks. Your real estate agent can also provide information about going rates on homes with amenities similar to yours.

Calculating Cash Flow

In order to decide how much a potential investment home is worth and what possible financial gain it might offer, you need to calculate the property's cash flow. Once you know the estimated rent for your property, it's time to do your math:

Add up your regular costs:

- Estimated mortgage loan payment
- Property tax
- Insurance
- Utility costs the renter isn't required to pay
- Repair and maintenance
- Advertising/marketing expenses
- A recommended 5% (or more) backup fund for vacancy and emergencies

Subtract this amount from the rent, to determine your monthly cash flow.

Tax Implications

If you suspect your investment may produce a negative cash flow (costs will be greater than rental income), you should know up front whether that loss can be claimed on your income taxes. If you have a high modified adjusted gross income, earning over \$100,000 a year, you may be limited as to the deductibility of rental losses. If your annual earnings are over \$150,000 per year, you may not be able to deduct any rental losses. If your income is less than \$100,000 a year, you may be able to claim up to \$25,000 in losses. Consult your tax advisor for details.

Applying For Your Loan

Securing the Right Financing – Why It Is Important

Your lender is a valuable part of your investment team. We are trained to interview you in a way that gets us a clear understanding of your goals, so we can make recommendations that help you further your wealth-building potential. Working together, we can help you explore your options and tailor solutions to meet your individual investment criteria.

You can fund your investment in a number of ways, so it's important to understand all your options and select the one that best suits your budget needs and financial goals. We will walk through every option with you in detail. You will learn how each one fits, or doesn't fit, into your overall financial picture. Here are just a few of the solutions we can help you consider:

Home Equity Financing leverages the equity you've established in your primary residence to purchase an investment property. You may borrow up to 100% of your current home's unused equity. Like getting a new mortgage, home equity financing may be tax deductible. Consult your tax advisor for details..

Renovation Financing is specially designed to provide a single loan that covers both the purchase price of a less-than-perfect property and the costs of renovating it. The loan amount is based on the estimated increased value of your property after your planned improvements are made. That means you can start enjoying the dividends from your investment property right away.

Low Down Payment/No Down Payment Options make a home more affordable right now. They allow you to purchase a property with little cash out of pocket so that you can begin reaping the rewards of your investment quicker.

No Documentation/Limited Documentation Options are smart choices for the self-employed, those with income that fluctuates from year to year, and people with hard-to-document income sources. These more flexible guidelines get you out of the paper chase and into real estate investing quicker and more easily than traditional lending programs.

Steps of the Transaction

This simple, four-step walk-through to loan closing will help you understand the procedure and give you an idea of what to expect.

1. Appraisal

Your lender will find a professional appraiser to determine the value of the home you want to purchase. The appraisal will provide an estimate of the home's value by comparing it to others that have recently sold in the area. In some instances, the appraisal will also contain a comparative rent schedule of market rents in the area. Lenders generally require an appraisal to ensure that the property backing the loan will cover the loan amount in case of default.

2. Home Inspection

A professional home inspection is recommended for every homebuyer. In some cases, a home inspection may be required as part of your home financing approval process. At minimum, the inspection should cover all the home's major systems and structural elements, including the foundation, electrical system, heating and cooling systems, insulation, roofing, plumbing, and all exterior features.

3. Title Insurance

There are two types of title insurance: one protects the lender and one protects the borrower from claims against your ownership.

Such claims may be made by undisclosed spouses, heirs of previous owners, creditors holding liens against previous owners, or other parties. Your lender will most likely require you to purchase a title policy, which will cover their interest in the property.

It's up to you if you would like to purchase a policy to protect your interest in the home. Your home mortgage consultant will be able to recommend a title insurance company who can provide you with additional information about the policies available in your area.

4. Homeowners Insurance

Did you know that mortgage lenders, at closing, require proof that you've purchased homeowners insurance?

In the event of a loss such as a fire, tornado, or burglary, homeowners insurance can pay for damages to the home as well as for costs to repair or replace contents. If the home is damaged and becomes uninhabitable, homeowners insurance can cover additional living expenses for a period of time while your home is being repaired. Homeowners insurance can also protect you from loss if someone is injured or their personal belongings are damaged while on your property.

Closing

At your closing, you'll go through all the final steps of securing your new loan. The most important thing to know is that all closing costs must be paid in full at this time. Make sure you work closely with your title/closing company and home mortgage consultant to find out exactly how much you'll have to pay at closing. We'll work closely with you to make sure no last-second surprises delay your closing.

Renting Your Investment Property

Finding the Right Tenants

Good renters enhance your venture in many ways. They take care of the property, protecting your investment. They tend to stay on, reducing vacancy time and eliminating marketing expense.

In fact, experts claim it costs seven times more to find a new tenant than to keep an old one. They recommend showing your appreciation to good renters by reducing the rent by \$50 or \$100 during the holidays or when they renew their lease or by sending a small gift.

Where do you find them to begin with? You can consider a rental agent who, for a fee, will find and prescreen tenants for you. Or you can market the property on your own through classified ads and word of mouth. Don't be afraid to be specific in your ad: if you only want a non-smoker with no pets, for example. Being clear with prospective tenants up front can save you a lot of headaches later on. Remember to consult your legal representative before printing any ads.

Setting Your Standards

Make a list of your tenant requirements, and double-check to be certain that they conform to your state's landlord-tenant laws. Some of the criteria you may want to use are:

- **Good Income:** A common rule of thumb is to require your renters have a gross income that equals at least three and one-half times the annual rent amount
- **Employment Stability:** You want tenants with good/steady jobs
- **Length of time in their last residence.** Frequent turnover can severely undermine your profit. You want renters who are not transient
- **Head Count And Car Count:** Be sure the number of occupants and number of vehicles meet your approval

Preparing a Lease: Get Legal Advice

Meet with your legal representative and ask to have a lease created that both addresses your concerns and complies with applicable laws. For example, states may have restrictions regarding rent amounts, security deposits, rejecting tenants for poor credit reports, or may require giving a copy of the credit report to the tenant. This all-important document is your blueprint for success.

The Lease-To-Purchase Option

To avoid headaches and tap into a wider pool of prospective tenants, many landlords consider the lease-purchase of their home. This option attracts many potential buyers who could handle the monthly mortgage payments but can't afford the required down payment. Here's how it works:

You lease your house to the tenant for a specific monthly rent. In addition, the tenant pays you for the right to purchase the home within the option period, usually six months to two years later. This payment is called the option consideration. The option consideration payment is usually made up of two parts. The first part is an upfront, one-time amount of 3% to 5% of the price of the home. This money is nonrefundable. The second part is an amount, usually up to \$300 per month, paid along with the rent. Both of these extra payments are credited toward the purchase of the home when the term is up. If the renter decides not to buy, you keep the money.

Supporters of lease-purchase feel it protects your investment by getting you your selling price even in a slow market, and that it attracts tenants who are better caretakers because they take a proprietary interest in the home. Critics say that taking your home off the market and relying on renters who could possibly walk away from the deal is too risky. Consult your attorney, financial advisor, and local landlord association for more details about this option.

Maintaining Your Investment Property

Keep Your Investment in Shape

As a landlord, you're required by law to keep the property in livable condition. This includes keeping locks on the doors and windows, a roof that doesn't leak, plus a heating system that's in working order. And your state may have specific laws regarding repair and maintenance responsibilities.

You will also no doubt want to protect your investment by keeping the property in shape. That means you'll need to find dependable repair people you can trust to get the property ready for your first renters quickly, respond to tenant needs, and get the place ready for market again whenever tenants move out. Every day your home is vacant, you're losing money.

If you've purchased a condo, regular maintenance is taken care of through your association fees. If you own a home — and if you're farther than a short drive from it — you may not be able to handle snow removal, gutter cleaning, or that leaky faucet on your own. You may want to make an arrangement with a good handyman or maintenance service. Your real estate agent should be able to recommend one. Another option: home warranty services. An annual fee covers the repair of your major appliances for a year, so you won't have to spend your precious vacation time fixing refrigerators or replacing burners.

The Property Manager Option

If you're an absentee landlord — or just too busy to handle maintenance — a property manager may be a good solution. This third-party manager runs the place, does the bookkeeping, scouts out the best repair people, and takes those 3 a.m. phone calls. In addition, the manager collects monthly rents and even leases the property for you. While they remove all the burdens from your shoulders, they come at a price. You can expect to pay 5% to 10% of your gross income, and even more if additional services are performed. Considering that it makes your investment virtually stress-free, that may be a bargain. Before you decide, consider the costs, your work schedule, and your tolerance level. If you decide to go with a property manager, make sure your contract lays out the manager's duties in complete detail.

Total Bathrooms _____

Master Bath Size _____ Walls _____ Floor _____ Tub _____ Fixtures _____

Guest Bath Size _____ Walls _____ Floor _____ Tub _____ Fixtures _____

Laundry Room Location _____ Washer _____ Dryer _____ Other _____

Good Closet Space Yes No

Basement Yes No Finished

Flooring Carpet Hardwood Tile

Utilities

Type of Heating

Hot Water Gas Electric Oil

Insulation

Fiberglass Cellulose Foam None

Central Air Yes No

Plumbing Condition Good Fair Poor

Sump Pump/Drainage System Yes No

Connected to Sewer System Yes No

Age of Heating System _____ Age/Capacity of Water Heater _____ Age of Electrical Wiring _____

Easy Proximity to:

Work Schools Shopping Airport Area Industry

Highways Houses of Worship Train Station Public Transportation

Doctors/Dentists

Recent sales in neighborhood:

Address _____ Size _____ Price _____ Terms _____

Address _____ Size _____ Price _____ Terms _____

Address _____ Size _____ Price _____ Terms _____

Address _____ Size _____ Price _____ Terms _____

Real Estate Listings Decoder

Exterior House/Yard

AC	Acre
ALUM	Aluminum Siding
ANQ	Antique House
ATT	Attached Garage
CLPD	Clapboard
COL	Colonial
CONT	Contemporary
CRPT	Carport
DET	Detached Garage
DK	Deck(s)
FEN	Fenced Yard
GZBO	Gazebo
IGPL	In-Ground Pool
MED	Mediterranean
RNCH	Ranch
RR	Raised Ranch
SCPD	Landscaped
SHNGL	Shingle
SPLT	Split Level
STY	Style of House
TWNHS	Townhouse

Interior Rooms

BA	Bath (with #BA)
1/2B	Half Bath
BR	Bedrooms (with #BR)
BSMT	Basement
DR	Dining Room
FIN	Finished (attic, basement)
FOY	Foyer
FR	Family Room
GTRM	Great Room
KIT	Kitchen
LAW	In-Law Apartment

LDY/UT	Laundry/Utility Room
LIB	Library
LR	Living Room
MBR	Master Bedroom
MBRB	Master Bedroom Bath
OFF	In-Home Office
PT/FIN	Partially Finished
REC/PL	Recreation/Play Room
RM	Room
UNFIN	Unfinished (attic, basement)

Appliances/Utilities

APPL	Appliances
CAC	Central Air Conditioning
CK/TP	Cooktop
CMPT	Compactor
C/VAC	Central Vacuum
DRY	Dryer
DSP	Disposal
D/W	Dishwasher
ELEC	Electric (with #amps)
FRZ	Freezer
HT/PMP	Heat Pump
HT/WTR	Hot Water Heater
ICE	Ice Maker
MICRO	Microwave
RAD/HT	Radiant Heat
REF	Refrigerator
RNG	Range
SEC/SYS	Security System
SWR	Sewer or Septic
WAR	Warranty

WASH	Washer
WHLPL	Whirlpool Tub
W/OVN	Wall Oven(s)
WTR	Water (city or well)

Interior Features

BAL	Balcony
BLT	Built-Ins
BRK	Brick
CER	Ceramic Tile Floors, Walls
CLST	Closet (often with #)
FLR	Floors
FML	Formal (often DR)
FPL	Fireplace
HDWD	Hardwood Floors
HMOD	Handicap Modifications
PNLD	Paneled
SKYLT	Skylight(s)
SP/ENT	Separate Entrance
VLT/CL	Vaulted Ceiling(s)
WI/CLST	Walk-In Closet
WU/ATT	Walk-Up Attic
WBF	Wood-Burning Fireplace

Mortgage Terms

ASMT	Tax Assessment
ASSUM	Assumable Mortgage
FHA/VA	Financing Available

Glossary¹⁰

Absentee Landlord – An investment property owner who does not live in the building or take an active part in the normal running of the property.

Adjustable-Rate Mortgage (ARM) – A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

Alternative Financing – A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

Annual Percentage Rate (APR) – A yearly percentage rate that expresses the total finance charge on a loan over its entire term. The APR includes the interest rate, fees, points, and mortgage insurance, and is therefore a more complete measure of a loan's cost than the interest rate alone. The loan's interest rate, not its APR, is used to calculate the monthly principal and interest payment.

Appraisal – A report made by a qualified person setting forth an opinion or estimate of property value. The term also refers to the process by which this estimate is obtained.

Appreciation/Depreciation – “Appreciation” refers to the increase in a property's value, except for inflation. When a property decreases in value it is called “depreciation.”

Assessed Value – The value that a taxing authority places on real or personal property for the purpose of taxation.

Automated Underwriting – A computerized method of reviewing home mortgage applications for loan approval.

Bridge Loan – A form of second deed of trust or mortgage that is collateralized by the borrower's present home (which is usually for sale) in a manner that allows the proceeds to be used for closing on a new house before the present home is sold.

Broker – An individual employed on a fee or commission basis as a real estate agent to bring buyers and sellers together and assist in negotiating contracts between them for the sale of residential real estate.

Buyer's Broker – Most real estate brokers and agents work only for the sellers. A buyer's broker serves the interest of the buyer and has no relationship with the seller.

Capital Gains – Used for tax purposes, this is the capital gain you make when you sell your home. For example, if you purchase a property for \$100,000 and sell it some years later for \$150,000, your capital gain is \$50,000.

Closing – The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to complete the sale and loan transaction.

Closing Agent – Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

Closing Costs – The costs paid by the mortgage borrower (and sometimes the seller) in addition to the purchase price of the property. These include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and prepaid items such as tax and insurance escrow payments.

Commission – Compensation for negotiating a real estate or loan transaction, often expressed as a percentage of the selling price or loan amount.

Commitment Letter – A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

¹⁰ The terms in this glossary refer to your primary mortgage loan and do not necessarily apply to your home equity loans and home equity lines of credit.

Comparable Market Analysis (CMA) – A written analysis of houses having similar characteristics currently being offered for sale as well as comparable houses sold in the past six months. This enables you to determine if you are paying market value for a home, and to identify whether market prices are rising or falling.

Contingency – A condition that must be met.

Conventional Loan – A mortgage not obtained under a government insured program (such as FHA or VA).

Credit Report – A report detailing an individual's credit history.

Debt-To-Income Ratio – A formula lenders use to determine the loan amount for which you may qualify. Also known as the "back-end ratio." Guidelines may vary, depending on the loan program.

Deed – The legal document conveying title to a real property.

Default – The failure to perform an obligation as agreed in a contract.

Down Payment – Money paid to make up the difference between the purchase price and the mortgage amount.

Equity – The ownership interest; i.e., portion of a property's value over and above the liens against it.

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. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.

Eviction – A legal process in which the landlord justifies in court why a tenant has to leave the property.

Fixed-Rate Mortgage – A mortgage in which the interest rate and payments remain the same for the life of the loan.

FICO Score – A numerical rating developed and maintained by Fair Isaac and Company that indicates a borrower's creditworthiness based on a number of criteria.

Float The Rate – This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the note rate pricing to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.

Foreclosure – A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

Front-End Ratio – Also known as the housing expense-to-income ratio, it compares your proposed monthly house payment (PITI) to your total household gross monthly income.

Good Faith Estimate – A document which tells borrowers the approximate costs they will pay at or before settlement, based on common practice in the locality. Under requirements of the Real Estate Settlement Procedures Act (RESPA), the mortgage banker or mortgage broker, if any, must deliver or mail the GFE to the applicant.

Government Loan – A mortgage insured by a government agency, such as FHA, VA, Farmers Home Administration or a state bond program. The loans are generally made by private lenders.

Home Mortgage Consultant – The mortgage representative a homebuyer initially consults about a mortgage loan. Sometimes called a loan officer, account executive, or sales representative.

Home Warranty – A kind of insurance that covers the cost of repairs to specific items in the home for a specified period of time.

Homeowners Insurance (also called Hazard Insurance) – A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

House Inspection – A thorough evaluation and written report of a home’s condition both inside and out. The inspection is valuable in locating any problems in a property and helps you determine the extent of renovation needed. You can use the report to have the seller make repairs or reduce the purchase price. Always use your own inspector, and do not rely solely on the seller’s inspection reports.

HUD-1 Settlement Statement – A standard form used to disclose costs at closing.

Index – A published interest rate, such as the prime rate, LIBOR, T-Bill rate, or the 11th District COFI. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. On ARMs, a predetermined margin is added to the index to compute the interest rate adjustment.

Interest Rate – The percentage of an amount of money which is paid for its use for a specified time.

Interim Interest – The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

Investment Property – Real estate owned with the intent of supplementing income and not intended for owner occupancy.

Leverage – Using credit or borrowed money to increase the rate of return from an investment. For example, by purchasing a \$100,000 home with 10% down, you are using just \$10,000 to control the investment.

Lien – A legal claim or attachment against property as security for payment of an obligation.

Loan Conditions – These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement, and any requirements the borrower must meet prior to closing.

Loan Payment Reserves – A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

Loan Settlement – The conclusion of the mortgage transaction. This includes the delivery of a deed, the signing of notes, and the disbursement of funds necessary to the mortgage loan transaction.

Loan-To-Value (LTV) – The ratio between the amount of a given mortgage loan and the lower of sales price or appraised value.

Margin – The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

Mortgage – The conveyance of an interest in real property given as security for the payment of a loan.

Mortgage Insurance (MI) – See Private Mortgage Insurance or PMI.

Mortgage Specialist – The mortgage employee responsible for collecting the completed application and all supporting documents before the entire loan packet is submitted to underwriting. Also known as a processor.

Mortgagee – The lender on a mortgage transaction.

Mortgagor – The borrower in a mortgage transaction who pledges property as security for a debt.

Multiple Listing Service – A computer-based shared listing service for real estate agents that provides descriptions of most of the houses for sale in an area.

Nonconforming Loan – Conventional home mortgages not eligible for sale and delivery to either FNMA or FHLMC because of various reasons, including loan amount, loan characteristics, or underwriting guidelines.

Note – A general term for any kind of paper or document signed by a borrower that is an acknowledgment of the debt, and is, by inference, a promise to pay. When the note is secured by a mortgage, it is called a mortgage note and the mortgagee (lender) is named as the payee.

Origination Fee – The amount charged for services performed by the company handling the initial application and processing of the loan.

Points – A one-time charge by the lender to increase the yield of the loan; a point is 1% of the amount of the mortgage.

Preapproval – A written commitment from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can afford.

Prepays – Closing costs related to the mortgage loan that are collected at loan closing — including per diem prepaid interest and initial deposits of monthly escrows of taxes and insurance.

Primary Residence – A residence which the borrower intends to occupy as the principal residence.

Principal – The amount borrowed or remaining unpaid; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

Private Mortgage Insurance (PMI) – Insurance written by a private company protecting the mortgage lender against loss resulting from a mortgage default.

Processing – The preparation of a mortgage loan application and supporting documentation for consideration by a lender or insurer.

Property Manager – Person or company that takes over the repair and maintenance of a property for a percentage of the gross income. Services may also include collecting rents and leasing the property.

Purchase Contract (Agreement/Offer) – An agreement between a buyer and seller of real property, setting forth the price and terms of the sale. Also known as a sales contract.

Rate Cap – The limit of how much the interest rate may change on an ARM at each adjustment and over the life of the loan.

Rate Lock – The borrower and the lender agree to protect the interest rates, points, and term of the loan while it is processed.

Real Estate Agent – A salesperson, usually licensed by the state, and supervised by a broker. Agents work solely on commissions earned by selling properties.

Realtor® – Person licensed to sell or lease real property acting as an agent for others and who is a member of a local real estate board affiliated with the National Association of Realtors.®

Rental Agent – A real estate agent who specializes in working with renters to locate potential properties for lease.

Return On Investment – The percentage of profit that you make on an investment. For example, say you invest \$1,000 into a venue, and a year later it is worth \$1,500. Your return on investment equals the profit (\$500) divided by the initial investment (\$1,000) or 50%.

Termination – Notice from the landlord that the lease has been terminated and the tenant must move out by a certain date.

Title Insurance – An insurance policy that protects a lender and/or homebuyer (only if homebuyer purchases a separate policy, called owner's coverage) against any loss resulting from a title error or dispute.

Truth-In-Lending Statement – A Federal law requiring full disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms and financial institutions.

Underwriting – Analysis of risk, determination of loan eligibility, and setting of an appropriate rate and terms for a mortgage on a given property for given borrowers.

VA Funding Fee – The amount charged on VA mortgages to cover administrative costs.

Vacation Home – A home where you spend any appreciable amount of time away from your primary residence for the purpose of leisure activities. A vacation home is not rented out for longer than 14 days in any given calendar year.

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